PATRIOT NATIONAL BANCORP INC
Form 10-Q/A
November 14, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended June 30, 2016

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Connecticut	06-1559137
(State of incorporation)	(I.R.S. Employer Identification Number)

900 Bedford Street, Stamford, Connecticut 06901

(Address of principal executive offices)

(203) 324-7500

(Registrant's telephone number)

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes __X__ No_____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes __X__ No_____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer ____ Accelerated Filer ____ Non-Accelerated Filer ____ Smaller Reporting Company _X_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes _____ No _X_

State the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date.

Common stock, $0.01 par value per share, 3,958,486 shares outstanding as of the close of business August 12, 2016.

EXPLANATORY NOTE:

The Company is filing this Amendment No. 1 on Form 10-Q/A (this "Amended Filing") to its Quarterly Report on Form 10-Q for the three and six months ended June 30, 2016 ("Original Filing") to: (i) restate management's conclusions regarding the effectiveness of its disclosure controls and procedures as of June 30, 2016; (ii) reissue the consolidated financial statements for the three month and six month periods ended June 30, 2016 to reflect changes in the provision for loan losses resulting from the material weaknesses in internal controls over financial reporting. Accordingly, the Company hereby amends and replaces in their entirety Items 1, 2, and 4 in Part I. For the convenience of the reader, this Amended Filing sets forth the Original Filing, as modified where necessary to reflect the restatement and revisions. All other statements and provisions in the Form 10-Q have not been updated and remain unchanged.

Subsequent to filing the June 30, 2016 Form 10-Q, management became aware of the results of a bankruptcy court ordered auction which took place in June 2016, involving the collateral of one of the impaired loans at June 30, 2016. Management also became aware that the court later approved the bid received at the auction and the sale of said collateral occurred in August 2016. Management made the determination that some of this information was publicly available by the time of the filing of the June 30, 2016 Form 10-Q and should have been included in the valuation of the impaired loan in the June 30, 2016 Form 10-Q. The resulting $2.0 million adjustment to the provision for loan losses ($1.2 adjustment to net income) for the three and six month periods ended June 30, 2016 was determined to be material to earnings. The restatement has no impact on the audit report for the year ended December 31, 2015 or the quarter ended March 31, 2016.

The Company has concluded that there is a material weakness in internal control over financial reporting, related the allowance for loan losses, as the Company did not maintain effective controls over (i) the recording, monitoring and valuation of eligible collateral when calculating specific reserves on impaired loans; and (ii) controls over the development and monitoring of qualitative factors used in calculating the general component of the loan loss reserve in accordance with the approved allowance for loan losses policy. Specifically the Company's management has determined that the Company's financial reporting controls and procedures with respect to the allowance for loan losses were not operating effectively for the quarter ended June 30, 2016. Accordingly, management has determined that the Company's disclosure controls and procedures were not effective as of June 30, 2016.

As required by Rule 12b-15, the Company's principal executive officer and principal financial officer are providing new currently dated certifications. Accordingly, the Company hereby amends Item 6 in Part II in the Original Filing to reflect the filing of the new certifications.

Except as described above, this Amended Filing does not amend, update or change any other items or disclosures in the Original Filing and does not purport to reflect any information or events subsequent to the filing thereof. As such, this Amended Filing speaks only as of the date the Original Filing was filed, and the Company has not undertaken herein to amend, supplement or update any information contained in the Original Filing to give effect to any subsequent events. Accordingly, this Amended Filing should be read in conjunction with the Company's filings made with the SEC subsequent to the filing of the Original Filing, including any amendment to those filings.

Except as described above, this Amendment Number 1 to the Form 10-Q continues to speak as of the original filing date, and does not reflect the events that may have occurred subsequent to the original filing date and does not modify or update in any way disclosures made in the original Form 10-Q other than the changes described above. For additional information about this restatement refer to Note 1. Basis of Presentation and Restatement of Consolidated Financial Statements, of the Notes to consolidated financial statements.

