PATRIOT NATIONAL BANCORP INC
Form 10-K
March 15, 2010

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10 – K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2009

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.
(Exact name of registrant as specified in its charter)

Connecticut	06-1559137
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
900 Bedford Street	
Stamford, Connecticut	06901
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (203) 324-7500

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, par value $2.00 per share

Indicate by check mark if the registrant in a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933.Yeso No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of 15(d) of the Securities Exchange Act of 1934. Yes o No þ

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 þ No o

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Check whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer in Rule 12(b) of the Exchange Act.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12B-2 of the Act).
Yes o No þ

Aggregate market value of the voting stock held by nonaffiliates of the registrant as of June 30, 2009 based on the last sale price as reported on the NASDAQ Global Market: $ 10,773,105.

Number of shares of the registrant's Common Stock, par value $2.00 per share, outstanding as of February 28, 2010: 4,762,727.

Documents Incorporated by Reference

Proxy Statement for 2010 Annual Meeting of Shareholders. (A definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Form 10-K.)

Incorporated into Part III of this Form 10-K.

Patriot National Bancorp, Inc.
2009 Form 10-K Annual Report

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Part I

"Safe Harbor" Statement Under Private Securities Litigation Reform Act of 1995

Certain statements contained in Bancorp's public reports, including this report, and in particular in "Management's Discussion and Analysis of Financial Condition and Results of Operation," may be forward looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on Bancorp's interest earning assets and the interest paid on its interest bearing liabilities, (2) the timing of repricing of Bancorp's interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the effect of changes in regulations applicable to Bancorp and the Bank and the conduct of its business, (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks, (6) the ability of competitors that are larger than Bancorp to provide products and services which it is impracticable for Bancorp to provide, (7) the state of the economy and real estate values in Bancorp's market areas, and the consequent affect on the quality of Bancorp's loans, (8) recent governmental initiatives are expected to have a profound effect on the financial services industry and could dramatically change the competitive environment of the Company; (9) other legislative or regulatory changes, including those related to residential mortgages, changes in accounting standards, and Federal Deposit Insurance Corporation ("FDIC") premiums may adversely affect the Company; (10) the state of the economy in the greater New York metropolitan area and its particular effect on the Company's customers, vendors and communities and (11) Bancorp's ability to procure additional capital either through its December 17, 2009 Stock Purchase Agreement with PNBK Holdings, LLC or, should that purchase not be consummated, through other means. Other such factors may be described in Bancorp's other filings with the SEC.

Although Bancorp believes that it offers the loan and deposit products and has the resources needed for continued success, future revenues and interest spreads and yields cannot be reliably predicted. These trends may cause Bancorp to adjust its operations in the future. Because of the foregoing and other factors, recent trends should not be considered reliable indicators of future financial results or stock prices.

PART I

Item 1. Business

General

Patriot National Bancorp, Inc. ("Bancorp"), a Connecticut corporation, was organized in 1999 for the purpose of becoming a one-bank holding company (the "Reorganization") for Patriot National Bank, a national banking association headquartered in Stamford, Fairfield County, Connecticut (the "Bank"). Following receipt of regulatory and shareholder approvals, the Reorganization became effective as of the opening of business on December 1, 1999. Upon consummation of the Reorganization, each outstanding share of Common Stock, par value $2.00 per share, of the Bank ("Bank Common Stock"), was converted into the right to receive one share of Common Stock, par value $2.00 per share, of Bancorp ("Bancorp Common Stock"), and each outstanding option or warrant to purchase Bank Common Stock became an option or warrant to purchase an equal number of shares of Bancorp Common Stock.

The Bank was granted preliminary approval by the Comptroller of the Currency (the "OCC") on March 5, 1993. It received its charter and com−menced operations as a national bank on August 31, 1994. Since then, the Bank has opened fifteen branch offices in Connecticut. The Bank also expanded into New York State through the purchase of a small branch office in New York City and the opening of branch offices in Bedford and Scarsdale, both located in Westchester County, New York.

On June 30, 1999, the Bank through its wholly-owned subsidiary, PinPat Acquisition Corporation, acquired all of the outstanding capital stock of Pinnacle Financial Corp., a Connecticut corporation, Pinnacle Financial Corp., a New Jersey corporation, and Pinnacle Financial Corp., a New York corporation (collectively, "Pinnacle"), a residential mortgage broker. Pinnacle surrendered its mortgage licenses and the mortgage brokerage business of Pinnacle is now conducted through the lending function of Patriot National Bank.

On March 11, 2003, Bancorp formed Patriot National Statutory Trust I (the "Trust") for the sole purpose of issuing trust preferred securities and investing the proceeds in subordinated debentures issued by Bancorp. Bancorp primarily invested the funds from the issuance of the debt in the Bank, which in turn used the proceeds to fund general operations of the Bank.

On November 17, 2006 the Bank acquired a small branch office and related deposits at 45 West End Avenue, New York, New York, from Millennium bcpbank, a national bank headquartered in Newark, New Jersey. The Bank assumed the existing lease and operates from the branch at 45 West End Avenue. The acquisition permitted the Bank to establish two additional branches in New York State.

On April 1, 2008, the Bank acquired a 20% interest in a de novo insurance agency. The impact on the Bank's operations in 2008 and 2009 was insignificant.

As of the date hereof, the only business of Bancorp is its ownership of all of the issued and outstanding capital stock of the Bank and the Trust. Except as specifically noted otherwise herein, the balance of the description of Bancorp's business is a description of the Bank's business.

Commercial Banking

The Bank conducts business at its main office located at 900 Bedford Street in Stamford, Connecticut and at other Connecticut branch offices located at:

838 High Ridge Road, Stamford
100 Mason Street, Greenwich
184 Sound Beach Avenue, Old Greenwich
16 River Street, Norwalk
365 Westport Avenue, Norwalk
One Danbury Road, Wilton
5 River Road, Wilton
800 Post Road, Darien
3695 Post Road, Southport
771 Boston Post Road, Milford
1127 Post Road, Fairfield
1755 Black Rock Turnpike, Fairfield
945 White Plains Road, Trumbull
370 Post Road East, Westport
3552 Main Street, Stratford

In New York State, the Bank also conducts business at branch offices located at: 45 West End Avenue in New York City, 432 Old Post Road in Bedford and 495 Central Park Avenue in Scarsdale. The Bank also operates a loan origination office at 1177 Summer Street in Stamford, Connecticut.

The Bank offers a broad range of consumer and commercial banking services with an emphasis on serving the needs of individuals, small and medium-sized businesses and professionals. The Bank offers consumer and commercial deposit accounts that include: checking accounts, interest-bearing "NOW" accounts, insured money market accounts, time certificates of deposit, savings accounts, IRAs (Individual Retirement Accounts) and HSAs (Health Savings Accounts). Other services include internet banking, bill paying, remote deposit capture, debit cards, money orders, traveler's checks and ATMs (automated teller machines). The Bank is a member of CDARS (Certificates of Deposit Account Registry Service) whereby customers can obtain complete FDIC insurance coverage by placing large deposits into smaller-denomination CDs in multiple institutions. The single bank FDIC limits have temporarily been increased to $250,000 per eligible account until December 31, 2013. In addition, the Bank may in the future offer other financial services.

The Bank offers commercial real estate and construction loans to area businesses and developers. Real estate loans made to individuals include home mortgages, home improvement loans, bridge loans and home equity loans and lines of credit. Other personal loans include lines of credit, installment loans, overdraft protection and credit cards. Commercial loans offered to small and medium-sized businesses include secured and unsecured loans to service companies, real estate developers, manufacturers, restaurants, wholesalers, retailers and professionals doing business in the region. In addition to offering residential real estate mortgage loans for its own portfolio, the Bank also solicits and processes mortgage loan applications from consumers on behalf of permanent investors and originates loans for sale to generate fee income.

Competition

The Bank competes with a variety of financial institutions in its market area. Many have greater financial resources and capitalization, which gives them higher legal lending limits as well as the ability to conduct larger advertising campaigns to attract business. Generally the larger institutions offer additional services such as trust and international banking which the Bank is not equipped to offer directly. When the need arises, arrangements are made with correspondent institutions to provide such services. In the future, if the Bank desires to offer trust services, prior approval of the OCC will be required. To attract business in this competitive environment, the Bank relies on local promotional activities and personal contact by officers, directors and shareholders and on its ability to distinguish itself by offering personalized services.

The customer base of the Bank generally is diversified so that there is not a concentration of either loans or deposits within a single industry, a group of industries, a single person or groups of people. The Bank in recent years has developed a concentration in single family residential construction lending, a portfolio the Bank is reducing in size. The Bank is not dependent on one or a few major customers for either its deposit or lending activities, the loss of any one of which would have a material adverse effect on the business of the Bank.

