

PATRIOT NATIONAL BANCORP INC
Form 10-Q
August 15, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarter Ended June 30, 2016

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

900 Bedford Street, Stamford, Connecticut 06901

(Address of principal executive offices)

(203) 324-7500

(Registrant's telephone number)

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports),

and (2) has been subject to such filing requirements for the past 90 days:

Yes No

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

Yes No

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

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

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

Yes No

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

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

TABLE OF CONTENTS

PART I- FINANCIAL INFORMATION	3
Item 1: Consolidated Financial Statements	3
Consolidated Balance Sheets (Unaudited)	3
Consolidated Statements Of Operations (Unaudited)	4
Consolidated Statements Of Comprehensive Income (Unaudited)	5
Consolidated Statements Of Shareholders' Equity (Unaudited)	6
Consolidated Statements Of Cash Flows (Unaudited)	7
Notes to Consolidated Financial Statements (Unaudited)	8
Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations	38
Item 3: Quantitative and Qualitative Disclosures about Market Risk	49
Item 4: Controls and Procedures	52
PART II - OTHER INFORMATION	54
Item 1: Legal Proceedings	54
Item 1A: Risk Factors	54
Item 6: Exhibits	54
SIGNATURES	55

PART I- FINANCIAL INFORMATION**Item 1: Consolidated Financial Statements****PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS (Unaudited)**

	June 30, 2016	December 31, 2015
	<i>(in thousands, except shares and per share amounts)</i>	
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	\$2,893	\$2,588
Interest bearing deposits	43,594	82,812
Total cash and cash equivalents	46,487	85,400
Securities:		
Available for sale securities, at fair value (Note 2)	23,037	29,377
Other Investments	4,450	4,450
Restricted stock, at cost	7,982	8,645
Total securities	35,469	42,472
Loans receivable (net of allowance for loan losses: 2016: \$5,250; 2015: \$5,242) (Note 3)	523,404	479,127
Premises and equipment, net	29,972	29,421
Other real estate owned	851	-
Accrued interest and dividends receivable	2,120	2,010
Deferred tax asset (Note 7)	13,073	13,763
Other assets	1,679	1,338
Total assets	\$653,055	\$653,531
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Note 5):		
Noninterest bearing deposits	\$75,244	\$85,065
Interest bearing deposits	371,092	359,615
Total deposits	446,336	444,680
Federal Home Loan Bank borrowings (Note 9)	128,000	132,000
Junior subordinated debt owed to unconsolidated trust (Note 9)	8,248	8,248
Note Payable (Note 9)	1,846	1,939
Advances from borrowers for taxes and insurance	2,451	2,367
Accrued expenses and other liabilities	3,064	2,833

Total liabilities	589,945	592,067
Shareholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$.01 par value, 100,000,000 shares authorized; 3,959,903 and 3,957,377 shares issued; 3,958,733 and 3,956,207 shares outstanding; at June 30, 2016 and December 31, 2015, respectively	40	40
Additional paid-in capital	106,876	106,568
Accumulated deficit	(43,565)	(44,832)
Less: Treasury stock, at cost: 2016 and 2015, 1,170 shares	(160)	(160)
Accumulated other comprehensive loss	(81)	(152)
Total shareholders' equity	63,110	61,464
Total liabilities and shareholders' equity	\$653,055	\$653,531

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	<i>(in thousands, except per share amounts)</i>			
Interest and Dividend Income				
Interest and fees on loans	\$5,783	\$5,924	\$11,623	\$11,470
Interest on investment securities	132	119	274	235
Dividends on investment securities	90	60	176	117
Other interest income	28	17	69	46
Total interest and dividend income	6,033	6,120	12,142	11,868
Interest Expense				
Interest on deposits	496	513	969	1,042
Interest on Federal Home Loan Bank borrowings	64	85	185	156
Interest on subordinated debt	83	73	165	144
Interest on other borrowings	8	-	16	-
Total interest expense	651	671	1,335	1,342
Net interest income	5,382	5,449	10,807	10,526
Provision for Loan Losses	-	-	-	250
Net interest income after provision for loan losses	5,382	5,449	10,807	10,276
Non-Interest Income				
Loan application, inspection & processing fees	21	105	88	155
Fees and service charges	150	147	301	321
Rental Income	104	177	207	110
Other income	90	22	179	259
Total non-interest income	365	451	775	845
Non-Interest Expense				
Salaries and benefits	2,615	2,395	5,165	4,739
Occupancy and equipment expense	750	909	1,530	1,864
Data processing expense	241	255	526	505
Advertising and promotional expenses	96	137	213	187
Professional and other outside services	364	391	773	960
Loan administration and processing expenses	8	7	16	29
Regulatory assessments	147	157	294	311
Insurance expense	56	83	111	164
Material and communications	115	106	208	187
Other operating expenses	344	319	664	544
Total non-interest expense	4,736	4,759	9,500	9,490
Income before income taxes	1,011	1,141	2,082	1,631
Expense for income taxes	397	452	815	653
Net income	\$614	\$689	\$1,267	\$978

Basic and diluted income per share (1)	\$0.16	\$0.18	\$0.32	\$0.25
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(1) All common stock data has been restated for a 1-for-10 reverse stock split which took effect on March 4, 2015.

