PATRIOT NATIONAL BANCORP INC
Form 10-K
March 25, 2014
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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, 2013

¨ **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 $0.01 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. Yes ¨ No x

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 ¨ No x

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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. ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

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

Aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2013 based on the last sale price as reported on the NASDAQ Global Market: $5,934,992.

Number of shares of the registrant s Common Stock, par value $0.01 per share, outstanding as of February 28, 2014: 38,774,975.

Documents Incorporated by Reference

Proxy Statement for 2014 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.

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Patriot National Bancorp, Inc.

2013 Form 10-K Annual Report

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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 other such factors, including risk factors, as 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.

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PART I

Item 1. Business

General

Patriot National Bancorp, Inc. (Bancorp or Company), a Connecticut corporation, is a one-bank holding company for Patriot National Bank, a national banking association headquartered in Stamford, Fairfield County, Connecticut (the Bank).

The Bank received its charter and commenced operations as a national bank on August 31, 1994. The Bank currently has eight branch offices in Connecticut. The Bank also expanded into New York State on November 17, 2006 through the purchase of a small branch office and related deposits in New York City and the subsequent opening of branch offices in Bedford and Scarsdale, both located in Westchester County, New York. In June 2012, the Bank closed the New York City branch.

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. The Bank in turn used the proceeds to fund general operations.

On April 1, 2008, the Bank acquired a 20% interest in a de novo insurance agency. The impact on the Bank s operations in 2011, 2012 and 2013 has been minimal. During the fourth quarter of 2013, the Bank sold its interest in the de novo insurance agency.

On October 15, 2010, pursuant to a Securities Purchase Agreement (the Securities Purchase Agreement), the Company issued and sold to PNBK Holdings LLC (Holdings), an investment limited liability company controlled by Michael Carrazza, 33,600,000 shares of its common stock at a purchase price of $1.50 per share for an aggregate purchase price of $50,400,000. The shares sold to Holdings represented 87.6% of the Company s then issued and outstanding common stock. The par value of the common stock was changed to $0.01 per share. Also in connection with that sale, certain directors and officers of both the Company and the Bank resigned and were replaced with nominees of Holdings and Michael Carrazza became Chairman of the Board of the Company.

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.

On February 26, 2013, the Company announced the appointment of Kenneth T. Neilson as President and Chief Executive Officer of both the Company and the Bank effective March 18, 2013. This is following the departure of Christopher Maher, who resigned as President, CEO and director for personal reasons. Mr. Neilson has served as a director of Patriot since 2010. He is the retired President, Chairman and CEO of Hudson United Bank and Hudson United Bancorp where he served for 23 years.

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 in Darien, Fairfield, Greenwich, Milford, Norwalk, Trumbull, and Westport. In New York State, the Bank conducts business at branch offices located in Bedford and 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. 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 been permanently increased to $250,000 per eligible account. In addition, the Bank may in the future offer other financial services.

The Bank offers commercial loans to small and medium-sized businesses including secured and unsecured loans to service companies, manufacturers, restaurants, wholesalers, retailers and professionals doing business in the region. Other personal loans include lines of credit, installment loans, overdraft protection and credit cards. Real estate loans made to individuals include home mortgages, home improvement loans, bridge loans and home equity loans and lines of credit. Other loans offered include commercial real estate loans to area businesses. The Bank acts as a mortgage broker to satisfy the needs of its customers.

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.

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The customer base of the Bank generally is meant to be 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 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, Darien, Fairfield, Trumbull, Westport, and Milford 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. 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, including nearby towns in Fairfield and New Haven Counties in Connecticut, and Westchester County and New York City in New York, although the Bank s loan business is not necessarily limited to these areas. 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 its market area, the Bank believes that the service industries, professionals and related businesses 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 maintain a balance of high quality diversified investments to minimize risk 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 currently 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 processing services, credit card processing and armored car carrier service.

The cities of Stamford and Norwalk and the towns of Greenwich, Darien, Milford, Fairfield, Trumbull, and Westport, CT are presently served by over 229 branches of commercial and savings banks along with approximately 27 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 competition to the Bank for deposits and loans. Many of those banks and financial institutions are well established and well capitalized.

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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 financial institutions of these market dynamics and legislative and regulatory changes has been increased customer awareness of product and service differences 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 quarterly 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, 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.

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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.

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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. The Dodd-Frank Wall Street Reform and Consumer Protection Act enacted an exemption to the attestation and the reporting on the Company s internal controls over financial reporting by the external auditors for non-accelerated filers, those with public float of less than $75 million.