Residents and businesses in Stamford, Greenwich, Norwalk, Wilton, Darien, Southport, Fairfield, Trumbull, Westport, Milford and Stratford, Connecticut provide the majority of the Bank’s deposits. The Bank has expanded its footprint by establishing branch offices in the Westchester County, New York towns of Bedford and Scarsdale, as well as a branch in New York City. The Bank has focused its attention on serving the segments of its market area historically served by community banks. The Bank competes in its market by providing a high level of personalized and responsive banking service for which the Bank believes there is a need.

The Bank’s loan customers extend beyond the towns and cities in which the Bank has branch offices that include nearby towns in Fairfield and New Haven Counties in Connecticut, and Westchester County, New York City and Long Island in New York, although the Bank’s loan business is not necessarily limited to these areas. The concentration of the loan portfolio in construction lending is indicative of the specialty the Bank developed since its founding in 1994. The Bank’s plans for future lending contemplate the diversification of the portfolio away from its historical emphasis on construction lending. While the Bank does not currently hold or intend to attract significant deposit or loan business from major corporations with headquarters in the Fairfield County area, the Bank believes that the service, professional and related busi–nesses which have been attracted to this area, as well as the individuals that reside in this area, represent current and potential customers of the Bank.

In the normal course of business and subject to applicable government regulations, the Bank invests a portion of its assets in investment securities, which may include certain debt and equity securities, including government securities. An objective of the Bank's investment policy is to seek to optimize its return on assets while limiting its exposure to interest rate movements and credit risk as well as maintaining adequate levels of liquidity. The Bank's investment portfolio is comprised primarily of government agency issues.

The Bank's employees perform most routine day-to-day banking transactions at the Bank. The Bank has entered into a number of arrangements with third parties for banking services such as correspondent banking, check clearing, data pro–cessing services, credit card processing and armored car carrier service.

The cities of Stamford and Norwalk and the towns of Greenwich, Wilton, Darien, Southport, Milford, Fairfield, Trumbull, Westport and Stratford are presently served by over 278 branches of commercial and savings banks along with 21 in the New York towns of Bedford and Scarsdale. Most of these branches are offices of banks, which have headquarters outside of the states or areas served by the Bank or are subsidiaries of bank or financial holding companies whose headquarters are outside of the areas served by the Bank. In addition to banks with branches in the same areas as the Bank, there are numerous banks and financial institutions serving the communities surrounding these areas, which also draw customers from the cities and towns mentioned above and pose significant competition to the Bank for deposits and loans. Many of those banks and financial institutions are well established and well capitalized.

In recent years, intense market demands, economic pressures and significant legislative and regulatory actions have eroded banking industry classifications which were once clearly defined and have increased competition among banks, as well as other financial institutions including non-bank competitors. This increase in competition has caused banks and other financial service institutions to diversify their services and become more cost effective. The impact on Bancorp of federal legislation authorizing increased services by financial holding companies and interstate branching of banks has also resulted in increased competition. These events have resulted in increasing homogeneity in the financial services offered by banks and other financial institutions. The impact on banks and other finan–cial institutions of these market dynamics and legislative and regulatory changes has been increased customer awareness of product and service dif–ferences among competitors and increased merger activity.

Supervision and Regulation

As a bank holding company, Bancorp's operations are subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve Board (the "Federal Reserve Board"). The Federal Reserve Board has established capital adequacy guidelines for bank holding companies that are similar to the OCC's capital guidelines applicable to the Bank. The Bank Holding Company Act of 1956, as amended (the "BHC Act"), limits the types of companies that a bank holding company may acquire or organize and the activities in which it or they may engage. In general, bank holding companies and their subsidiaries are only permitted to engage in, or acquire direct control of, any company engaged in banking or in a business so closely related to banking as to be a proper incident thereto. Federal legislation enacted in 1999 authorizes certain entities to register as financial holding companies. Registered financial holding companies are permitted to engage in businesses, including securities and investment banking businesses, which are prohibited to bank holding companies. The creation of financial holding companies to date has had no significant impact on Bancorp.

Under the BHC Act, Bancorp is required to file annually with the Federal Reserve Board a report of its operations. Bancorp, the Bank and any other subsidiaries are subject to examination by the Federal Reserve Board. In addition, Bancorp will be required to obtain the prior approval of the Federal Reserve Board to acquire, with certain exceptions, more than 5% of the outstanding voting stock of any bank or bank holding company, to acquire all or substantially all of the assets of a bank or to merge or consolidate with another bank holding company. Moreover, Bancorp, the Bank and any other subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit or provision of any property or services. The Bank is also subject to certain restrictions imposed by the Federal Reserve Act on issuing any extension of credit to Bancorp or any of its subsidiaries or making any investments in the stock or other securities thereof and on the taking of such stock or securities as collateral for loans to any borrower. If Bancorp wants to engage in businesses permitted to financial holding companies but not to bank holding companies, it would need to register with the Federal Reserve Board as a financial holding company.

The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses its view that a bank holding company should pay cash dividends only to the extent that the bank holding company's net income for the past year is sufficient to cover both the cash dividend and a rate of earnings retention that is consistent with the bank holding company's capital needs, asset quality and overall financial condition. The Federal Reserve Board has also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the Federal Reserve Board pursuant to applicable law, the Federal Reserve Board may prohibit a bank holding company from paying any dividends if its bank subsidiary is classified as "undercapitalized."

A bank holding company is required to give the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of its consolidated retained earnings. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve Board order, or any condition imposed by, or written agreement with, the Federal Reserve Board.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, ("Riegle-Neal Act") was enacted to ease restrictions on interstate banking. Effective September 29, 1995, the Riegle-Neal Act allows the Federal Reserve Board to approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's state, without regard to whether the transaction is prohibited by the laws of any state. The Federal Reserve Board may not approve the acquisition of a bank that has not been in existence for the minimum time period (not exceeding five years) specified by the statutory law of the host state. The Riegle-Neal Act also prohibits the Federal Reserve Board from approving an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. The Riegle-Neal Act does not affect the authority of states to limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent that such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% statewide concentration limits contained in the Riegle-Neal Act. The Riegle-Neal Act also allows banks to establish branch offices in other than the bank's home state if the target state has "opted in" to interstate branching.

Bancorp is subject to capital adequacy rules and guidelines issued by the OCC, the Federal Reserve Board and the Federal Deposit Insurance Corporation ("FDIC"), and the Bank is subject to capital adequacy rules and guidelines issued by the OCC. These substantially identical rules and guidelines require Bancorp to maintain certain minimum ratios of capital to adjusted total assets and/or risk-weighted assets. Under the provisions of the Federal Deposit Insurance Corporation Improvements Act of 1991, the Federal regulatory agencies are required to implement and enforce these rules in a stringent manner. Bancorp is also subject to applicable provisions of Connecticut law insofar as they do not conflict with, or are not otherwise preempted by, Federal banking law.

Bancorp is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance with the Exchange Act, files periodic reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). The Bank's operations are subject to regulation, supervision and examination by the OCC and the FDIC.

Federal and state banking regulations govern, among other things, the scope of the business of a bank, a bank holding company or a financial holding company, the investments a bank may make, deposit reserves a bank must maintain, the establishment of branches and the activities of a bank with respect to mergers and acquisitions. The Bank is a member of the Federal Reserve System and as such, is subject to applicable provisions of the Federal Reserve Act and regulations there under. The Bank is subject to the federal regulations promulgated pursuant to the Financial Institutions Supervisory Act to prevent banks from engaging in unsafe and unsound practices, as well as various other federal and state laws and consumer protection laws. The Bank is also subject to the comprehensive provisions of the National Bank Act.

The OCC regulates the number and locations of the branch offices of a national bank. The OCC may only permit a national bank to maintain branches in locations and under the conditions imposed by state law upon state banks. At this time, applicable Connecticut banking laws do not impose any material restrictions on the establishment of branches by Connecticut banks throughout Connecticut. New York State law is similar; however, the Bank cannot establish a branch in a town with a population of less than 50,000 if another bank is headquartered in the town.

The earnings and growth of Bancorp, the Bank and the banking industry are affected by the monetary and fiscal policies of the United States Government and its agencies, particularly the Federal Reserve Board. The Open Market Committee of the Federal Reserve Board implements national monetary policy to curb inflation and combat recession. The Federal Reserve Board uses its power to adjust interest rates in United States Government securities, the Discount Rate and deposit reserve retention rates. The actions of the Federal Reserve Board influence the growth of bank loans, investments and deposits. They also affect interest rates charged on loans and paid on deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

In addition to other laws and regulations, Bancorp and the Bank are subject to the Community Reinvestment Act ("CRA"), which requires the federal bank regulatory agencies, when considering certain applications involving Bancorp or the Bank, to consider Bancorp's and the Bank's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA was originally enacted because of concern over unfair treatment of prospective borrowers by banks and over unwarranted geographic differences in lending patterns. Existing banks have sought to comply with CRA in various ways; some banks have made use of more flexible lending criteria for certain types of loans and borrowers (consistent with the requirement to conduct safe and sound operations), while other banks have increased their efforts to make loans to help meet identified credit needs within the consumer community, such as those for home mortgages, home improvements and small business loans. Compliance may also include participation in various government insured lending programs, such as Federal Housing Administration insured or Veterans Administration guaranteed mortgage loans, Small Business Administration loans, and participation in other types of lending programs such as high loan-to-value ratio conventional mortgage loans with private mortgage insurance. To date, the market area from which the Bank draws much of its business is in the towns and cities in which the Bank has branch offices, which are characterized by a very diverse ethnic, economic and racial cross-section of the population. As the Bank expands further, the market areas served by the Bank will continue to evolve. Bancorp and the Bank have not and will not adopt any policies or practices, which discourage credit applications from, or unlawfully discriminate against, individuals or segments of the communities served by the Bank.