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PART I- FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (Unaudited)

	Restated June 30, 2016	December 31, 2015
ASSETS	*(in thousands, except shares and per share amounts)*	
Cash and due from banks:		
Noninterest bearing deposits and cash	$2,893	$2,588
Interest bearing deposits	43,594	82,812
Total cash and cash equivalents	46,487	85,400
Securities:		
Available for sale securities, at fair value (Note 2)	23,037	29,377
Other Investments	4,450	4,450
Restricted stock, at cost	7,982	8,645
Total securities	35,469	42,472
Loans receivable (net of allowance for loan losses: 2016: $7,209; 2015: $5,242) (Note 3)	521,445	479,127
Premises and equipment, net	29,972	29,421
Other real estate owned	851	-
Accrued interest and dividends receivable	2,120	2,010
Deferred tax asset (Note 7)	13,836	13,763
Other assets	1,679	1,338
Total assets	$651,859	$653,531
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Note 5):		
Noninterest bearing deposits	$75,244	$85,065
Interest bearing deposits	371,092	359,615
Total deposits	446,336	444,680
Federal Home Loan Bank borrowings (Note 9)	128,000	132,000
Junior subordinated debt owed to unconsolidated trust (Note 9)	8,248	8,248
Note Payable (Note 9)	1,846	1,939
Advances from borrowers for taxes and insurance	2,451	2,367

Accrued expenses and other liabilities	3,064	2,833
Total liabilities	589,945	592,067
Shareholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $.01 par value, 100,000,000 shares authorized; 3,959,903 and 3,957,377 shares issued; 3,958,733 and 3,956,207 shares outstanding; at June 30, 2016 and December 31, 2015, respectively	40	40
Additional paid-in capital	106,876	106,568
Accumulated deficit	(44,761)	(44,832)
Less: Treasury stock, at cost: 2016 and 2015, 1,170 shares	(160)	(160)
Accumulated other comprehensive loss	(81)	(152)
Total shareholders' equity	61,914	61,464
Total liabilities and shareholders' equity	$651,859	$653,531

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended June 30, Restated		Six Months Ended June 30, Restated	
	2016	2015	2016	2015
	(in thousands, except per share amounts)			
Interest and Dividend Income				
Interest and fees on loans	$5,783	$5,924	$11,623	$11,470
Interest on investment securities	132	119	274	235
Dividends on investment securities	90	60	176	117
Other interest income	28	17	69	46
Total interest and dividend income	**6,033**	**6,120**	**12,142**	**11,868**
Interest Expense				
Interest on deposits	496	513	969	1,042
Interest on Federal Home Loan Bank borrowings	64	85	185	156
Interest on subordinated debt	83	73	165	144
Interest on other borrowings	8	-	16	-
Total interest expense	**651**	**671**	**1,335**	**1,342**
Net interest income	**5,382**	**5,449**	**10,807**	**10,526**
Provision for Loan Losses	1,959	-	1,959	250
Net interest income after provision for loan losses	**3,423**	**5,449**	**8,848**	**10,276**
Non-Interest Income				
Loan application, inspection & processing fees	21	105	88	155
Fees and service charges	150	147	301	321
Rental Income	104	177	207	110
Other income	90	22	179	259
Total non-interest income	**365**	**451**	**775**	**845**
Non-Interest Expense				
Salaries and benefits	2,615	2,395	5,165	4,739
Occupancy and equipment expense	750	909	1,530	1,864
Data processing expense	241	255	526	505
Advertising and promotional expenses	96	137	213	187
Professional and other outside services	364	391	773	960
Loan administration and processing expenses	8	7	16	29
Regulatory assessments	147	157	294	311
Insurance expense	56	83	111	164
Material and communications	115	106	208	187
Other operating expenses	344	319	664	544
Total non-interest expense	**4,736**	**4,759**	**9,500**	**9,490**
Income (loss) before income taxes	**(948)**	**1,141**	**123**	**1,631**
Expense (Benefit) for income taxes	(366)	452	52	653

Net income (loss)	**$(582)**	**$689**	**$71**	**$978**
Basic and diluted income (loss) per share (1)	$(0.15)	$0.18	$0.02	$0.25

(1) All common stock data has been restated for a 1-for-10 reverse stock split which took effect on March 4, 2015.