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended March 31,	
<i>in thousands</i>	2016	2015	2016	2015	2016	2015
	<i>(in thousands)</i>					
Net income	\$614	\$689	\$1,267	\$978	653	289
Other comprehensive income (loss) :						
Unrealized holding gains (losses) on securities	59	(45)	115	227	56	267
Income tax effect	(23)	18	(44)	(91)	(21)	(104)
Total other comprehensive income (loss)	36	(27)	71	136	35	163
Total comprehensive income	\$650	\$662	\$1,338	\$1,114	\$688	\$452

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

(in thousands, except shares)

	Number of	Common	Additional	Accumulated	Treasury	Other	Accumulated	Total
	Shares	Stock	Paid-In	Deficit	Stock	Comprehensiv	Loss	
			Capital					
Balance at December 31, 2014	3,924,192	\$ 39	\$ 106,108	\$ (46,975)	\$ (160)	\$ (277)		\$ 58,735
Net Income	-	-	-	978	-	-		978
Unrealized holding gain on available for sale securities, net of taxes	-	-	-	-	-	136		136
Total comprehensive income	-	-	-	-	-	-		1,114
Share-based compensation expense	-	-	227	-	-	-		227
Issuance of restricted stock	450	-	-	-	-	-		-
Balance, June 30, 2015	3,924,642	\$ 39	\$ 106,335	\$ (45,997)	\$ (160)	\$ (141)		\$ 60,076
Balance December 31, 2015	3,956,207	40	106,568	(44,832)	(160)	(152)		61,464
Net income	-	-	-	1,267	-	-		1,267
Unrealized holding gain on available for sale securities, net of taxes	-	-	-	-	-	71		71
Total comprehensive income	-	-	-	-	-	-		1,338
Share-based compensation expense	-	-	308	-	-	-		308
Issuance of restricted stock	2,526	-	-	-	-	-		-
Balance, June 30, 2016	3,958,733	\$ 40	\$ 106,876	\$ (43,565)	\$ (160)	\$ (81)		\$ 63,110

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended	
	June 30, 2016 <i>(in thousands)</i>	2015
Cash Flows from Operating Activities:		
Net income	\$ 1,267	\$ 978
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) of investment premiums and discounts, net	35	107
Amortization and accretion of purchase loan premiums and discounts, net	8	158
Provision for loan losses	-	250
Depreciation and amortization	616	499
Share-based compensation	308	227
Deferred income taxes	646	619
Gain on acquisition of OREO	(11)	-
Changes in assets and liabilities:		
(Increase) decrease in net deferred loan costs	(8)	232
Increase in accrued interest and dividends receivable	(110)	(116)
	(341)	(44)

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

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

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 1: Basis of Financial Statement Presentation

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

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

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

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)****Note 2: Investment Securities**

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

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

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

<i>(in thousands)</i>	Less Than 12 Months		12 Months or More		Total
	Fair	Unrealized	Fair	Unrealized	Fair
					Unrealized

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	Value	Loss	Value	Loss	Value	Loss
<u>June 30, 2016:</u>						
U. S. Government agency mortgage - backed securities	\$-	\$ -	\$7,136	\$ (52)	\$7,136	\$ (52)
Corporate bonds	2,985	(15)	5,913	(87)	8,898	(102)
Totals	\$2,985	\$ (15)	\$13,049	\$ (139)	\$16,034	\$ (154)

December 31, 2015:

U. S. Government agency bonds	\$4,954	\$ (46)	\$-	\$ -	\$4,954	\$ (46)
U. S. Government agency mortgage - backed securities	2,863	(42)	10,550	(170)	13,413	(212)
Corporate bonds	-	-	5,939	(61)	5,939	(61)
Totals	\$7,817	\$ (88)	\$16,489	\$ (231)	\$24,306	\$ (319)

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)**

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

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

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

(in thousands)

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

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

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

Note 3: Loans Receivable and Allowance for Loan Losses

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

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

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)**

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

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

<i>(in thousands)</i>	June 30,	December		
	2016	31, 2015	Inc (Dec)	Inc/(Dec) %
Commercial and Industrial	\$71,658	\$59,752	\$11,906	19.9 %
Commercial Real Estate	270,003	245,828	24,175	9.8 %
Construction	26,094	15,551	10,543	67.8 %
Construction to permanent- CRE	4,229	4,880	(651)	(13.3)
Residential	104,746	110,837	(6,091)	(5.5)
Consumer/Other	51,924	47,521	4,403	9.3
Total Loans	528,654	484,369	44,285	9.1
Allowance for loan losses	(5,250)	(5,242)	(8)	0.2
Loans receivable, net	\$523,404	\$479,127	\$44,277	9.2 %

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

The Company's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County in New York, and the five Boroughs of New York City. The Company originates commercial real estate loans, commercial business loans, and a variety of consumer loans. In addition, the Company previously had originated loans on residential real estate. All residential and commercial mortgage loans are collateralized primarily

by first or second mortgages on real estate. The ability and willingness of borrowers to satisfy their loan obligations is dependent to some degree on the status of the regional economy as well as upon the regional real estate market. Accordingly, the ultimate collectability of a substantial portion of the loan portfolio and the recovery of a substantial portion of any resulting real estate acquired is susceptible to changes in market conditions.

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

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

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

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

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

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

would reset at a predetermined spread over FHLB with a minimum interest rate.