On October 26, 2001, the United and Strengthening America by Providing Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA Patriot Act, was enacted to further strengthen domestic security following the September 11, 2001 attacks. This Act amends various federal banking laws, particularly the Bank Secrecy Act, with the intent to curtail money laundering and other activities that might be undertaken to finance terrorist actions. The Act also requires that financial institutions in the United States enhance already established anti-money laundering policies, procedures and audit functions and ensure that controls are reasonably designed to detect instances of money laundering through certain correspondent or private banking accounts. Verification of customer identification, maintenance of said verification records and cross checking names of new customers against government lists of known or suspected terrorists is also required. The Patriot Act was reauthorized and modified with the enactment of The USA Patriot Act Improvement and Reauthorization Act of 2005.

On July 20, 2002, the Sarbanes-Oxley Act of 2002 was enacted, the primary purpose of which is to protect investors through improved corporate governance and responsibilities of, and disclosures by, public companies. The Act contains provisions for the limitations of services that external auditors may provide as well as requirements for the credentials of Audit Committee members. In addition, the principal executive and principal financial officers are required to certify in quarterly and annual reports that they have reviewed the report; and based on the officers' knowledge, the reports accurately present the financial condition and results of operations of the company and contain no untrue statement or omission of material fact. The officers also certify their responsibility for establishing and maintaining a system of internal controls, which insure that all material information is made known to the officers; this certification also includes the evaluation of the effectiveness of disclosure controls and procedures and their impact upon financial reporting. Section 404 of the Act entitled Management Assessment of Internal Controls, requires that each annual report include an internal control report which states that it is the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting, as well as an assessment by management of the effectiveness of the internal control structure and procedures for financial reporting. This section further requires that the external auditors attest to, and report on, the Company's internal controls over financial reporting.

Emergency Economic Stabilization Act of 2008

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act ("EESA") which includes the Troubled Asset Relief Program ("TARP"). The legislation was in response to the financial crises affecting the banking system and financial markets. The TARP gave the United States Department of the Treasury (the "Treasury") authority to deploy up to $700 billion into the financial system with an objective of improving liquidity in the capital markets. This was initially done by infusing billions of dollars into financial and insurance institutions as well as U.S. automakers. Since 2008, the U.S. Department of the Treasury has established several programs under the TARP, including the Financial Stability Program, to further stabilize the financial system, restore the flow of credit to consumers and businesses and tackle the foreclosure crisis to keep millions of Americans in their homes. Since this program began, many banks, large and small have accessed the program. However, due to constraints attendant to participation, many banks have repaid or indicated the intention to repay capital received from the government. The Bank did not participate in the TARP program, which is now closed to new entrants.

Temporary Liquidity Guarantee Program

On November 21, 2008, the FDIC adopted the Final Rule implementing the Temporary Liquidity Guarantee Program ("TLGP") inaugurated October 14, 2008. The TLGP consists of two basic components: (1) the Debt Guarantee Program which guarantees newly issued senior unsecured debt of banks, thrifts, and certain holding companies and (2) the Transaction Account Guarantee Program which guarantees certain non-interest bearing deposit transaction accounts, such as business payroll accounts, regardless of dollar amount. The purpose of the TLGP was to provide an initiative to counter the system-wide crisis in the nation's financial sector by promoting financial stability by preserving confidence in the banking system and encourages liquidity in order to ease lending to creditworthy businesses and consumers.

The Bank is participating in the Transaction Account Guarantee portion of the TLGP and as a result, its non-interest bearing transaction deposit accounts and interest bearing transaction accounts paying 50 basis points or less will be fully insured through June 30, 2010. Bancorp did not participate in the Debt Guarantee portion of the TLGP.

Helping Families Save Their Homes Act of 2009

The Helping Families Save Their Homes Act of 2009 became effective May 20, 2009. This act was a step towards stabilizing and reforming the United States financial and housing markets by helping American homeowners and increasing the flow of credit. It expands the reach of the Making Home Affordable Program (a TARP initiative) with an emphasis on reducing foreclosures. The act also contains provisions to help restore and support the flow of credit by increasing the borrowing authority of the FDIC and the National Credit Union Administration as well as extending the temporary increase in deposit insurance. The increase in deposit insurance may add confidence in depositors and allow depository institutions to better maintain this source of funding.

Real Estate Settlement Procedures Act

The U.S. Department of Housing and Urban Development ("HUD") issued a final rule effective January 1, 2010 that implements significant changes to the Real Estate Settlement Procedures Act ("RESPA"). The new rules require a standard form of Good Faith Estimate to disclose key terms and closing costs, including items such as the loan term, fixed or adjustable interest rate, prepayment penalty, total closing cost and cost of homeowners insurance. Additionally, changes to the settlement statement are also required and will allow borrowers to compare their final closing costs and loan terms against their good faith estimate. There are also limitations on third-party costs and a 30 day window from the date of closing to correct any errors or violations and reimburse the borrower for any overcharges.

Regulation E, Electronic Fund Transfers

The Board of Governors of the FRB amended Regulation E, Electronic Fund Transfers. The final rules, announced November 12, 2009, prohibit affected financial institutions from charging consumers fees for paying overdrafts on automated teller machine ("ATM") and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. The mandatory compliance date is July 1, 2010.

Bancorp does not anticipate that compliance with applicable federal and state banking laws will have a material adverse effect on its business or the business of the Bank. Neither Bancorp nor the Bank has any material patents, trademarks, licenses, franchises, concessions and royalty agreements or labor contracts, other than the charter granted to the Bank by the OCC.

Available Information

Our website address is http://www.pnbdirectonline.com; however, information found on, or that can be accessed through, our website is not incorporated by reference into this Form 10-K. Bancorp makes available free of charge on our website (under the links entitled “For Investors”, then “SEC filings” and then “Documents”), our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as practicable after we electronically file such reports with or furnish it to the SEC. Because Bancorp is an electronic filer, such reports are filed with the SEC and are also available on their website (http://www.sec.gov). The public may also read and copy any materials filed with the SEC at the SEC’s Public Reference Room, 100 F Street, NE, Washington, DC 20549. Information about the Public Reference Room can be obtained by calling 1-800-SEC-0330.

Employees

As of December 31, 2009, Bancorp had 146 full-time employees and 9 part-time employees. None of the employees of Bancorp is covered by a collective bargaining agreement.

Item 1A. Risk Factors

The risks involved in Bancorp’s construction and commercial real estate loan portfolios are material.

Although Bancorp’s commercial real estate and construction loan portfolios have been, by design, significantly reduced in the past year, they still constitute material portions of the Bank’s assets and generally have more risk than residential mortgage loans. Both commercial real estate and construction loans often involve larger loan balances concentrated with single borrowers or groups of related borrowers as compared to single-family residential loans. Construction loans are secured by the property under construction, the value of which is uncertain prior to completion. Thus, it is more difficult to evaluate accurately the total loan funds required to complete a project and the related loan-to-value ratios. Speculative construction loans involve additional risk because the builder does not have a contract for the sale of the property at the time of construction.

Because the repayment of commercial real estate and construction loans depends on the successful management and operation of the borrower’s properties or related businesses, repayments of such loans can be affected by adverse conditions in the real estate market or local economy as have been experienced in Bancorp’s market area. The downturn in the real estate market within Bancorp’s market area has, and may continue to, adversely impact the value of properties securing these loans and the ability to sell foreclosed properties efficiently.

Real estate lending in Bancorp’s core Fairfield County, Connecticut market involves risks related to a decline in value of commercial and residential real estate.

The market value of real estate can fluctuate significantly in a relatively short period of time as a result of market conditions in the geographic area in which the real estate is located. A significant portion of Bancorp’s total loan portfolio is secured by real estate located in Fairfield County, Connecticut and Westchester, County New York, areas historically of high affluence that have been materially impacted by the financial troubles experienced by large financial service companies on Wall Street in recent years. Credit markets have become tight and underwriting standards more stringent, and the inability of purchasers of real estate to obtain financing may further weaken the real estate market. Therefore, these loans may be subject to changes in grade, classification, accrual status, foreclosure, or loss which could have an effect on the adequacy of the allowance for loan losses.

Bancorp’s business is subject to various lending and other economic risks that could adversely impact Bancorp’s results of operations and financial condition.