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

	Three Months Ended June 30, Restated		Six Months Ended June 30, Restated	
in thousands	2016	2015	2016	2015
	(in thousands)			
Net income (loss)	$(582)	$689	$71	$978
Other comprehensive income (loss) :				
Unrealized holding gains (losses) on securities	59	(45)	115	227
Income tax effect	(23)	18	(44)	(91)
Total other comprehensive income (loss)	36	(27)	71	136
Total comprehensive income (loss)	**$(546)**	**$662**	**$142**	**$1,114**

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

(in thousands, except shares)	Number of Shares	Common Stock	Additional Paid-In Capital	Restated Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Restated Total
Balance at December 31, 2014	3,924,192	$ 39	$ 106,108	$ (46,975)	$ (160)	$ (277)	$ 58,735
Net Income	-	-	-	978	-	-	978
Unrealized holding gain on available for sale securities, net of taxes	-	-	-	-	-	136	136
Total comprehensive income		-	-	-	-		1,114
Share-based compensation expense	-	-	227	-	-	-	227
Issuance of restricted stock	450	-	-	-	-	-	-
Balance, June 30, 2015	3,924,642	$ 39	$ 106,335	$ (45,997)	$ (160)	$ (141)	$ 60,076
Balance December 31, 2015	3,956,207	40	106,568	(44,832)	(160)	(152)	61,464
Net income (restated)	-	-	-	71	-	-	71
Unrealized holding gain on available for sale securities, net of taxes	-	-	-	-	-	71	71
Total comprehensive income (restated)		-	-	-	-	-	142
Share-based compensation expense	-	-	308	-	-	-	308
Issuance of restricted stock	2,526	-	-	-	-	-	-
Balance, June 30, 2016 (restated)	3,958,733	$ 40	$ 106,876	$ (44,761)	$ (160)	$ (81)	$ 61,914

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30, Restated 2016 *(in thousands)*	2015
Cash Flows from Operating Activities:		
Net income	$ 71	$ 978
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) of investment premiums and discounts, net	35	107
Amortization and accretion of purchase loan premiums and discounts, net	8	158
Provision for loan losses	1,959	250
Depreciation and amortization	616	499
Share-based compensation	308	227
Deferred income taxes	(117)	619
Gain on acquisition of OREO	(11)	-
Changes in assets and liabilities:		
(Increase) decrease in net deferred loan costs	(8)	232
Increase in accrued interest and dividends receivable	(110)	(116)

Increase in other assets		(341)		(44)
Increase in accrued expenses and other liabilities		231		514
Net cash provided by operating activities		**2,641**		**3,424**
Cash Flows from Investing Activities:				
Principal repayments on available for sale securities		1,389		2,157
Proceeds from call of available for sale securities		5,031		-
(Purchases) redemptions of Federal Reserve Bank stock		(48)		38
Redemptions of Federal Home Loan Bank stock		711		-
Increase in loans		(45,117)		(17,361)
Purchase of bank premises and equipment, net		(1,167)		(2,845)
Net cash used in investing activities		**(39,201)**		**(18,011)**
Cash Flows from Financing Activities:				
Net increase in deposits		1,656		14,340
Decrease in FHLB borrowings		(4,000)		(20,000)
Repayment of Note Payable		(93)		-
Increase in advances from borrowers for taxes and insurance		84		82
Net cash used in financing activities		**(2,353)**		**(5,578)**
Net decrease in cash and cash equivalents		**(38,913)**		**(20,165)**
Cash and Cash Equivalents:				
Beginning		85,400		73,258
Ending	$	46,487	$	53,093

Interest paid	$	1,173	$	1,144
Income taxes paid	$	-	$	3
Transfer of loans to other real estate owned	$	840	$	-

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 1: Basis of Financial Statement Presentation and Restatement of Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements of Patriot National Bancorp, Inc. (the "Company") and its wholly-owned subsidiaries including Patriot Bank N.A. (the "Bank"), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying unaudited condensed consolidated financial statements presented herein should be read in conjunction with the previously filed audited financial statements of the Company and notes thereto for the year ended December 31, 2015.