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

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)**

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

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

(in thousands)

Three months ended June 30, 2016	Commercial		Construction		Residential	Consumer/ Other	Unallocated	Total
	and Industrial	Real Estate	Construction to Permanent	to Permanent				
Allowance for loan losses:								
Beginning Balance	\$ 1,083	\$ 1,943	\$ 650	\$ 121	\$ 624	\$ 609	\$ 217	\$ 5,247
Charge-offs	-	-	-	-	-	(1)	-	(1)
Recoveries	3	-	-	-	1	-	-	4
Provision	355	352	(481)	24	22	(77)	(195)	-
Ending Balance	\$ 1,441	\$ 2,295	\$ 169	\$ 145	\$ 647	\$ 531	\$ 22	\$ 5,250
Six months ended June 30, 2016								
Allowance for loan losses:								
Beginning Balance	\$ 1,027	\$ 1,970	\$ 486	\$ 123	\$ 740	\$ 677	\$ 219	\$ 5,242
Charge-offs	-	-	-	-	(4)	(2)	-	(6)
Recoveries	12	-	-	-	1	1	-	14
Provision	402	325	(317)	22	(90)	(145)	(197)	-
Ending Balance	\$ 1,441	\$ 2,295	\$ 169	\$ 145	\$ 647	\$ 531	\$ 22	\$ 5,250
Ending balance: individually evaluated for impairment	1,018	-	-	-	-	2	-	\$ 1,020
	423	2,295	169	145	647	529	22	\$ 4,230

Ending balance:
collectively
evaluated for
impairment

Total allowance for loan losses	\$ 1,441	\$ 2,295	\$ 169	\$ 145	\$ 647	\$ 531	\$ 22	\$ 5,250
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As of June 30, 2016

Total loans ending balance	\$ 71,658	\$ 270,003	\$ 26,094	\$ 4,229	\$ 104,746	\$ 51,924	\$ -	\$ 528,654
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Ending balance:
individually
evaluated for
impairment

	\$ 3,272	\$ 6,526	\$ -	\$ -	\$ 4,515	\$ 546	\$ -	\$ 14,859
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Ending balance:
collectively
evaluated for
impairment

	\$ 68,386	\$ 263,477	\$ 26,094	\$ 4,229	\$ 100,231	\$ 51,378	\$ -	\$ 513,795
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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

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

(in thousands)

Three months ended June 30, 2015	Commercial		Construction		Residential	Consumer	Unallocated	Total
	and Industrial	Real Estate	Construction to Permanent	to Permanent				
Allowance for loan losses:								
Beginning Balance	\$ 1,297	\$ 2,024	\$ 222	\$ 191	\$ 730	\$ 711	\$ 18	\$ 5,193
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	14	-	-	-	-	1	-	15
Provision	(329)	121	53	(41)	102	14	80	-
Ending Balance	\$ 982	\$ 2,145	\$ 275	\$ 150	\$ 832	\$ 726	\$ 98	\$ 5,208
Six Months Ended June 30, 2015								
Allowance for loan losses:								
Beginning Balance	\$ 1,918	\$ 1,419	\$ 63	\$ 215	\$ 831	\$ 478	\$ -	\$ 4,924
Charge-offs	-	-	-	-	(3)	(7)	-	(10)
Recoveries	30	-	-	5	-	9	-	44
Provision	(966)	726	212	(70)	4	246	98	250
Ending Balance	\$ 982	\$ 2,145	\$ 275	\$ 150	\$ 832	\$ 726	\$ 98	\$ 5,208
As of December 31, 2015								
Ending balance: individually evaluated for impairment	-	-	-	-	-	3	-	3
Ending balance: collectively evaluated for impairment	1,027	1,970	486	123	740	674	219	5,239
Total allowance for loan losses	\$ 1,027	\$ 1,970	\$ 486	\$ 123	\$ 740	\$ 677	\$ 219	\$ 5,242
	\$ 59,752	\$ 245,828	\$ 15,551	\$ 4,880	\$ 110,837	\$ 47,521	\$ -	\$ 484,369

Total loans ending balance								
Ending balance: individually evaluated for impairment	-	7,745	-	-	4,556	550	-	12,851
Ending balance: collectively evaluated for impairment	\$ 59,752	\$ 238,083	\$ 15,551	\$ 4,880	\$ 106,281	\$ 46,971	\$ -	\$ 471,518

The Company monitors the credit quality of its loans receivable in an ongoing manner. Credit quality is monitored by reviewing certain credit quality indicators, including loan to value ratios, debt service coverage ratios and credit scores.

The Company has a risk rating system as part of the risk assessment of its loan portfolio. The Company's lending officers are required to assign a risk rating to each loan in their portfolio at origination, which is ratified or modified by the Loan Committee to which the loan is submitted for approval. When the lender learns of important financial developments, the risk rating is reviewed accordingly, and adjusted if necessary. Similarly, the Loan Committee can adjust a risk rating. The Company employs a loan officer whose responsibility is to independently review the ratings annually for all commercial credits over \$250,000.

The Company uses an independent third party loan reviewer who performs quarterly reviews of a sample of loans, validating the Company's risk ratings assigned to such loans. Any upgrades or downgrades to classified loans must be approved by the Management Loan Committee.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

When assigning a risk rating to a loan, management utilizes the Company's internal eleven-point risk rating system. An asset is considered "special mention" when it has a potential weakness based on objective evidence, but does not currently expose the Company to sufficient risk to warrant classification in one of the following categories:

An asset is considered "substandard" if it is not adequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Substandard assets have well-defined weaknesses based on objective evidence, and are characterized by the "distinct possibility" that the Company will sustain "some loss" if the deficiencies are not corrected.

Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable."

Charge-off generally commences after the loan is classified "doubtful" to reduce the loan to its recoverable balance. If the account is classified as "loss", the full balance is charged off regardless of the potential recovery from the sale of the collateral. That amount is recognized as a recovery after the collateral is sold.

In accordance with FFIEC ("Federal Financial Institutions Examination Council") published policies establishing uniform criteria for the classification of retail credit based on delinquency status, "Open-end" credits are charged off when 180 days delinquent and "Closed-end" credits are charged off when 120 days delinquent.

Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The unpaid principal balances of loans on nonaccrual status and considered impaired were \$4.8 million at June 30, 2016 and \$1.6 million at December 31, 2015.

The \$4.8 million of non-accrual loans at June 30, 2016 is comprised of five relationships, for which a specific reserve of \$0.3 million has been established. The non-accrual increase of \$3.2 million from December 31, 2015 is related to a single commercial loan and is not indicative of a credit quality trend within the portfolio. As this relationship moved to non-accrual status, the loan loss allocation tied to other loans that were no longer considered criticized were then reallocated to this new non-accrual relationship.

If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded the following amounts of additional income:

(dollars in thousands)

Three months ended June 30, 2016	\$58
Six months ended June 30, 2016	\$196
Three months ended June 30, 2015	\$4
Six months ended June 30, 2015	\$8

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)**

The following table sets forth the detail, and delinquency status, of non-accrual loans at June 30, 2016:

(in thousands)

2016	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Non- Accrual Loans
Commercial & Industrial						
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Substandard	-	-	3,208	3,208	-	3,208
Total Commercial & Industrial	\$ -	\$ -	\$ 3,208	\$ 3,208	\$ -	\$ 3,208
Commercial Real Estate						
Substandard	\$ -	\$ -		\$ -	\$ -	\$ -
Total Commercial Real Estate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Real Estate						
Substandard	\$ -	\$ -	\$ 1,590	\$ 1,590	\$ -	\$ 1,590
Total Residential Real Estate	\$ -	\$ -	\$ 1,590	\$ 1,590	\$ -	\$ 1,590
Consumer						
Substandard	\$ -	\$ -	\$ 2	\$ 2	\$ -	\$ 2
Total Consumer	\$ -	\$ -	\$ 2	\$ 2	\$ -	\$ 2
Total	\$ -	\$ -	\$ 4,800	\$ 4,800	\$ -	\$ 4,800

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)**

The following table sets forth the detail, and delinquency status, of non-accrual loans at December 31, 2015:

(in thousands)

2015	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Non- Accrual Loans
Commercial & Industrial Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Substandard	-	-	-	-	-	-
Total Commercial & Industrial	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Real Estate Substandard	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Commercial Real Estate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Real Estate Substandard	\$ -	\$ -	\$ 1,590	\$ 1,590	\$ -	\$ 1,590
Total Residential Real Estate	\$ -	\$ -	\$ 1,590	\$ 1,590	\$ -	\$ 1,590
Consumer/ Other Substandard	\$ -	\$ -	\$ 3	\$ 3	\$ -	\$ 3
Total Consumer / Other	\$ -	\$ -	\$ 3	\$ 3	\$ -	\$ 3
Total	\$ -	\$ -	\$ 1,593	\$ 1,593	\$ -	\$ 1,593

Generally, loans are placed on non-accruing status when they become 90 days or more delinquent, and remain on non-accrual status until they are brought current, have at least six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exist. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent and still be on a non-accruing status.

At June 30, 2016, five loans were on non-accrual status totaling \$4.8 million. For these five loans a specific reserve of \$1.0 million has been established.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table sets forth the detail and delinquency status of loans receivable, by performing and non-performing loans at June 30, 2016.

	Performing (Accruing) Loans				Current	Total Performing Loans	Total Non- Accrual Loans	Total Loans
	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due				
<i>(in thousands)</i>								
2016								
Commercial & Industrial								
Pass	\$39	\$ -	\$ -	\$39	\$68,406	\$ 68,445	\$ -	\$68,445
Special Mention	-	-	-	-	-	\$ -	-	-
Substandard	-	-	-	-	5	\$ 5	3,208	3,213
Total Commercial & Industrial	\$39	\$ -	\$ -	\$39	\$68,411	\$ 68,450	\$ 3,208	\$71,658
Commercial Real Estate								
Pass	\$934	\$ -	\$ -	\$934	\$262,958	\$ 263,892	\$ -	\$263,892
Special Mention	-	-	-	-	5,226	\$ 5,226	-	5,226
Substandard	-	-	-	-	885	\$ 885	-	885
Total Commercial Real Estate	\$934	\$ -	\$ -	\$934	\$269,069	\$ 270,003	\$ -	\$270,003
Construction								
Pass	\$-	\$ -	\$ -	\$-	\$26,094	\$ 26,094	\$ -	\$26,094
Total Construction	\$-	\$ -	\$ -	\$-	\$26,094	\$ 26,094	\$ -	\$26,094
Construction to Permanent								
Pass	\$-	\$ -	\$ -	\$-	\$4,229	\$ 4,229	\$ -	\$4,229
Total Construction to Permanent	\$-	\$ -	\$ -	\$-	\$4,229	\$ 4,229	\$ -	\$4,229
Residential Real Estate								
Pass	\$388	\$ 10	\$ 1,485	\$1,883	\$101,273	\$ 103,156	\$ -	\$103,156
Substandard	-	-	-	-	-	\$ -	1,590	1,590
Total Residential Real Estate	\$388	\$ 10	\$ 1,485	\$1,883	\$101,273	\$ 103,156	\$ 1,590	\$104,746
Consumer/ Other								
Pass	\$402	\$ -	\$ 6	\$408	\$51,514	\$ 51,922	\$ -	\$51,922
Substandard	-	-	-	-	-	\$ -	2	\$2
Total Consumer/ Other	\$402	\$ -	\$ 6	\$408	\$51,514	\$ 51,922	\$ 2	\$51,924
Total								
Pass	\$1,763	\$ 10	\$ 1,491	\$3,264	\$514,474	\$ 517,738	\$ -	\$517,738
Special Mention	-	-	-	-	5,226	\$ 5,226	-	5,226
Substandard	-	-	-	-	890	\$ 890	4,800	5,690
Grand Total	\$1,763	\$ 10	\$ 1,491	\$3,264	\$520,590	\$ 523,854	\$ 4,800	\$528,654