Changes in economic conditions, particularly a continued economic slowdown in Fairfield County, Connecticut and the New York metropolitan area, could hurt Bancorp’s financial performance. A further deterioration in economic conditions, in particular an economic slowdown within Fairfield County, Connecticut and/or the New York metropolitan area, could result in the following consequences, any of which may hurt the business of Bancorp materially: loan delinquencies may increase; problem assets and foreclosures may increase; demand for the Bank’s products and services may decline; and assets and collateral associated with the Bank’s loans, especially real estate, may decline in value, thereby reducing a customer's borrowing power. Beginning in 2007 and worsening through 2008 and 2009, the general economic conditions and specific business conditions in the United States including Fairfield County, Connecticut have deteriorated resulting in increases in loan delinquencies, problem assets and foreclosures and declines in the value and collateral associated with the Bank's loans. A prolonged period of economic recession or worsening of these adverse economic conditions may have a materially adverse effect on our results of operations and financial condition.

Bancorp is Subject to a Formal Agreement with the OCC

The Bank is subject to a formal agreement with the OCC entered into in February 2009. The agreement provides for, among other things, the enhancement and implementation of certain programs to reduce the Bank's credit risk, commercial real estate loan concentration and the level of criticized assets, along with the augmentation of a profit plan and three-year capital program. Additionally, the agreement provides for certain asset growth restrictions for a limited period of time. The Bank does not anticipate that these restrictions will impair its current business plan. However, failure to comply with the provisions of the Agreement could result in more severe enforcement actions and further restrictions.

Bancorp's allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, the Bank maintains an allowance for loan losses to provide for loan defaults and non-performance. The allowance for loan losses is based on an evaluation of the risks associated with the Bank's loans receivable as well as the Bank's prior loss experience. Deterioration in general economic conditions and unforeseen risks affecting customers will have an adverse effect on borrowers' capacity to repay timely their obligations before risk grades could reflect those changing conditions.

The recent adverse changes in economic and market conditions in the Bank's market areas increase the risk that the allowance will become inadequate if borrowers continue to experience economic and other conditions adverse to their incomes and businesses. Maintaining the adequacy of the Bank's allowance for loan losses may require that the Bank make significant and unanticipated increases in our provision for loan losses, which would materially affect our results of operations and capital adequacy. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond the Bank's control and these losses may exceed current estimates. The current economic environment is uncertain and may result in additional risk of loan losses.

Federal regulatory agencies, as an integral part of their examination process, review the Bank's loans and assess the adequacy of the allowance for loan losses. The regulatory agencies may require us to change classifications or grades on loans, increase the allowance for loan losses with additional provisions for loan losses and to recognize further loan charge-offs based upon their judgments, which may differ from ours. Any increase in the allowance for loan losses required by these regulatory agencies could have a negative effect on our results of operations and financial condition. During 2008 and 2009, the Bank significantly increased its allowance for loan losses based on management's evaluation of the current economic crisis and its impact on the real estate market in the Bank's market area. While management believes that the allowance for loan losses is currently adequate to cover inherent losses, further loan deterioration could occur and therefore management cannot assure shareholders that there will not be a need to increase the allowance for loan losses or that the regulators will not require management to increase this allowance. Either of these occurrences could materially and adversely affect Bancorp's earnings and profitability.

Bancorp's business is subject to interest rate risk and variations in interest rates may negatively affect Bancorp's financial performance.

Bancorp is unable to predict fluctuations of market interest rates, which are affected by many factors including: inflation, recession, a rise in unemployment, a tightening money supply, domestic and international disorder and instability in domestic and foreign financial markets. Changes in the interest rate environment may reduce Bancorp's profits. Bancorp realizes income from the differential or "spread" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. Bancorp is vulnerable to a decrease in interest rates because its interest-earning assets generally have shorter durations than its interest-bearing liabilities. As a result, material and prolonged decreases in interest rates would decrease Bancorp's net interest income. In contrast, an increase in the general level of interest rates may adversely affect the ability of some borrowers to pay the interest on and principal of their obligations. Like most financial institutions, Bancorp is affected by changes in interest rates, which are currently at record low levels, and by other economic factors beyond Bancorp's control. Although Bancorp has implemented strategies which are designed to reduce the potential effects of changes in interest rates on operations, these strategies may not always be successful. Accordingly, changes in levels of market interest rates could materially and adversely affect Bancorp's net interest spread, asset quality, levels of prepayments and cash flow as well as the market value of its securities portfolio and overall profitability.

Mortgage brokerage activity is also affected by interest rate fluctuations. Generally, increases in interest rates often lead to decreases in home refinancing activity, thus reducing the number of mortgage loans that Bancorp originates.

Bancorp's investment portfolio includes securities which are sensitive to interest rates and variations in interest rates may adversely impact Bancorp's profitability.

Bancorp's security portfolio is classified as available-for-sale, and is comprised of debt and mortgage-backed securities which are insured or guaranteed by U.S. government agencies and auction rate preferred equity securities. These securities are sensitive to interest rate fluctuations. Unrealized gains or losses in the available-for-sale portfolio for securities, other than those for which other-than-temporary impairment charges have been recorded, are reported as a separate component of shareholders' equity. As a result, future interest rate fluctuations may impact shareholders' equity, causing material fluctuations from quarter to quarter. The inability to hold its securities until maturity, or until payments are received on mortgage-backed securities, or until market conditions are favorable for a sale, could adversely affect Bancorp's earnings and profitability.

Bancorp is dependent on its management team, and the loss of its senior executive officers or other key employees could impair its relationship with its customers and adversely affect its business and financial results.

Bancorp's success is dependent upon the continued services and skills of its management team. The unexpected loss of services of one or more of these key personnel, without experienced and suitable replacements could have an adverse impact on Bancorp's business because of their skills, knowledge of Bancorp's market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

Bancorp's success also depends, in part, on its continued ability to attract and retain experienced commercial lenders and residential mortgage originators, as well as other management personnel. The loss of the services of several of such key personnel could adversely affect Bancorp's growth and prospects to the extent it is unable to quickly replace such personnel. Competition for commercial lenders and residential mortgage originators is strong within the commercial banking and mortgage banking industries, and Bancorp may not be successful in retaining or attracting personnel.

A breach of information security could negatively affect Bancorp's earnings.

Bancorp increasingly depends upon data processing, communications and information exchange on a variety of computing platforms and networks, and over the internet to conduct its business. Bancorp cannot be certain that all of its systems are entirely free from vulnerability to attack, despite safeguards it has instituted. In addition, Bancorp relies on the services of a variety of vendors to meet its data processing and communication needs. If information security is breached, information can be lost or misappropriated; this could result in financial loss or costs to Bancorp or damages to others. These costs or losses could materially exceed the amount of insurance coverage, if any, which would have an adverse effect on Bancorp's results of operations and financial condition. In addition, the Bank's reputation could be harmed, which also could materially adversely affect Bancorp's financial condition and results of operation.

Risks Related to Bancorp's Industry

Difficult market conditions have adversely affected Bancorp's industry.

Bancorp is exposed to downturns in the U.S. economy, and particularly the local markets in which it operates in Connecticut and New York. Declines in the housing market over the past two years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored enterprises as well as major commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors have reduced or ceased providing funding to borrowers, including other financial institutions. This market turmoil and the tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and generally widespread reductions in business activity. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected Bancorp's business, financial condition and results of operations. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and other financial institutions. In particular:

- We expect to face increased regulation of our industry, including several proposals that would dramatically change how the Bank is regulated. Compliance with such regulations may increase our costs and limit our ability to pursue business opportunities. We cannot predict how large these costs will be or how expansive any such limitations will be.

- Economic conditions may continue to affect market confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies, which could affect our charge-offs and provision for loan losses.

- The ability to assess the creditworthiness of the Bank's customers or to estimate the values of collateral for loans may be impaired if the models and approaches we use become less predictive of future behaviors, valuations, assumptions or estimates due to the unpredictable economic climate.

- Increasing consolidation of financial services companies as a result of current market conditions could have unexpected adverse effects upon our ability to compete effectively.

- We have been required, and may continue to be required to pay significantly higher FDIC premiums.

Strong competition within Bancorp's market area may limit the growth and profitability of the Company.

Competition in the banking and financial services industry is intense. The Fairfield County, Connecticut and the New York City metropolitan areas have a high concentration of financial institutions including large money center and regional banks, community banks and credit unions. Some of Bancorp's competitors offer products and services that the Bank currently does not offer, such as private banking and trust services. Many of these competitors have substantially greater resources and lending limits than Bancorp and may offer certain services that Bancorp does not or cannot provide. Price competition for loans and deposits might result in the Bank earning less on its loans and paying more for deposits, which reduces net interest income. Bancorp expects competition to increase in the future as a result of legislative, regulatory and technological changes. Bancorp's profitability depends upon its continued ability to successfully compete in its market area.

Government regulation may have an adverse effect on Bancorp's profitability and growth.