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Recent Legislative Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Act) was signed into law on July 21, 2010. The Act is a significant piece of legislation that has had a major impact on the financial services industry, including the organization, financial condition and operations of banks and bank holding companies. Management is currently evaluating the impact of the Act; however, uncertainty remains as to its operational impact, which could have a material adverse impact on the Company s business, results of operations and financial condition. Many of the provisions of the Act are aimed at financial institutions that are significantly larger than the Company and the Bank. Notwithstanding this, there are many other provisions that the Company and the Bank are subject to and will have to comply with, including any new rules applicable to the Company and the Bank promulgated by the Bureau of Consumer Financial Protection, a new regulatory body dedicated to consumer protection. As rules and regulations are promulgated by the agencies responsible for implementing and enforcing the Act, the Company and the Bank will have to address each to ensure compliance with applicable provisions of the Act and compliance costs are expected to increase.

The Dodd-Frank Act broadens the base for Federal Deposit Insurance Corporation insurance assessments. Under rules issued by the FDIC in February 2011, the base for insurance assessments changed from domestic deposits to consolidated assets less tangible equity. Assessment rates are calculated using formulas that take into account the risks of the institution being assessed. The rule was effective beginning April 1, 2011. This did not have a material impact on the Company.

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On June 28, 2011, the Federal Reserve Board approved a final debit-card interchange rule. This primarily impacts larger banks and should not have a material impact on the Company.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on the Company. The financial reform legislation and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and our ability to conduct business. Management will have to apply resources to ensure compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may increase our costs of operations and adversely impact our earnings.

On July 2013, the FRB, the OCC and the FDIC approved final rules (the New Capital Rules) establishing a new comprehensive capital framework for U.S. Banking organizations. The New Capital Rules generally implement the Basel Committee on Banking Supervision s (the Basel Committee) December 2010 final capital framework referred to as Basel III for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to BHC s and their depository institution subsidiaries, including the Company and the Bank, as compared to the current U.S. general risk-based capital rules. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions regulatory capital ratios. The New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions regulatory capital ratios and replace the existing general risk-weighting approach with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee s 2004 capital accords. In addition, the New Capital Rules implement certain provisions of the Dodd-Frank Act. The New Capital Rules are not yet effective for the Company. We are still in the process of assessing the impacts of these complex New Capital Rules.

Recent Agreement with Regulators

In February 2009 the Bank entered into a formal written agreement (the Agreement) with the Office of the Comptroller of the Currency. Under the terms of the Agreement, the Bank has appointed a Compliance Committee of outside directors and the Chief Executive Officer. The Committee must report quarterly to the Board of Directors and to the OCC on the Bank s progress in complying with the Agreement. The Agreement requires the Bank to review, adopt and implement a number of policies and programs related to credit and operational issues. The Agreement further provides limitations on the acceptance of certain brokered deposits and the extension of credit to borrowers whose loans are criticized. The Bank may pay dividends during the term of the Agreement only with prior written permission from the OCC. The Agreement also requires that the Bank develop and implement a three-year capital plan. The Bank has taken or put into process all of the steps required by the Agreement, and does not anticipate that the restrictions included within the Agreement will impair its current business plan.

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In June 2010 the company entered into a formal written agreement (the Reserve Bank Agreement) with the Federal Reserve Bank of New York (the Reserve Bank). Under the terms of the Reserve Bank Agreement, the Board of Directors of the Company are required to take appropriate steps to fully utilize the Company s financial and managerial resources to serve as a source of strength to the Bank including taking steps to insure that the Bank complies with the Agreement with the OCC. The Reserve Bank Agreement requires the Company to submit, adopt and implement a capital plan that is acceptable to the Reserve Bank. The Company must also report to the Reserve Bank quarterly on the Company s progress in complying with the Reserve Bank Agreement. The Agreement further provides for certain restrictions on the payment or receipt of dividends, distributions of interest or principal on subordinate debentures or trust preferred securities and the Company s ability to incur debt or to purchase or redeem its stock without the prior written approval of the Reserve Bank. The Company has taken or put into process all of the steps required by the Reserve Bank Agreement, and does not anticipate that the restrictions included within the Reserve Bank Agreement will impair its current business plan.

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, information statements on Schedule 14C, 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, 2013, Bancorp had 89 full-time employees and 11 part-time employees. None of the employees of Bancorp are covered by a collective bargaining agreement.

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Item 1A. Risk Factors

The risks involved in Bancorp s commercial real estate loan portfolio are material.

Bancorp s commercial real estate loan portfolio constitutes a material portion of the Bank s assets and generally has more risk than residential mortgage loans. Commercial real estate loans often involve larger loan balances concentrated with single borrowers or groups of related borrowers as compared to single-family residential loans.