The Consolidated Balance Sheet at December 31, 2015 presented herein has been derived from the audited financial statements of the Company at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

Effective June 30, 2016, the Company has reclassified loans secured by 1-4 Family Non-owner occupied real estate to "Residential" from the "Commercial Real Estate" classification. Amounts presented for prior periods have been reclassified for consistency with the current period. See Note 3: Loans Receivable and Allowance for Loan Losses for additional information. Certain additional other prior period amounts have been reclassified to conform to current year presentation.

The information furnished reflects, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results of operations that may be expected for the remainder of 2016.

<u>Restatement of Consolidated Financial Statements</u>

The Company has restated its previously filed interim financial statements as of and for the three and six months ended June 30, 2016. The restatement had the effect of reducing net income for the three months ended June 30, 2016 from net income of $614 thousand to a net loss of $582 thousand. For the six months then ended, net income was reduced from $1,267 thousand to $71 thousand. Basic and diluted income per share was reduced from $0.16 to a loss of $0.15 for the three months ended June 30, 2016, and from $0.32 to $0.02 for the six months then ended.

The Company has determined to increase the loan loss reserve for one specific impaired loan due to information and further analysis regarding the full collectability of this loan. Subsequent to filing the original Form 10-Q, information became known, which was available at the time the impairment analysis was prepared, regarding the valuation of certain collateral included in the analysis. To fully reserve for this loan, an increase in the Company's loan loss provision for the three months ended June 30, 2016 of $1,959,128 is required.

The $1.96 million increase in the Company's loan loss provision has been reflected herein, as well as its impact on earnings, earnings per share, loans receivable, the allowance for loan losses, deferred tax assets, regulatory capital and equity. The effect of these changes on the consolidated financial statements of the Company is as follows.

	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	Previously Reported	Adjustment	Restated	Previously Reported	Adjustment	Restated
	(in thousands, except shares and per share amounts)					
Provision for loan losses	$-	$ 1,959	$ 1,959	$-	$ 1,959	$ 1,959
Income before income taxes	1,011	(1,959)	(948)	2,082	(1,959)	123
(Benefit) expense for income taxes	397	(763)	(366)	815	(763)	52
Net income	614	(1,196)	(582)	1,267	(1,196)	71
Total comprehensive income (loss)	650	(1,196)	(546)	1,338	(1,196)	142
Basic and diluted income per share	$0.16	$ (0.31)	$ (0.15)	$0.32	$ (0.30)	$ 0.02
Consolidated Statement of Cash Flows:						
Net income	N/A	N/A	N/A	1,267	(1,196)	71
Provision for loan losses	N/A	N/A	N/A	-	1,959	1,959
Deferred income taxes	N/A	N/A	N/A	646	(762)	(117)

	As of June 30, 2016		
	Previously Reported	Adjustment	Restated
Loans receivable, net of allowance for loan losses	$523,404	$ (1,959)	$521,445
Deferred tax asset	13,073	763	13,836
Total assets	653,055	1,196	651,859
Accumulated deficit	(43,565)	(1,196)	(44,761)
Total shareholders' equity	66,110	(1,196)	61,914

The restatement had no impact on the Company's consolidated financial statements as of and for the periods ended June 30, 2015 or December 31, 2015.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 2: Investment Securities

The amortized cost, gross unrealized gains and losses and approximate fair values of available-for-sale securities at June 30, 2016 and December 31, 2015 are as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016:				
U. S. Government agency mortgage-backed securities	$ 12,170	$ 21	$ (52)	$ 12,139
Corporate bonds	9,000	-	(102)	8,898
Subordinated Notes	2,000	-	-	2,000
	$ 23,170	$ 21	$ (154)	$ 23,037
December 31, 2015:				
U. S. Government agency bonds	$ 5,000	$ -	$ (46)	$ 4,954
U. S. Government agency mortgage-backed securities	13,625	-	(212)	13,413
Corporate bonds	9,000	71	(61)	9,010
Subordinated Notes	2,000	-	-	2,000
	$ 29,625	$ 71	$ (319)	$ 29,377