Bancorp is subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency as the Bank's chartering authority, by the FDIC, as insurer of its deposits, and by the Federal Reserve Board as regulator of Bancorp. Changes in state and federal banking laws and regulations or in federal monetary policies could adversely affect the Bank's ability to maintain profitability and continue to grow and, in light of recent economic conditions, such changes are expected but cannot be predicted. For example, new legislation or regulation could limit the manner in which Bancorp may conduct its business, including the Bank's ability to obtain financing, attract deposits, make loans and achieve satisfactory interest spreads. One proposal would implement a new federal agency devoted to the rights of consumers that would regulate banks on a parallel track with banking regulatory authorities. The laws, regulations, interpretations and enforcement policies that apply to Bancorp have been subject to significant, and sometimes retroactively applied, changes in recent years, and are likely to change significantly in the future. Future legislation or government policy may also adversely affect the banking industry or Bancorp's operations.

Changing regulation of corporate governance and public disclosure.

Laws, regulations and standards relating to corporate governance and public disclosure, SEC regulations and NASDAQ rules, have added to the responsibilities that companies, such as Bancorp, have. These laws, regulations and standards are subject to varying interpretations, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could make compliance more difficult and result in higher costs. Bancorp is committed to maintaining high standards of corporate governance and public disclosure. As a result, Bancorp's efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. Bancorp's reputation may be harmed if it does not continue to comply with these laws, regulations and standards.

The earnings of financial institutions are significantly affected by general business and economic conditions.

As a financial institution, Bancorp's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes and the strength of the U.S. economy and the local economies in which we operate, all of which are beyond Bancorp's control. In recent years, the banking world has experienced unprecedented upheaval, including the failure of some of the leading financial institutions in the world. Further deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the Bank's products and services, among other things, any of which could have a material adverse impact on Bancorp's results of operations and financial condition and for which Bancorp cannot currently predict or implement plans to combat.

Item 1B. Unresolved Staff Comments

Bancorp has no unresolved comments from the SEC staff.

Item 2. Properties

Patriot National Bancorp Inc.'s corporate headquarters and main branch banking office is located at 900 Bedford Street in Stamford, Connecticut. The building is leased by the Bank, as are its eighteen other branch banking offices, one loan origination office and additional administrative and operational office space. The Bank also leases space at its main office for additional parking. Lease commencement dates for office locations range from April 2003 to May 2008 and lease expiration dates fall between April 2010 and January 2022. Most of the leases contain rent escalation provisions, as well as renewal options for one or more periods.

The Bank has sublet and licensed excess space in two of its locations to an attorney. See also "Item 12. Certain Relationships and Related Transactions." For additional information regarding the Bank's lease obligations, see Note 9 to the Consolidated Financial Statements.

All leased properties are in good condition.

Item 3. Legal Proceedings

Except as noted below, neither Bancorp nor the Bank has any pending legal proceedings, other than ordinary routine litigation incidental to its business, to which Bancorp or the Bank is a party or any of its property is subject.

On October 9, 2009, a complaint captioned PNBK Holdings LLC v. Patriot National Bancorp, Inc. and Patriot National Bank was filed in the United States District Court, Southern District of New York (the "Federal Litigation"). PNBK Holdings LLC is a newly formed Delaware entity created to be an investment vehicle for an investor group led by Michael A. Carrazza (collectively, "Carrazza"). Carrazza also filed a complaint with the State of Connecticut Superior Court – Stamford Judicial District on October 9, 2009 captioned PNBK Holdings LLC and Michael A. Carrazza v. Patriot National Bancorp, Inc. and Patriot National Bank (the "Connecticut Litigation").

Earlier in 2009, Carrazza expressed interest in acquiring a controlling interest in Bancorp. In late July 2009, Bancorp entered into a preliminary Letter of Intent with Carrazza which would result in additional capital of up to $50 million representing a substantial, controlling interest in Bancorp. The parties and Carrazza entered into extensive negotiations to memorialize the investment in the form of a definitive Securities Purchase Agreement ("SPA"). On the evening of September 30, 2009 and before executing a SPA with Carrazza, Bancorp received an unsolicited written offer from another investment group to acquire a controlling interest in Bancorp. This unsolicited offer was at a higher price than the Carrazza offer, again for up to $50 million of additional capital in return for a significant, controlling interest. The next day, October 1, 2009, the Board of Directors held a special meeting and consulted with its outside counsel and advisors to consider the unsolicited offer and to discuss the Carrazza proposal. The Board of Directors determined in its fiduciary capacity that it should further analyze and evaluate the unsolicited offer.

Following these events, Carrazza commenced the Federal Litigation and the Connecticut Litigation. Bancorp vigorously defended against these actions and through settlement discussions with Carrazza, Carrazza again expressed its interest in Bancorp. In late November 2009, Carrazza and Bancorp resumed negotiations. On December 4, 2009, Carrazza and Bancorp entered into a Standstill Agreement pursuant to which the parties agreed to stop, temporarily and subject to the terms of the Standstill Agreement, the Connecticut Litigation. On December 16, 2009, Bancorp and Carrazza executed the SPA. Pursuant to the Standstill Agreement, upon execution of the SPA, the Company agreed to wire $400,000 (the "Escrowed Funds") into an escrow account governed by the terms of a certain Escrow Agreement between Carrazza, the Company and a third party financial institution. The Escrowed Funds will be released to Carrazza or the Company pursuant to the Escrow Agreement and the SPA, under which the Escrowed Funds will be released upon a non-appealable order or judgment from the Connecticut Superior Court, the Connecticut Appellate Court, or the Connecticut Supreme Court directing the release of the Escrowed Funds; the joint written agreement by Carrazza and the Company or as the result of the termination of the SPA. As part of the execution of the SPA, the Federal Litigation was withdrawn with prejudice and the Connecticut Litigation is being held in abeyance.

The complaint filed by Carrazza in the Connecticut Litigation alleges, among other things, breach of the Letter of Intent, including a breach by Bancorp of the Letter of Intent's exclusivity provision. The Carrazza complaint seeks (a) compensatory damages; (b) the break-up fee payable under certain circumstances under the Letter of Intent (an amount equal to $100,000 plus certain out-of-pocket due diligence expenses of Carrazza (estimated by Carrazza as set forth in the Carrazza complaint to be in excess of $700,000)); (c) attorneys' fees and costs of the action brought by the Carrazza complaint; and (d) a pre-judgment attachment securing the eventual judgment in Carrazza's favor. In connection with this action, Carrazza has filed an application for a pre-judgment attachment order in the amount of at least $990,000 against the Company's property.

PART II

Item 5. Market for Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information

Bancorp Common Stock is traded on the NASDAQ Global Market under the Symbol "PNBK." On December 31, 2009, the last sale price for Bancorp Common Stock on the NASDAQ Global Market was $1.55.

The following table sets forth the high and low sales price and dividends per share of Bancorp Common Stock for the last two fiscal years for each quarter as reported on the NASDAQ Global Market.

	2009			2008		
	Sales Price		Cash Dividends	Sales Price		Cash Dividends
Quarter Ended	High	Low	Declared	High	Low	Declared
March 31	$ 7.74	$ 2.13	$ -	$ 16.55	$ 14.01	$ 0.045
June 30	5.04	2.04	-	16.16	13.75	0.045
September 30	4.50	1.85	-	15.50	11.50	0.045
December 31	2.45	1.40	-	13.50	6.80	0.045

Holders

There were approximately 601 shareholders of record of Bancorp Common Stock as of December 31, 2009. This number does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms or other nominees.

Dividends

Bancorp's ability to pay dividends is dependent on the Bank's ability to pay dividends to Bancorp. Pursuant to the February 9, 2009 Agreement between the Bank and the Office of the Comptroller of the Currency, the Bank can pay dividends to Bancorp only pursuant to a dividend policy requiring compliance with the Bank's OCC-approved capital program, in compliance with applicable law and with the prior written determination of no supervisory objection by the Assistant Deputy Comptroller. In addition to the Agreement, certain other restrictions exist regarding the ability of the Bank to transfer funds to Bancorp in the form of cash dividends, loans or advances. The approval of the Comptroller of the Currency is required to pay dividends in excess of the Bank's earnings retained in the current year plus retained net earnings for the preceding two years. As of December 31, 2009, the Bank had no retained earnings available for distribution to Bancorp as dividends. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements. The Federal Reserve Bank may also impose further dividend restrictions on the Bancorp.

Recent Sales of Unregistered Securities

During the fourth quarter of 2009, Bancorp did not have any sales of unregistered securities.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the fourth quarter of 2009 there were no shares of Bancorp stock repurchased through the Stock Repurchase Program. For additional information regarding the Company's stock repurchase program, see Note 13 to the Consolidated Financial Statements.

Securities Authorized for Issuance under Equity Compensation Plans

As of December 31, 2009, Bancorp did not have any securities authorized for issuance under equity compensation plans.

Performance Graph

The performance graph compares the yearly percentage change in Bancorp's cumulative total shareholder return on its common stock over the last five fiscal years to the cumulative total return of the S&P 500 Index and the NASDAQ Bank Index. Total shareholder return is measured by dividing the sum of the cumulative amount of dividends for the measurement period (assuming dividend reinvestment) and the difference between Bancorp's share price at the end and the beginning of the measurement period, by the share price at the beginning of the measurement period.