Because the repayment of commercial real estate 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.

Real estate lending in Bancorp s core 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 New York City 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 and other companies in recent years. Credit markets have become tight and underwriting standards more stringent, and the inability of purchasers of real estate to obtain financing will continue to impact 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. During the years 2007 through 2009, the general economic conditions and specific business conditions in the United States, including Fairfield County, Connecticut and the New York metropolitan area, deteriorated, resulting in increases in loan delinquencies, problem assets and foreclosures and declines in the value and collateral associated with the Bank s loans. During 2010 through 2013, the economic climate improved marginally resulting in decreases in the Bank s non-performing assets. A prolonged period of economic recession or worsening of these economic conditions may have an adverse effect on our results of operations and financial condition.

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Bancorp is Subject to a Formal Agreement with the OCC and the Federal Reserve Bank of New York.

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. The Bank does not anticipate that the restrictions within the agreement 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.

In June 2010 the Company entered into a formal written agreement (the Reserve Bank Agreement) with the Federal Reserve Bank of New York (the Reserve Bank). Under the terms of the Reserve Bank Agreement, the Board of Directors of the Company are required to take appropriate steps to fully utilize the Company s financial and managerial resources to serve as a source of strength to the Bank including taking steps to insure that the Bank complies with the agreement with the OCC. The Reserve Bank Agreement requires the Company to submit, adopt and implement a capital plan that is acceptable to the Reserve Bank. The Company must also report to the Reserve Bank quarterly on the Company s progress in complying with the Reserve Bank Agreement. The Agreement further provides for certain restrictions on the payment or receipt of dividends, distributions of interest or principal on subordinate debentures or trust preferred securities and the Company s ability to incur debt or to purchase or redeem its stock without the prior written approval of the Reserve Bank. The Company has taken or put into process all of the steps required by the Reserve Bank Agreement, and does not anticipate that the restrictions included within the Reserve Bank Agreement will impair its current business plan.

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 previous 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 the provision for loan losses, which would materially affect the 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. Although the current economic environment has improved, conditions remain uncertain which 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. 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 is subject to certain risks with respect to liquidity.

Liquidity refers to our ability to generate sufficient cash flows to support our operations and to fulfill our obligations, including commitments to originate loans, to repay our wholesale borrowings and other liabilities, and to satisfy the withdrawal of deposits by our customers.

Our primary sources of liquidity are the deposits we acquire organically through our branch network, borrowed funds, primarily in the form of wholesale borrowings; the cash flows generated through the repayment of loans and securities; and the cash flows from the sale of loans and securities. In addition, and depending on current market conditions, we may have the ability to access the capital markets from time to time.

Deposit flows, calls of investment securities and wholesale borrowings, and prepayments of loans and mortgage-related securities are strongly influenced by such external factors as the direction of interest rates, whether actual or perceived; local and national economic conditions; and competition for deposits and loans in the markets we serve. Furthermore, changes to the underwriting guidelines for wholesale borrowings or lending policies may limit or restrict our ability to borrow, and could therefore have a significant adverse impact on our liquidity. A decline in available funding could adversely impact our ability to originate loans, invest in securities, and meet our expenses, or to fulfill such obligations as repaying our borrowings or meeting deposit withdrawal demands.

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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. In addition, 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.

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 primarily of debt and mortgage-backed securities, which are insured or guaranteed by U.S. government agencies, and corporate bonds. These securities are sensitive to interest rate fluctuations. Unrealized gains or losses in the available-for-sale portfolio for securities 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.

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Bancorp s success also depends, in part, on its continued ability to attract and retain experienced commercial lenders and retail bankers, 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 retail bankers is strong within the commercial banking, 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 affect Bancorp s financial condition and results of operations.

We are subject to environmental liability risk associated with our lending activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on, and take title to, properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. In addition, we own and operate certain properties that may be subject to similar environmental liability risks.

Environmental laws may require us to incur substantial expense and may materially reduce the affected property s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures requiring the performance of an environmental site assessment before initiating any foreclosure action on real property, these assessments may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

Our business may be adversely impacted by acts of war or terrorism.

Acts of war or terrorism could have a significant adverse impact on our ability to conduct our business. Such events could affect the ability of our borrowers to repay their loans, could impair the value of the collateral securing our loans, and could cause significant property damage, thus increasing our expenses and/or reducing our revenues. In addition, such events could affect the ability of our depositors to maintain their deposits with the Bank. Although we have established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on our business which, in turn, could have a material adverse effect on our financial condition and results of operations.