The following table presents the gross unrealized loss and fair value of the Company’s available-for-sale securities, aggregated by the length of time the individual securities have been in a continuous loss position, at June 30, 2016 and December 31, 2015:

Less Than 12 Months	12 Months or More	Total

(in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
June 30, 2016:						
U. S. Government agency mortgage - backed securities	$ -	$ -	$ 7,136	$ (52)	$ 7,136	$ (52)
Corporate bonds	2,985	(15)	5,913	(87)	8,898	(102)
Totals	$ 2,985	$ (15)	$ 13,049	$ (139)	$ 16,034	$ (154)
December 31, 2015:						
U. S. Government agency bonds	$ 4,954	$ (46)	$ -	$ -	$ 4,954	$ (46)
U. S. Government agency mortgage - backed securities	2,863	(42)	10,550	(170)	13,413	(212)
Corporate bonds	-	-	5,939	(61)	5,939	(61)
Totals	$ 7,817	$ (88)	$ 16,489	$ (231)	$ 24,306	$ (319)

At June 30, 2016, six of ten available-for-sale securities had unrealized losses with an average depreciation of 0.7% from the total amortized cost. At December 31, 2015, nine out of eleven available-for-sale securities had unrealized losses with an aggregate depreciation of 1.3% from the total amortized cost.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The Company performs a quarterly analysis of those securities that are in an unrealized loss position to determine if those losses qualify as other-than-temporary impairments. This analysis considers the following criteria in its determination: the ability of the issuer to meet its obligations, management's plans and ability to maintain its investment in the security, the length of time and the amount by which the security has been in a loss position, the interest rate environment, the general economic environment and prospects or projections for improvement or deterioration.

Management believes that none of the unrealized losses on available-for-sale securities noted above are other than temporary due to the fact that they relate to market interest rate changes on U.S. Government agency debt, corporate debt and mortgage-backed securities issued by U.S. Government agencies. Management considers the issuers of the securities to be financially sound, the corporate bonds are investment grade and the Company expects to receive all contractual principal and interest related to these investments. Because the Company does not intend to sell the investments, and it will not be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2016.

The amortized cost and fair value of available-for-sale debt securities at June 30, 2016 by contractual maturity are presented below. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be prepaid without any penalties. The actual maturities will also differ from contractual maturities because issuers of certain securities retain early call or prepayment rights.

(in thousands)

	Amortized Cost	Fair Value
Maturity:		
Due after five years through ten years	$ 11,000	$10,898
U.S. Government agency mortgage-backed securities	12,170	12,139
Total	$ 23,170	$23,037

At June 30, 2016 and December 31, 2015, securities of $4.9 and $5.5 million, respectively, were pledged with the Federal Reserve Bank of New York primarily to secure municipal deposits.

There were no sales of available-for-sale securities in during the six-month periods ended June 30, 2016 or June 30, 2015.

Note 3: Loans Receivable and Allowance for Loan Losses

Loans that the Company has the intent and ability to hold for the foreseeable future or until maturity generally are reported at their outstanding unpaid principal balances adjusted for unearned income, the allowance for loan losses, and any unamortized deferred fees or costs.