Comparison of Five Year Cumulative Total Return Among
Patriot National Bancorp, Inc., S & P 500 Index and NASDAQ Bank Index

	Period Ending					
Index	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Patriot National Bancorp, Inc.	100.00	113.59	143.75	86.79	37.23	8.42
S & P 500	100.00	103.00	117.03	121.16	74.53	92.01
NASDAQ Bank Index	100.00	95.67	106.20	82.76	62.96	51.31

Item 6. Selected Financial Data

	At or for the year ended December 31,				
	2009	2008	2007	2006	2005
Operating Data:					
Interest and dividend income	$ 42,968,080	$ 55,750,246	$ 51,862,157	$ 38,009,526	$ 25,148,701
Interest expense	24,359,828	28,539,067	27,767,310	18,069,648	10,269,625
Net interest income	18,608,252	27,211,179	24,094,847	19,939,878	14,879,076
Provision for loan losses	13,089,000	11,289,772	75,000	1,040,000	1,110,000
Noninterest income (loss)	2,946,480	(149,108)	2,233,915	2,359,149	3,229,037
Noninterest expense	30,131,588	25,947,905	22,038,836	17,576,872	14,634,487
Provision (benefit) for income taxes	2,213,750	(3,064,000)	1,537,000	1,267,000	957,000
Net (loss) income	(23,879,606)	(7,111,606)	2,677,926	2,415,155	1,406,626
Per Share Data:					
Basic (loss) income per share	(5.02)	(1.50)	0.56	0.67	0.52
Diluted (loss) income per share	(5.02)	(1.50)	0.56	0.66	0.51
Dividends per share	-	0.180	0.180	0.175	0.155
Balance Sheet Data:					
Cash and due from banks	97,535,593	4,286,233	2,760,246	3,868,670	7,220,577
Federal funds sold	10,000,000	20,000,000	11,000,000	27,000,000	6,500,000
Short-term investments	263,839	316,518	251,668	24,605,869	2,247,028
Investment securities	55,177,931	58,401,177	71,857,840	70,222,035	80,991,068
Loans, net	645,205,943	788,568,687	685,885,990	506,884,155	364,243,777
Total assets	866,416,921	913,358,978	807,530,254	645,982,795	470,641,162
Total deposits	761,334,292	784,821,351	672,399,409	561,451,664	419,075,288
Total borrowings	65,248,000	65,248,000	62,748,000	16,248,000	17,248,000
Total shareholders' equity	35,861,310	58,774,144	66,835,367	64,283,345	31,374,615

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Critical Accounting Policies

Bancorp's significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in this 2009 Annual Report on Form 10-K. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates. Management has identified accounting for the allowance for loan losses, the analysis of other-than-temporary-impairment for, and the valuation of, its investment securities, and the valuation of deferred tax assets, as Bancorp's most critical accounting policies and estimates in that they are important to the portrayal of Bancorp's financial condition and results. They require management's most subjective and complex judgment as a result of the need to make estimates about the effect of matters that are inherently uncertain. These accounting policies, including the nature of the estimates and types of assumptions used, are described throughout this Management's Discussion and Analysis.

Recent Economic Developments

There have been significant and historical disruptions in the financial system during the past two years and many lenders and financial institutions have reduced or ceased to provide funding to borrowers, including other lending institutions. The availability of credit, confidence in the entire financial sector, and volatility in financial markets has been adversely affected. The Federal Reserve Bank has been providing vast amounts of liquidity into the banking system to compensate for weaknesses in short-term borrowing markets and other capital markets.

In response to the financial crises affecting the overall banking system and financial markets, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA), was enacted. Under the EESA, the United States Treasury Department (the Treasury) has the authority to, among other things, purchase mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

The Federal Deposit Insurance Corporation (FDIC) insures deposits at FDIC-insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. Based on the Bank's current capital classification, a higher level of FDIC insurance premiums is assessed. In addition, the Bank paid a special assessment of $453,500 in the second quarter of 2009. Special assessments were levied on all financial institutions.

The EESA included a provision for an increase in the amount of deposits insured by the FDIC to $250,000 until December 2013. On November 21, 2008, the FDIC adopted the Final Rule implementing the Temporary Liquidity Guarantee Program ("TLGP") inaugurated October 14, 2008. The TLGP consists of two basic components: (1) the Debt Guarantee Program which guarantees newly issued senior unsecured debt of banks, thrifts, and certain holding companies and (2) the Transaction Account Guarantee Program which guarantees certain non-interest bearing deposit transaction accounts, such as business payroll accounts, regardless of dollar amount. The purpose of the TLGP was to provide an initiative to counter the system wide crisis in the nation's financial sector by promoting financial stability by preserving confidence in the banking system and encourages liquidity in order to ease lending to creditworthy business and consumers. The Bank is participating in the Transaction Account Guarantee portion of the TLGP and as a result, its non-interest bearing transaction deposit accounts and interest bearing transaction accounts paying 50 basis points or less will be fully insured through June 30, 2010. Bancorp did not participate in the Debt Guarantee portion of the TLGP.

Summary

In a year of ongoing economic slowdown, financial disruption and market volatility, Bancorp reported a net loss of $23.9 million ($5.02 basic and diluted loss per share) for 2009 compared to a net loss of $7.1 million ($1.50 basic and diluted loss per share) for 2008. This is the result of an increase of $11.4 million in the deferred tax asset valuation allowance and loan loss provision of $13.0 million. Total assets ended the year at $866.4 million, which represents a decrease of $47.0 million from a record high of $913.4 million at December 31, 2008. Management planned to reduce assets in 2009 to reduce exposures in certain loan concentrations and to maintain regulatory capital.

Net interest income for the year ended December 31, 2009 decreased $8.6 million, or 32%, to $18.6 million as compared to $27.2 million for the year ended December 31, 2008. This is primarily reflective of the increased level of non-accrual loans and reduced interest margin.

Total assets decreased by 5% during the year as total loans decreased $143.4 million from $788.6 million at December 31, 2008 to $645.2 million at December 31, 2009. The available-for-sale securities portfolio decreased by $3.2 million, or 6%, to $48.8 million at December 31, 2009 as compared to $52.0 million at December 31, 2008. Total deposits decreased $23.5 million to $761.3 million at December 31, 2009. This is a result of management intentionally letting higher rate certificates of deposit mature. FHLB advances are unchanged from December 31, 2008. Shareholders' equity decreased $22.9 million from $58.8 million at December 31, 2008 as compared to $35.9 million at December 31, 2009. This is primarily the result of the 2009 net loss described above. It is also reflective of an increase of $11.4 million in the deferred tax asset valuation allowance recorded in the third quarter.

FINANCIAL CONDITION

Assets

Bancorp's total assets decreased $47.0 million, or 5%, from $913.4 million at December 31, 2008 to $866.4 million at December 31, 2009. The reduction in total assets was primarily due to the $143.4 million decline in the loan portfolio, as Bancorp reduced the concentration in construction and commercial real estate loans. Cash and due from banks increased $93.2 million and federal funds sold decreased $10.0 million, resulting in a net increase in cash and cash equivalents of $83.2 million when compared to December 31, 2008.

This increase is the result of management's strategy to strengthen the Company's liquidity position.

Investments

The following table is a summary of Bancorp's investment portfolio at fair value at December 31 for the years shown.

	2009	2008	2007
U. S. Government Agency obligations	$ 5,108,500	$ 10,102,248	$ 16,924,648
U. S. Government Agency mortgage-backed securities	40,503,458	37,998,569	41,325,870
Money market preferred equity securities	3,218,023	3,878,860	9,039,522
Federal Reserve Bank stock	1,839,650	1,913,200	1,911,700
Federal Home Loan Bank stock	4,508,300	4,508,300	2,656,100
Total Investments	$ 55,177,931	$ 58,401,177	$ 71,857,840

Total investments decreased $3.1 million, or 6%, primarily as a result of the $12.0 million in proceeds from calls of government agency bonds and redemptions of auction rate preferred equity securities, $19.9 million from proceeds from sales of mortgage-back securities and $7.3 million in principal payments on mortgage-backed securities, which were offset by $34.2 million in purchases of government agency bonds and mortgage-backed securities.

Bancorp 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, the impairment due to a deterioration in credit, 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 has made the determination that none of the Bank's investment securities are other-than-temporarily impaired at December 31, 2009, and no impairment charges were recorded during the year ended December 31, 2009.

The following table presents the maturity distribution of available-for-sale investment securities at December 31, 2009 and the weighted average yield of the amortized cost of such securities. The weighted average yields were calculated on the amortized cost and effective yields to maturity of each security. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or repaid without any penalties. As mortgage-backed securities are not due at a single maturity date, they are included in the "No maturity" category in the following maturity summary.