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We rely on the dividends we receive from our subsidiary.

Bancorp is a separate and distinct legal entity from the Bank, and all of the revenues Bancorp receives consist of dividends from the Bank. These dividends are the primary funding source for the interest and principal payments on our debt. Various federal and state laws and regulations limit the amount of dividends that a bank may pay to its parent company. In addition, our right to participate in a distribution of assets upon the liquidation or reorganization of a subsidiary may be subject to the prior claims of the subsidiary s creditors. If the Bank is unable to pay dividends to Bancorp, we may not be able to pay our obligations. The inability to receive dividends from the Bank could therefore have a material adverse effect on our business, our financial condition, and our results of operations, as well as our ability to pay or increase the current level of cash dividends paid to our shareholders. Beginning in the second quarter of 2009, the Company began deferring interest payments on the subordinated debentures as permitted under the terms of the debentures. The deferral in the fourth quarter of 2013 represented the nineteenth consecutive quarter of deferral. The Company continues to accrue and charge interest to operations. The Company may only defer the payment of interest for 20 consecutive quarters, or thru March 2014, and all accrued interest must be paid at the completion of the deferral period, June 2014. As of December 31, 2013, the accrued interest payable is approximately $1.4 million.

The price of our common stock may fluctuate.

The market price of our common stock could be subject to significant fluctuations due to changes in sentiment in the market regarding our operations or business prospects. Among other factors, these risks may be affected by:

- operating results that vary from the expectations of our management or of securities analysts and investors;
- developments in our business or in the financial services sector generally;
- regulatory or legislative changes affecting our industry generally or our business and operations;
- operating and securities price performance of companies that investors consider to be comparable to us;
- changes in estimates or recommendations by securities analysts or rating agencies;
- announcements of strategic developments, acquisitions, dispositions, financings, and other material events by us or our competitors; and
- changes or volatility in global financial markets and economies, general market conditions, interest or foreign exchange rates, stock, commodity, credit, or asset valuations.

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In addition, stock markets around the world have experienced significant price and trading volume volatility, with shares of financial services firms being adversely impacted, in particular. While the U.S. and other governments continue to take action to restore confidence in the financial markets and to promote job creation and economic growth, continued or further market and economic turmoil could occur in the near or long term, which could negatively affect our business, financial condition and results of operations, and volatility in the price and trading volume of our common stock.

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 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:

- 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 may be required to pay significantly higher FDIC premiums, special assessments, or taxes that could adversely affect our earnings.

Market developments have significantly impacted the insurance fund of the FDIC. As a result, we may be required to pay higher premiums or additional special assessments or taxes that could adversely affect our earnings. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional banks or financial institution failures, we may be required to pay even higher FDIC premiums than are currently assessed. These increases and any future increases or required prepayments in FDIC insurance premiums or taxes may materially adversely affect our results of operations.

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We are subject to risks associated with taxation.

The amount of income taxes we are required to pay on our earnings is based on federal and state legislation and regulations. We provide for current and deferred taxes in our financial statements, based on our results of operations, business activity, legal structure, interpretation of tax statutes, assessment of risk of adjustment upon audit, and application of financial accounting standards. We may take tax return filing positions for which the final determination of tax is uncertain. Our net income and earnings per share may be reduced if a federal, state, or local authority assesses additional taxes that have not been provided for in our consolidated financial statements. There can be no assurance that we will achieve our anticipated effective tax rate either due to a change in a tax law, a change in regulatory or judicial guidance, or an audit assessment which denies previously recognized tax benefits.

Risks associated with changes in technology.

Financial products and services have become increasingly technology-driven. Our ability to meet the needs of our customers competitively, and in a cost-efficient manner, is dependent on our ability to keep pace with technological advances and to invest in new technology as it becomes available. Many of our competitors have greater resources to invest in technology than we do and may be better equipped to market new technology-driven products and services. The ability to keep pace with technological change is important, and the failure to do so on our part could have a material adverse impact on our business and therefore on our financial condition and results of operations.

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.

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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. 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.

Legislation proposing significant structural reforms to the financial services industry considered in the U.S. Congress has, among other things, created the Consumer Financial Protection Bureau, which gives broad authority to regulate financial service providers and financial products. In addition, the Federal Reserve Bank has passed guidance on incentive compensation at the banking organizations it regulates and the United States Department of the Treasury and the federal banking regulators have issued statements calling for higher capital and liquidity requirements for banking organizations. Complying with any new legislative or regulatory requirements, and any programs established there under by federal and state governments to address the current economic crisis, could have an adverse impact on our results of operations and our ability to fill positions with the most qualified candidates available.

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.