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table sets forth the detail and delinquency status of loans receivable, by performing and non-performing loans at December 31, 2015.

<i>(in thousands)</i>		Performing (Accruing) Loans						
2015	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Performing Loans	Total Non- Accrual Loans	Total Loans
Commercial & Industrial								
Pass	\$ 43	\$ 605	\$ 520	\$ 1,168	\$ 55,600	\$ 56,768	\$ -	\$ 56,768
Special Mention	-	-	-	-	-	-	-	-
Substandard	2,977	-	-	2,977	7	2,984	-	2,984
Total Commercial & Industrial	\$ 3,020	\$ 605	\$ 520	\$ 4,145	\$ 55,607	\$ 59,752	\$ -	\$ 59,752
Commercial Real Estate								
Pass	\$ -	\$ -	\$ -	\$ -	\$ 237,996	\$ 237,996	\$ -	\$ 237,996
Special Mention	-	-	-	-	5,322	5,322	-	5,322
Substandard	840	-	-	840	1,670	2,510	-	2,510
Total Commercial Real Estate	\$ 840	\$ -	\$ -	\$ 840	\$ 244,988	\$ 245,828	\$ -	\$ 245,828
Construction								
Pass	\$ -	\$ -	\$ -	\$ -	\$ 15,551	\$ 15,551	\$ -	\$ 15,551
Total Construction	\$ -	\$ -	\$ -	\$ -	\$ 15,551	\$ 15,551	\$ -	\$ 15,551
Construction to Permanent								
Pass	\$ -	\$ -	\$ -	\$ -	\$ 4,880	\$ 4,880	\$ -	\$ 4,880
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total Construction to Permanent	\$ -	\$ -	\$ -	\$ -	\$ 4,880	\$ 4,880	\$ -	\$ 4,880
Residential Real Estate								
Pass	\$ 154	\$ 87	\$ 1,517	\$ 1,758	\$ 107,489	\$ 109,247	\$ -	\$ 109,247

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Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	1,590	1,590
Total Residential Real Estate	\$ 154	\$ 87	\$ 1,517	\$ 1,758	\$ 107,489	\$ 109,247	\$ 1,590	\$ 110,837
Consumer/ Other								
Pass	\$ 309	\$ 2	\$ 9	\$ 320	\$ 47,198	\$ 47,518	\$ -	\$ 47,518
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	3	3
Total Consumer/ Other	\$ 309	\$ 2	\$ 9	\$ 320	\$ 47,198	\$ 47,518	\$ 3	\$ 47,521
Total								
Pass	\$ 506	\$ 694	\$ 2,046	\$ 3,246	\$ 468,714	\$ 471,960	-	\$ 471,960
Special Mention	-	-	-	-	5,322	5,322	-	5,322
Substandard	3,817	-	-	3,817	1,677	5,494	1,593	7,087
Grand Total	\$ 4,323	\$ 694	\$ 2,046	\$ 7,063	\$ 475,713	\$ 482,776	\$ 1,593	\$ 484,369

December 31, 2015 loan balances have been reclassified to be consistent with the June 30, 2016 presentation.

Impaired Loans

Impaired loans consist of non-accrual loans, Troubled Debt Restructurings (“TDRs”), and loans previously classified as TDRs that have been upgraded. As of June 30, 2016, the Company’s impairment analysis resulted in identification of \$14.8 million of impaired loans, for which specific reserves of \$1.0 million were required at June 30, 2016, compared to \$12.9 million of impaired loans at December 31, 2015, for which specific reserves of \$3,000 were required. Loans that did not require specific reserves have sufficient collateral values, less costs to sell, supporting the carrying balances of the loans. In some cases, there may be no specific reserves because the Company already charged off the specific impairment. Once a borrower is in default, the Company is under no obligation to advance additional funds on unused commitments.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Troubled Debt Restructurings

On a case-by-case basis, the Company may agree to modify the contractual terms of a borrower’s loan to assist customers who may be experiencing financial difficulty. If the borrower is experiencing financial difficulties and a concession has been made, the loan is classified as a troubled debt restructured loan.