Interest income is accrued based on the unpaid principal balance. Loan application fees are non interest income, while other certain direct origination costs are deferred and amortized as a level yield adjustment over the respective term of the loan and reported in interest income.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due for payment unless the loan is well-secured and in process of collection. Consumer installment loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

All interest accrued but not collected for loans that are placed on nonaccrual status or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis method until qualifying for return to accrual status. Upon receipt of cash, the cash received is first applied to satisfy principal and then applied to interest unless the loan is in a cure period and Management believes there will be a loss. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A summary of the Company's loan portfolio at June 30, 2016 and December 31, 2015 is as follows:

	Restated			
(in thousands)	June 30,	December 31,		
	2016	2015	Inc (Dec)	Inc/(Dec) %
Commercial and Industrial	$71,658	$59,752	$11,906	19.9 %
Commercial Real Estate	270,003	245,828	24,175	9.8
Construction	26,094	15,551	10,543	67.8
Construction to permanent- CRE	4,229	4,880	(651)	(13.3)
Residential	104,746	110,837	(6,091)	(5.5)
Consumer/Other	51,924	47,521	4,403	9.3
Total Loans	528,654	484,369	44,285	9.1
Allowance for loan losses	(7,209)	(5,242)	(1,967)	37.5
Loans receivable, net	$521,445	$479,127	$42,318	8.8 %

Amounts presented at December 31, 2015 include $28.2 million of loans secured by 1-4 Family Non-owner Occupied real estate in the Residential category, reclassified from Commercial Real Estate for consistency with the June 30, 2016 presentation. Net unamortized purchase loan premiums aggregated $0.8 million and $0.9 million as of June 30, 2016 and December 31, 2015, respectively. Net deferred loan costs aggregated $0.3 million as of June 30, 2016 and December 31, 2015.

The Company's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County in New York, and the five Boroughs of New York City. The Company originates commercial real estate loans, commercial business loans, and a variety of consumer loans. In addition, the Company previously had originated loans on residential real estate. All residential and commercial mortgage loans are collateralized primarily by first or second mortgages on real estate. The ability and willingness of borrowers to satisfy their loan obligations is dependent to some degree on the status of the regional economy as well as upon the regional real estate market. Accordingly, the ultimate collectability of a substantial portion of the loan portfolio and the recovery of a substantial portion of any resulting real estate acquired is susceptible to changes in market conditions.

The Company has established credit policies applicable to each type of lending activity in which it engages, by which it evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 75% of the market value of the collateral for commercial real estate at the date of the credit extension depending on the Company's evaluation of the borrowers' creditworthiness and type of collateral and up to 80% for multi–family real estate. In the case of construction loans, the maximum loan-to-value is 75% of the “as completed” appraised value. The appraised value of collateral is monitored on an ongoing basis and additional collateral is requested when warranted. Real estate is the primary form of collateral. Other important forms of collateral are accounts receivable, inventory, other business assets, marketable securities and time deposits.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Risk characteristics of the Company's portfolio classes include the following:

Commercial and Industrial Loans – The Company's commercial and industrial loan portfolio consists primarily of commercial business loans and lines of credit to businesses and professionals. These loans are usually made to finance accounts receivable, the purchase of inventory or new or used equipment and for other short or long-term working capital purposes. These loans are generally secured by business assets, but are also occasionally offered on an unsecured basis. In granting this type of loan, the Company primarily looks to the borrower's cash flow as the source of repayment with collateral and personal guarantees, where obtained, as a secondary source. Payments on such loans are often dependent upon the successful operation of the underlying business involved. Repayment of such loans may therefore be negatively impacted by adverse changes in economic conditions, management's inability to effectively manage the business, claims of others against the borrower's assets which may take priority over the Company's claims against assets, death or disability of the borrower or loss of markets for the borrower's products or services.

Commercial Real Estate Loans – In underwriting commercial real estate loans, the Company evaluates both the prospective borrower's ability to make timely payments on the loan and the value of the property securing the loans. Repayment of such loans may be negatively impacted should the borrower default or should there be a substantial decline in the value of the property securing the loan or decline in general economic conditions. Where the owner occupies the property, the Company also evaluates the business ability to repay the loan on a timely basis. In addition, the Company may require personal guarantees, lease assignments and/or the guarantee of the operating company when the property is owner occupied.