	One year or less	Over one through five years	Over five through ten years	Over ten years	No maturity	Total	Weighted Average Yield
U. S. Government Agency obligations	$ -	$ -	$ -	$ 5,176,712	$ -	$ 5,176,712	6.07%
U. S. Government Agency mortgage-backed securities	-	-	-	-	40,428,810	40,428,810	3.88%
Money market preferred equity securities	-	-	-	-	1,899,720	1,899,720	4.68%
Total	$ -	$ -	$ -	$ 5,176,712	$ 42,328,530	$ 47,505,242	4.15%
Weighted average yield	-	-	-	6.07%	3.92%	4.15%	

The following table presents a summary of investments for any issuer that exceeds 10% of shareholders' equity at December 31, 2009:

	Amortized Cost	Fair Value
Available for sale securities:		
U. S. Government Agency obligations	$ 5,176,712	$ 5,108,500
U. S. Government Agency mortgage-backed securities	40,428,810	40,503,458

Loans

The following table is a summary of Bancorp's loan portfolio at December 31 for each of the years shown:

	2009	2008	2007	2006	2005
Real Estate					
Commercial	$ 230,225,306	$ 262,570,339	$ 233,121,685	$ 166,799,341	$ 129,178,889
Residential	195,571,225	170,449,780	110,154,838	91,077,687	77,391,833
Construction	154,457,082	257,117,081	254,296,326	173,840,322	107,232,587
Construction to permanent	15,989,976	35,625,992	37,701,509	29,988,131	-
Commercial	19,298,505	33,860,527	27,494,531	23,997,640	15,591,818
Consumer installment	1,155,059	993,707	1,270,360	1,251,300	1,106,648
Consumer home equity	44,309,265	45,022,128	29,154,498	26,933,277	39,097,450
Total loans	661,006,418	805,639,554	693,193,747	513,887,698	369,599,225
Premiums on purchased loans	131,993	158,072	195,805	292,543	367,491
Net deferred fees	(138,350)	(981,869)	(1,830,942)	(1,665,654)	(1,134,604)
Allowance for loan losses	(15,794,118)	(16,247,070)	(5,672,620)	(5,630,432)	(4,588,335)
Loans, net	$ 645,205,943	$ 788,568,687	$ 685,885,990	$ 506,884,155	$ 364,243,777

Note: As financing for construction to permanent projects became a more significant line of business for Bancorp, the presentation of loan information throughout this document reflects the breakout of construction to permanent loans from construction loans. Loan information prior to 2006 has not been reclassified as construction to permanent financing was not as significant in earlier periods.

Bancorp's net loan portfolio decreased $143.4 million, or 18%, to $645.2 million at December 31, 2009 from $788.6 million at December 31, 2008. The decline in the loan portfolio was primarily as a result of a moratorium on new construction and commercial real estate loans. Significant decreases in the portfolio include a $102.7 million decrease in construction loans, a $32.3 million decrease in commercial real estate loans, a $19.6 million decrease in construction to permanent loans and a $14.6 million decrease in commercial loans. These decreases were partially offset by an increase of $25.1 million in residential real estate loans. The decline in the loan portfolio in 2009 reflects the implementation of management's strategic decision to reduce its concentration in speculative construction and commercial real estate lending. During 2009, $98.4 million of construction loans paid off. A component of this diversification included planned increases in owner-occupied residential real estate loans. The decline in the portfolio is also reflective of the weakened demand for real estate based financing in Fairfield and New Haven Counties in Connecticut and the metropolitan New York area where the Bank primarily conducts its lending business.

At December 31, 2009, the net loan to deposit ratio was 85% and the net loan to asset ratio was 74%. At December 31, 2008, the net loan to deposit ratio was 100%, and the net loan to asset ratio was 86%.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents the maturities of loans in Bancorp's portfolio at December 31, 2009, by type of loan:

(thousands of dollars)	Due in one year or less	Due after one year through five years	Due after five years	Total
Commercial real estate	$ 31,578	$ 47,701	$ 150,946	$ 230,225
Residential real estate	6,073	5,738	183,760	195,572
Construction loans	97,863	3,985	52,609	154,457
Construction to permanent loans	-	-	15,990	15,990
Commercial loans	9,715	4,187	5,397	19,298
Consumer installment	1,057	98	-	1,155
Consumer home equity	2,394	84	41,831	44,309
Total	$ 148,680	$ 61,793	$ 450,533	$ 661,006
Fixed rate loans	$ 19,112	$ 29,984	$ 15,093	$ 64,189
Variable rate loans	129,568	31,809	435,440	596,817
Total	$ 148,680	$ 61,793	$ 450,533	$ 661,006

Loan Concentrations

The Bank has no concentrations of loans other than those disclosed in the above summary loan portfolio table.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses decreased slightly by $453,000 from December 31, 2008 to December 31, 2009 due to net charge-offs of $13.6 million after provisions of $13.1 million.

The allowance consists of allocated and general components. The allocated component relates to loans that are considered impaired. For such impaired loans, an allowance is established when the discounted cash flows (or observable market price or collateral value if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan. The Bank obtains current appraisals on all real estate and construction loans maturing in the coming four months, as well as for loans added to special mention. When a loan is placed on non-accrual status the loan is considered impaired. For collateral dependent loans, the appraised value is then reduced by estimated liquidation expenses and any senior liens and the result is compared to the principal loan balance to determine the impairment amount, if any. For loans that are not collateral dependent and for which a restructure is in place, the impairment is determined by using the discounted cash flow method which takes into account the difference between the original interest rate and the restructured rate.

The general component covers all other loans, segregated generally by loan type, and is based on historical loss experience with adjustments for qualitative factors which are made after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss data. In addition, a risk rating system is utilized to evaluate the general component of the allowance for loan losses. Management assigns risk ratings to commercial and industrial loans, construction loans and commercial real estate loans assigning ratings between one and nine, with a rating of one being the least risk, and a rating of nine reflecting the most risk or a complete loss. Risk ratings are assigned based upon the recommendations of the credit analyst and the originating loan officer and confirmed by the loan committee at the initiation of the transactions and are reviewed and changed, when necessary, during the life of the loan. Loans assigned a risk rating of six or above are monitored more closely by the credit administration officers and loan committee.

The allowance for loan losses reflects management’s estimate of probable but unconfirmed losses inherent in the portfolio; such estimates are influenced by uncertainties in economic conditions, unfavorable information about a borrower’s financial condition, delays in obtaining information, difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. Loan quality control is continually monitored by management, subject to oversight by the board of directors through its members who serve on the Loan Committee. Loan quality control is also reviewed by the full board of directors on a monthly basis. In 2008, the Bank created an internal loan review position in addition to the semi-annual loan reviews performed by an external independent firm. In 2009 the loan review position was expanded to a department of two employees. Loan review reports on a quarterly basis to the Audit Committee.

The methodology for determining the adequacy of the allowance for loan losses has been consistently applied; however, in the future, revisions may be made to the methodology and assumptions based on historical information related to charge-off and recovery experience and management’s evaluation of the current loan portfolio, and prevailing internal and external factors including but not limited to current economic conditions and local real estate markets.

Based on management’s most recent evaluation of the adequacy of the allowance for loan losses, the provision for loan losses charged to operations for the year ended December 31, 2009 of $13.1 million represents an increase of $1.8 million when compared to the provision of

$11.3 million for the year ended December 31, 2008.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due 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. All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Management considers all non-accrual loans and certain restructured loans to be impaired. In most cases, loan payments that are past due less than 90 days, based on contractual terms, are considered collection delays and the related loans are not considered to be impaired. The Bank considers consumer installment loans to be pools of smaller balance homogeneous loans, which are collectively evaluated for impairment.

Analysis of Allowance for Loan Losses

	2009	2008	2007	2006	2005
			(thousands of dollars)		
Balance at beginning of period	$ 16,247	$ 5,673	$ 5,630	$ 4,588	$ 3,481
Charge-offs:					
Commercial real estate	(2,380)	(708)	(32)	(1)	(3)
Residential real estate	(356)	-	-	-	-
Construction	(9,097)	-	-	-	-
Commercial	(468)	-	-	-	-
Consumer home equity	(1,378)	-	-	-	-
Consumer	(51)	(8)	-	-	-
Total charge-offs	(13,730)	(716)	(32)	(1)	(3)
Recoveries	188	1	-	3	-
Net (charge-offs) recoveries	(13,542)	(715)	(32)	2	(3)
Additions charged to operations	13,089	11,289	75	1,040	1,110
Balance at end of period	$ 15,794	$ 16,247	$ 5,673	$ 5,630	$ 4,588
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(1.81%)	(0.09%)	(0.00%)	0.00%	(0.00%)
Ratio of ALLL / Gross Loans	2.39%	2.02%	0.82%	1.10%	1.24%

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Allocation of the Allowance for Loan Losses

Balance at end of each period applicable to:	Amounts (thousands of dollars) 2009	2008	2007	2006	2005	Percent of loans in each category to total loans 2009	2008	2007	2006	2005
Real Estate:										
Commercial	$ 5,752	$ 4,843	$ 1,963	$ 1,943	$ 1,607	34.83%	32.59%	33.63%	32.46%	34.95%
Residential	1,575	1,417	296	245	511	29.59%	21.16%	15.89%	17.72%	20.94%
Construction	6,557	8,654	2,644	2,557	1,963	23.37%	31.91%	36.68%	33.83%	29.01%
Construction to permanent	93	264	391	441	-	2.42%	4.42%	5.44%	5.84%	0.00%
Commercial	521	471	271	290	164	2.92%	4.20%	3.97%	4.67%	4.22%
Consumer installment	47	28	30	31	10	0.17%	0.12%	0.18%	0.24%	0.30%
Consumer home equity	703	336	77	72	260	6.70%	5.59%	4.21%	5.24%	10.58%
Unallocated	546	234	1	51	73	N/A	N/A	N/A	N/A	N/A
Total	$ 15,794	$ 16,247	$ 5,673	$ 5,630	$ 4,588	100.00%	100.00%	100.00%	100.00%	100.00%

Non-Accrual, Past Due and Restructured Loans

The following table is a summary of non-accrual and past due loans at the end of each of the last five years.