For the three and six months ended June 30, 2016 and 2015, there were no loans modified as a “troubled debt restructuring”. At June 30, 2016 and December 31, 2015, there were no commitments to advance additional funds under troubled debt restructured loans.

Substantially all of our troubled debt restructured loan modifications involve lowering the monthly payments on such loans through either a reduction in interest rate below market rate, an extension of the term of the loan, or a combination of these two methods. These modifications rarely result in the forgiveness of principal or accrued interest. In addition, we frequently obtain additional collateral or guarantor support when modifying commercial loans. If the borrower had demonstrated performance under the previous terms and our underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible. All troubled debt restructurings are classified as impaired loans, which are individually evaluated for impairment.

The following table summarizes impaired loans by loan portfolio class as of June 30, 2016:

<i>(in thousands)</i>	Recorded	Principal	Related
	Investment	Balance	Allowance
With no related allowance recorded:			
Commercial & Industrial	\$ 295	\$ 327	\$ -

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Commercial Real Estate	6,526	7,031	-
Construction	-	287	-
Residential	4,515	5,518	-
Consumer/ Other	544	629	-
Total:	\$ 11,880	\$ 13,792	\$ -

With an allowance recorded:

Commercial & Industrial	\$ 2,977	\$ 2,977	\$ 1,018
Commercial Real Estate	-	-	-
Construction	-	-	-
Residential	-	-	-
Consumer/ Other	2	2	2
Total:	\$ 2,979	\$ 2,979	\$ 1,020

Commercial & Industrial	\$ 3,272	\$ 3,304	\$ 1,018
Commercial Real Estate	6,526	7,031	-
Construction	-	287	-
Residential	4,515	5,518	-
Consumer/ Other	546	631	2
Total:	\$ 14,859	\$ 16,771	\$ 1,020

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)**

The following table summarizes impaired loans by loan portfolio class as of December 31, 2015:

<i>(in thousands)</i>	Recorded	Principal	Related
	Investment	Balance	Allowance
With no related allowance recorded:			
Commercial & Industrial	\$ -	\$ 96	\$ -
Commercial Real Estate	7,745	8,259	-
Construction	-	287	-
Construction to Permanent	-	-	-
Residential	4,556	5,559	-
Consumer/ Other	547	633	-
Total:	\$ 12,848	\$ 14,834	\$ -
With an allowance recorded:			
Consumer	3	3	3
Total:	\$ 3	\$ 3	\$ 3
Commercial & Industrial	\$ -	\$ 96	\$ -
Commercial Real Estate	7,745	8,259	-
Construction	-	287	-
Residential	4,556	5,559	-
Consumer/ Other	550	636	3
Total:	\$ 12,851	\$ 14,837	\$ 3

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)**

The following tables summarize additional information regarding impaired loans for the three and six months ended June 30, 2016 and 2015.

<i>(in thousands)</i>	Three Months Ended June 30,			
	2016		2015	
	Average	Interest	Average	Interest
	Recorded	Income	Recorded	Income
	Investment	Recognized	Investment	Recognized
With no related allowance recorded:				
Commercial & Industrial	\$116	\$ -	\$-	\$ -
Commercial Real Estate	7,524	79	8,025	94
Residential	4,525	31	3,392	32
Consumer/ Other	545	5	551	5
Total:	\$12,710	\$ 115	\$11,968	\$ 131
With an allowance recorded:				
Commercial & Industrial	\$2,977	\$ -	\$-	\$ -
Commercial Real Estate	-	-	-	-
Residential	-	-	-	-
Consumer/ Other	2	-	-	-
Total:	\$2,979	\$ -	\$-	\$ -
Commercial & Industrial	\$3,093	\$ -	\$-	\$ -
Commercial Real Estate	7,524	79	8,025	94
Residential	4,525	31	3,392	32
Consumer/ Other	547	5	551	5
Total:	\$15,688	\$ 115	\$11,968	\$ 131

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)**

<i>(in thousands)</i>	Six Months Ended June 30,			
	2016		2015	
	Average	Interest	Average	Interest
	Recorded	Income	Recorded	Income
	Investment	Recognized	Investment	Recognized
With no related allowance recorded:				
Commercial & Industrial	\$148	\$ -	\$1	\$ -
Commercial Real Estate	7,597	159	8,160	188
Residential	4,535	62	3,459	63
Consumer/ Other	546	9	552	9
Total:	\$12,826	\$ 230	\$12,172	\$ 260
With an allowance recorded:				
Commercial & Industrial	\$1,914	\$ -	\$-	\$ -
Commercial Real Estate	-	-	-	-
Residential	-	-	-	-
Consumer/ Other	2	-	1	-
Total:	\$1,916	\$ -	\$1	\$ -
Commercial & Industrial	\$2,062	\$ -	\$1	\$ -
Commercial Real Estate	7,597	159	8,160	188
Residential	4,535	62	3,459	63
Consumer/ Other	548	9	553	9
Total:	\$14,742	\$ 230	\$12,173	\$ 260

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)****Note 4: Other Real Estate Owned**

At June 30, 2016, Other Real Estate Owned (“OREO”) consisted of a single property which consists of raw land and is suitable for multi-use construction. The following table presents a summary of OREO activity for the six months ended June 30, 2016:

<i>(in thousands)</i>	OREO
Balance at December 31, 2015	\$ -
Transfers from loans	840
Gain recognized in acquisition	11
Balance at June 30, 2016	\$ 851

The recognized gain represents the amount by which fair market value of the property, net of estimated liquidation costs, exceeded the remaining loan balance as of the date possession was taken of the property.