Construction Loans – Construction loans are short-term loans (generally up to eighteen months) secured by land for both residential and commercial development. The loans are generally made for acquisition and improvements. Funds are disbursed as phases of construction are completed. Included in this category are loans to construct single family homes where no contract of sale exists. These loans are based upon the experience and the financial strength of the builder, the type and location of the property and other factors. Construction loans are generally personally guaranteed by the principal(s). Repayment of such loans may be negatively impacted by the builders' inability to complete construction, by a downturn in the new construction market, by a significant increase in interest rates or by decline in general economic conditions.

Construction to Perm-CRE – One time close of a construction facility converting to an amortizing mortgage loan typically upon an event which would include a certificate of occupancy as well as stabilization, defined as cash flow sufficient to support a pre-defined minimum debt coverage ratio, as well as other conditions and covenants particular to the loan type. The construction facility would typically carry a floating rate, then upon conversion to amortization would reset at a predetermined spread over FHLB with a minimum interest rate.

Residential Real Estate Loans – Home equity loans secured by real estate properties are offered by the Company. The Company no longer offers residential mortgages, having exited this business in 2013. Repayment of residential real estate loans may be negatively impacted should the borrower have financial difficulties, should there be a significant decline in the value of the property securing the loan or should there be decline in general economic conditions.

Consumer/ Other Loans – The Company also offers installment loans, credit cards, and consumer overdraft and reserve lines of credit to individuals. Repayments of such loans are often dependent on the personal income of the borrower which may be negatively impacted by adverse changes in economic conditions. The Company does not place a high emphasis on originating these types of loans.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

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The Company does not have any lending programs commonly referred to as subprime lending. Subprime lending generally targets borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burdened ratios.

The following table sets forth activity in our allowance for loan losses, by loan type, for the three and six months ended June 30, 2016. The following table also details the amount of loans receivable that are evaluated individually and collectively for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment, as of June 30, 2016.

(in thousands) **Three months ended June 30, 2016**	**Restated Commercial and Industrial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential**	**Consumer/ Other**	**Unallocated**	**Restated Total**
Allowance for loan losses:								
Beginning Balance	$ 1,083	$ 1,943	$ 650	$ 121	$ 624	$ 609	$ 217	$ 5,247
Charge-offs	-	-	-	-	-	(1)	-	(1)
Recoveries	3	-	-	-	1	-	-	4
Provision	2,314	352	(481)	24	22	(77)	(195)	1,959
Ending Balance	$ 3,400	$ 2,295	$ 169	$ 145	$ 647	$ 531	$ 22	$ 7,209
Six months ended June 30, 2016								
Allowance for loan losses:								
Beginning Balance	$ 1,027	$ 1,970	$ 486	$ 123	$ 740	$ 677	$ 219	$ 5,242
Charge-offs	-	-	-	-	(4)	(2)	-	(6)
Recoveries	12	-	-	-	1	1	-	14
Provision	2,361	325	(317)	22	(90)	(145)	(197)	1,959
Ending Balance	$ 3,400	$ 2,295	$ 169	$ 145	$ 647	$ 531	$ 22	$ 7,209
Ending balance: individually evaluated for impairment	2,977	-	-	-	-	2	-	$ 2,979
	423	2,295	169	145	647	529	22	$ 4,230

Ending balance: collectively evaluated for impairment								
Total allowance for loan losses	$ 3,400	$ 2,295	$ 169	$ 145	$ 647	$ 531	$ 22	$ 7,209
As of June 30, 2016								
Total loans ending balance	$ 71,658	$ 270,003	$ 26,094	$ 4,229	$ 104,746	$ 51,924	$ -	$ 528,654
Ending balance: individually evaluated for impairment	$ 3,272	$ 6,526	$ -	$ -	$ 4,515	$ 546	$ -	$ 14,859
Ending balance: collectively evaluated for impairment	$ 68,386	$ 263,477	$ 26,094	$ 4,229	$ 100,231	$ 51,378	$ -	$ 513,795

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table sets forth activity in our allowance for loan losses, by loan type, for the three and six months ended June 30, 2015. The following table also details the amount of loans receivable that are evaluated individually and collectively for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment, as of December 31, 2015.

(in thousands)
Three months ended June 30, 2015