	2009	2008	2007	2006	2005
	(thousands of dollars)				
Loans delinquent over 90 days still accruing	$ 3,571	$ 337	$ 112	$ 1,897	$ 275
Non-accrual loans	113,537	80,156	3,832	2,904	1,935
	$ 117,108	$ 80,493	$ 3,944	$ 4,801	$ 2,210
% of Total Loans	17.72%	10.21%	0.57%	0.93%	0.60%
% of Total Assets	13.52%	8.81%	0.49%	0.74%	0.47%
Additional income on non-accrual loans if recognized on an accrual basis	$ 5,312	$ 2,854	$ 168	$ 141	$ 6

During 2009, 2008 and 2007, interest income collected and recognized on impaired loans was $424,745, $352,014 and $30,179, respectively.

At December 31, 2009, there were nine loans totaling $11.5 million that were considered as "troubled debt restructurings", all of which are included in non-accrual and impaired loans, as compared to 11 loans totaling $16.7 million at December 31, 2008, of which eight loans totaling $12.4 million were included in non-accrual and impaired loans. Loan modifications, which resulted in these loans being considered troubled debt restructurings, are primarily in the form of

rate concessions. Commitments to advance additional funds under modified terms for these loans total approximately $998,000.

Increases in non-accrual loans and troubled debt restructurings are attributable to the state of the economy, which has severely impacted the real estate market and placed unprecedented stress on credit markets. Residents of Fairfield County, many of whom are associated with the financial services industry, have been affected by the impact of the economy on employment and real estate values.

The Company's most recent impairment analysis resulted in identification of $113.5 million of impaired loans for which specific reserves of $3.9 million were required. The $113.5 million of impaired loans at December 31, 2009 is comprised of exposure to fifty-eight borrowers. Loans totaling $108.1 million that are collateral dependent are secured by residential or commercial real estate located within the Bank's market area. In all cases, the Bank has obtained current appraisal reports from independent licensed appraisal firms and reduced those values for estimated liquidation expenses to determine estimated impairment. Based on the Bank's analysis for loan impairment, specific reserves totaling $3.8 million have been established for collateral dependent loans. Impairment related to loans totaling $5.4 million has been measured based on discounted cash flow resulting in specific reserves of $102,000. Such loans are also secured by real estate. Of the $113.5 million of impaired loans at December 31, 2009, twenty borrowers with aggregate balances of $20.9 million continue to make loan payments and these loans are under 30 days past due as to payments. Another 28 loans totaling $36.6 million are over 30 days but under 90 days past due as to payments. In addition to the impaired loans, there are $68.9 million of loans for which management has a concern as to the ability of the borrower to comply with the present repayment terms. These borrowers continue to make payments and these loans are less than 90 days past due at year end. This exposure is comprised of thirty-five borrowers.

Loans delinquent over 90 days and still accruing aggregating $3.6 million are comprised of eleven loans which matured and are in the process of being renewed or awaiting payoff.

All potential problem loans are reviewed weekly by a board-level committee.

Based upon the overall assessment and evaluation of the loan portfolio, management believes the allowance for loan losses of $15.8 million, at December 31, 2009, which represents 2.39% of gross loans outstanding, is adequate under prevailing economic conditions, to absorb existing losses in the loan portfolio. At December 31, 2008, the allowance for loan losses was $16.2 million, or 2.02%, of gross loans outstanding.

Other Real Estate Owned

The following table is a summary of Bancorp's other real estate owned as of December 31, 2009. The Bank had no other real estate owned as of December 31, 2008.

	December 31, 2009
Residential construction	$ 13,524,597
Commercial	4,934,896
Land	614,500
Other real estate owned	$ 19,073,993

The balance of other real estate owned at December 31, 2009 is comprised of nine properties that were obtained through loan foreclosure proceedings during the year ended December 31, 2009.

Deferred Taxes

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. Management has reviewed the deferred tax position of Bancorp at December 31, 2009. The deferred tax position has been affected by several significant transactions in the past three years. These transactions include increased provision for loan losses, the increasing levels of non-accrual loans and other-than-temporary impairment write-offs of certain investments. As a result, the Company is in a cumulative net loss position at December 31, 2009, and under the applicable accounting guidance, has concluded that it is not more-likely-than-not that the Company will be able to realize its deferred tax assets and accordingly has established a full valuation allowance totaling $12.2 million against its deferred tax asset at December 31, 2009. The valuation allowance is analyzed quarterly for changes affecting the deferred tax asset. If, in the future, the Company generates taxable income on a sustained basis, management's conclusion regarding the need for a deferred tax asset valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation allowance.

At December 31, 2009, the deferred tax liability was approximately $503,000. The change in this balance as compared to the year ended December 31, 2008 was the result of a full valuation allowance of $12.2 million being recorded in 2009. At December 31, 2008, the deferred tax asset was $8.7 million.

Other Assets

Other assets increased by $8.0 million from $1.4 million at December 31, 2008 to $9.4 million at December 31, 2009. This increase consists primarily of income taxes receivable from the $6.4 million benefit from the carryback of the tax net operating loss incurred during 2009.

Deposits

The following table is a summary of Bancorp's deposits at December 31 for each of the years shown:

	2009	2008	2007
Non-interest bearing	$ 49,755,521	$ 50,194,400	$ 51,925,991
Interest bearing			
Time certificates, less than $100,000	305,719,484	405,298,436	300,502,281
Time certificates, $100,000 or more	202,493,307	195,502,087	231,366,788
Money markets	112,017,987	68,241,790	34,880,837
Savings	69,766,296	46,040,086	34,261,389
NOW	21,581,697	19,544,552	19,462,123
Total interest bearing	711,578,771	734,626,951	620,473,418
Total deposits	$ 761,334,292	$ 784,821,351	$ 672,399,409

Total deposits decreased $23.5 million, or 3%, to $761.3 million at December 31, 2009. Interest bearing deposits decreased $23.0 million, or 3%, to $711.6 million while non-interest bearing deposits decreased $439,000, or 1%, to $49.8 million at December 31, 2009.

Certificates of deposit decreased by $92.6 million, which represents a decrease of 15% when compared to last year. Much of the decline is largely attributable to the $69.7 million, or 79%, decrease in the retail and wholesale CDARS deposits. Certificates of deposit less than $100,000 decreased by $99.6 million, or 25%, mainly due to the maturity of higher rate certificates of deposit, which was offset by an increase of $7.0 million in certificates of deposit greater than $100,000. Savings accounts increased $23.7 million or 52% as compared to last year, which is due primarily to a more competitively priced commercial savings product. Demand deposits decreased $439,000 while NOW accounts increased $2.0 million. Money market fund accounts increased $43.8 million or 64%. The increase in money market accounts and decrease in certificates of deposit is attributable to customers refraining from locking into long-term rates in the current lower rate environment. The growth in money markets is also attributable to depositors placing funds in FDIC-insured products during these uncertain economic times. As mentioned earlier, the FDIC has also extended the increased level of insurance from $100,000 to $250,000 until December 31, 2013.

As of December 31, 2009, the Bank's maturities of time deposits were:

	Less than $100,000	$100,000 or greater (thousands of dollars)	Totals
Three months or less	$ 88,485	$ 56,841	$ 145,326
Four to six months	39,507	22,941	62,448
Seven months to one year	79,889	49,284	129,173
Over one year	97,839	73,427	171,266
Total	$ 305,720	$ 202,493	$ 508,213

Borrowings

Borrowings remain unchanged at $65.2 million at December 31, 2009 as compared to December 31, 2008. Borrowings are comprised of $50 million in Federal Home Loan Bank Advances, $8.2 million in junior subordinated debentures and $7 million in securities sold under repurchase agreements. The securities sold under repurchase agreements were utilized as an interest rate leveraging strategy.

The Bank had no short-term borrowings from the Federal Home Loan Bank outstanding at December 31,