As of and for the six months ended June 30, 2015, there was no OREO activity.

Note 5: Deposits

The following table is a summary of the Company’s deposits at:

<i>(in thousands)</i>	June 30, 2016	December 31, 2015
Non-interest bearing	\$75,244	\$ 85,065

Interest bearing		
NOW	28,745	28,684
Savings	124,196	106,291
Money market	18,486	19,522
Time certificates, less than \$250,000	125,668	139,455
Time certificates, \$250,000 or more	16,812	17,509
Brokered Deposits	57,185	48,154
Total interest bearing	371,092	359,615
Total Deposits	\$446,336	\$444,680

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 6: Share-Based Compensation and Employee Benefit Plan

The Company maintains the Patriot National Bancorp, Inc. 2012 Stock Plan (the “Plan”) to provide an incentive to directors and employees of the Company. Grants under the Plan may take the form of stock options, restricted stock and phantom stock units. Up to three million shares of the Company’s common stock and one million phantom stock units may be issued under the Plan, subject to certain limitations. As of June 30, 2016, 2,819,216 shares of common stock and one million phantom stock units are available for issuance under the Plan.

Restricted stock grants are available to directors and employees and generally vest in annual installments over a three, four or five year period from the date of grant, as determined by the Compensation Committee of the Company’s Board of Directors. Vesting may be accelerated under certain circumstances. The Company expenses the grant date fair value of all share-based compensation over the requisite vesting periods on a prorated straight-line basis. During the three and six months ended June 30, 2016, the Company recorded \$0.2 million and \$0.3 million of total stock-based compensation, respectively. During the three and six months ended June 30, 2015, the Company recorded \$0.1 million and \$0.2 million of total stock-based compensation, respectively.

During the six months ended June 30, 2016, the Company issued 5,884 shares of restricted stock to directors and 52,200 shares of restricted stock to employees under the 2012 Stock Plan.

The following is a summary of the status of the Company’s restricted shares as of June 30, 2016, and changes therein during periods indicated.

		Weighted Average
<u>Three months ended June 30, 2016:</u>	Number of Shares Awarded	Grant Date Fair
		Value
Non-vested at March 31, 2016	113,938	\$ 14.06

Granted	-	-
Vested	(2,526) 14.72
Forfeited	(4,213) 11.31
Non-vested at June 30, 2016	107,199	\$ 14.16

Six months ended June 30, 2016:

Non-vested at December 31, 2015	55,854	\$ 12.83
Granted	58,084	15.25
Vested	(2,526) 14.72
Forfeited	(4,213) 11.31
Non-vested at June 30, 2016	107,199	\$ 14.16

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)**

The following is a summary of the status of the Company's restricted shares as of June 30, 2015, and changes therein during periods indicated.

	Number of Shares	Weighted Average
		Grant Date Fair Value
<u>Three months ended June 30, 2015:</u>		
	Awarded	
Non-vested at March 31, 2015	81,923	\$ 12.93
Granted	-	-
Vested	(225)	17.25
Non-vested at June 30, 2015	81,698	\$ 12.92
<u>Six months ended June 30, 2015:</u>		
Non-vested at December 31, 2014	79,208	\$ 12.79
Granted	2,940	17.00
Vested	(450)	17.25
Non-vested at June 30, 2015	81,698	\$ 12.92

Expected future stock award expense related to the non-vested restricted awards as of June 30, 2016, is \$1.3 million, which is expected to be recognized over an average period of 2.56 years.

The Company had no outstanding stock options at June 30, 2016.

The Company offers a 401K retirement plan (the "401K"), which provides for tax-deferred salary deductions for eligible employees. Employees may choose to make voluntary contributions to the 401K, limited to an annual maximum amount as set forth periodically by the Internal Revenue Service. The Company matches 50% of such contributions, up to a maximum of six percent. During the three and six months ended June 30, 2016, compensation expense under the Plan aggregated \$0.04 million and \$0.08 million, respectively. During the three and six months ended June 30, 2015, compensation expense under the Plan aggregated \$0.03 million and \$0.09 million, respectively.

Note 7: Income Taxes

For the three and six months ended June 30, 2016, the Company recorded income tax expense of \$0.4 million and \$0.8 million, respectively. This compares to income tax expense of \$0.5 million and \$0.7 million, respectively, for the three and six months ended June 30, 2015.

Deferred tax assets decreased \$0.7 million from \$13.8 million at December 31, 2015 to \$13.1 million at June 30, 2016. This decrease was due to deferred taxes being applied to the tax liability arising from current year taxable income.

The Company will continue to evaluate its ability to realize its net deferred tax asset. If future evidence suggests that it is more likely than not that a portion of the deferred tax asset will not be realized, the valuation allowance may be increased.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 8: Income per share

The Company is required to present basic income per share and diluted income per share in its consolidated statements of operations. Basic income per share amounts are computed by dividing net income by the weighted average number of common shares outstanding. Diluted income per share reflects additional common shares that would have been outstanding if potentially dilutive common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding restricted stocks and would be determined using the treasury stock method. The Company is also required to provide a reconciliation of the numerator and denominator used in the computation of both basic and diluted income per share.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)**

The Company had no outstanding stock options as of June 30, 2016 or December 31, 2015. The following is information about the computation of income per share for the three and six months ended June 30, 2016 and 2015:

Three months ended June 30, 2016	Net Income	Weighted Average Common Shares Outstanding	Amount
Basic Income Per Share	\$613,863	3,957,012	\$ 0.16
Effect of Dilutive Securities Non-vested Restricted Stock Grants	N/A	1,073	N/A
Diluted Income Per Share	613,863	3,958,085	\$ 0.16

Three months Ended June 30, 2015	Net Income	Weighted Average Common Shares Outstanding	Amount
Basic Income Per Share	\$ 689,000	3,872,073	\$ 0.18
Effect of Dilutive Securities Non-vested Restricted Stock Grants	N/A	21,093	N/A
Diluted Income Per Share	\$ 689,000	3,893,166	\$ 0.18

Six months ended June 30, 2016	Net Income	Weighted Average Common Shares	Amount
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Outstanding

Basic Earnings Per Share	\$1,267,260	3,956,609	\$ 0.32
Effect of Dilutive Securities			
Non-vested Restricted Stock Grants	N/A	33,366	N/A
Diluted Earnings Per Share	1,267,260	3,989,975	\$ 0.32

**Weighted
Average**

Six months Ended June 30, 2015	Net Income	Common Shares	Amount
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Outstanding

Basic Income Per Share	\$978,000	3,871,960	\$ 0.25
Effect of Dilutive Securities			
Non-vested Restricted Stock Grants	N/A	20,992	N/A
Diluted Income Per Share	\$978,000	3,892,952	\$ 0.25

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 9: Borrowings

Federal Home Loan Bank borrowings

The Company is a member of the Federal Home Loan Bank of Boston ("FHLB"). The Company has the ability to borrow from the FHLB based on a certain percentage of the value of the Company's qualified collateral, as defined in the FHLB Statement of Products Policy, comprised mainly of mortgage-backed securities and loans segregated as collateral for the FHLB.

At June 30, 2016 and December 31, 2015, outstanding advances from the FHLB aggregated \$128.0 million and \$132.0 million respectively. The advances outstanding at June 30, 2016 had maturities ranging from one day to sixty months with rates ranging from 2.7 basis points to 57 basis points. The FHLB borrowings are collateralized by a mixture of real estate loans and securities with a book value of \$131.3 million as of June 30, 2016.

Junior subordinated debt owed to unconsolidated trust

The subordinated debentures of \$8.2 million are unsecured obligations of the Company and are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. These obligations qualify as Tier 1 capital. The subordinated debentures, which bear interest at three-month LIBOR plus 3.15% (3.79% at June 30, 2016), mature on March 26, 2033. Beginning in the second quarter of 2009, the Company deferred quarterly interest payments on the subordinated debentures for twenty consecutive quarters as permitted under the terms of the debentures. The Company made a payment of approximately \$1.6 million in June 2014, which brought the debt current as of that date. Interest payments since June 2014 have been deferred at the Company's option, however interest expense continues to be accrued and charged to operations. At June 30, 2016, interest owed for the subordinated debt was \$0.6 million.

Note Payable

In September 2015, the Company executed a \$2.0 million Note Payable for the purchase of its Fairfield, CT branch, which had formerly been leased by the Company. The note has a ten-year term and bears interest at a fixed rate of 1.75%. The Company makes interest and principal payments monthly. The note is secured by a first Mortgage Deed and Security Agreement on the property purchased.

Note 10: Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Company is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet. The contractual amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The contractual amount of commitments to extend credit and standby letters of credit represents the total amount of potential accounting loss should the contracts be fully drawn upon, the customers default, and the value of any existing collateral become worthless. The Company uses the same credit policies in approving commitments and conditional obligations as it does for on-balance-sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis. Management believes that the Company controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)**

Financial instruments whose contractual amounts represent credit risk at June 30, 2016 are as follows:

Commitments to extend credit:	<i>(in thousands)</i>
Future loan commitments	\$ 15,186
Home equity lines of credit	21,464
Unused lines of credit	22,684
Undisbursed construction loans	20,204
Financial standby letters of credit	1,262
	\$ 80,800

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates, or other termination clauses, and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include residential and commercial property, deposits and securities. The Company has established a reserve of \$5,000 as of June 30, 2016 for these commitments which is included in accrued expenses and other liabilities.

Standby letters of credit are written commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Guarantees that are not derivative contracts are recorded on the Company's consolidated balance sheet at their fair value at inception. Any instruments deemed to be derivatives would be accounted for as a fair value or cash flow hedge as appropriate.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**Notes to consolidated financial statements (Unaudited)****Note 11: Regulatory and Operational Matters**

The Company's and the Bank's capital and capital ratios at June 30, 2016 and December 31, 2015 were:

	Actual		Minimum		Capital Requirements Minimum with Capital Buffer		Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio

(dollars in thousands)

June 30, 2016**The Company:**

Tier 1 Leverage Capital (to Average Assets)	\$61,113	9.97 %	\$24,522	4.00 %	N/A	N/A	N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	53,113	9.56 %	25,011	4.50 %	N/A	N/A	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	61,113	11.00 %	33,348	6.00 %	N/A	N/A	N/A	N/A
Total Capital (to Risk Weighted Assets)								