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We are a controlled company within the meaning of the Nasdaq rules and, as a result, we qualify for, and rely on, exemptions from certain corporate governance requirements.

PNBK Holdings LLC controls a majority of our voting common stock. As a result, we are a controlled company within the meaning of Nasdaq corporate governance standards. Under the Nasdaq rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a controlled company and we utilize exemptions relating to certain Nasdaq corporate governance requirements, including:

- The requirement that we have a Nominating and Governance Committee that is composed entirely of independent directors;
- The requirement that we have a Compensation Committee that is composed entirely of independent directors; and
- The requirement for an annual performance evaluation of the Nominating and Governance and Compensation Committees.

As a result of these exemptions, our Nominating and Governance Committee and Compensation Committee do not consist entirely of independent directors and we are not required to have an annual performance evaluation of the Nominating and Governance and Compensation Committees. Accordingly, a holder of our common stock will not have the same protections afforded to stockholders of companies that are subject to all of the Nasdaq corporate goverance requirements.

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Item 1B. Unresolved Staff Comments
None.

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 Bank purchased the main Stamford branch and the Greenwich branch in 2013. One branch is owned and the Bank s eight other branch banking offices, additional administrative and operational office space are leased. The Bank also leases space at its main office for additional parking. Lease commencement dates for office locations range from April 2003 to July 2012 and lease expiration dates fall between August 2014 and July 2017. Most of the leases contain rent escalation provisions, as well as renewal options for one or more periods.

The Bank has licensed excess space in two of its locations to an attorney and three independent companies. See also Item 13. 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
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.

Item 4. Mine Safety Disclosures
Not applicable.

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PART II

Item 5. Market for Registrant s 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, 2013, the last sale price for Bancorp Common Stock on the NASDAQ Global Market was $1.04

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.

	2013			2012		
	Sales Price		Cash Dividends	Sales Price		Cash Dividends
Quarter Ended	**High**	**Low**	**Declared**	**High**	**Low**	**Declared**
March 31	$ 1.72	$ 1.05	$	$ 1.88	$ 1.69	$
June 30	1.63	1.17		1.88	1.52	
September 30	1.48	1.29		1.75	1.45	
December 31	1.39	1.01		1.63	1.03	

Holders

There were approximately 774 shareholders of record of Bancorp Common Stock as of December 31, 2013. 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, 2013, 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 has also imposed dividend restrictions on Bancorp.

Recent Sales of Unregistered Securities

During the fourth quarter of 2013, Bancorp did not have any sales of unregistered securities.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

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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.

	Total Return					
	12/31/2008	**12/31/2009**	**12/31/2010**	**12/31/2011**	**12/31/2012**	**12/31/2013**
PNBK	**100**	**22.6**	**30.7**	**25.5**	**18.2**	**15.2**
.BANK	**100**	**81.5**	**91.2**	**79.9**	**92.5**	**128.4**
.SPX	**100**	**123.5**	**139.2**	**139.2**	**157.9**	**204.6**

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Item 6. Selected Financial Data

	At or for the year ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Operating Data:					
Interest and dividend income	$ 21,654,103	$ 25,216,517	$ 28,332,309	$ 35,608,891	$ 42,968,080
Interest expense	4,853,585	7,419,452	8,510,443	13,474,543	24,359,828
Net interest income	16,800,518	17,797,065	19,821,866	22,134,348	18,608,252
Provision for loan losses	970,214	(2,379,223)	7,464,427	7,714,000	13,089,000
Non-interest income	2,425,715	3,273,496	3,411,477	2,354,240	2,946,480
Non-interest expense	25,883,749	23,985,948	31,228,402	31,948,533	30,131,588
(Benefit) provision for income taxes	(338,784)			225,000	2,213,750
Net loss	(7,288,946)	(536,164)	(15,459,486)	(15,398,945)	(23,879,606)
Per Share Data:					
Basic loss per share	(0.19)	(0.01)	(0.40)	(1.30)	(5.02)
Diluted loss per share	(0.19)	(0.01)	(0.40)	(1.30)	(5.02)
Dividends per share					
Balance Sheet Data:					
Cash and due from banks	34,865,881	70,303,641	54,715,809	136,324,258	97,535,593
Federal funds sold				10,000,000	10,000,000
Short-term investments		710,766	709,567	453,400	263,839
Investment securities	47,738,256	51,293,320	76,185,272	49,765,000	55,177,931
Loans, net	418,148,323	458,793,536	501,227,297	534,531,213	645,205,943
Total assets (2)	541,248,126	617,855,135	665,816,278	784,324,854	866,416,921
Total deposits (1)	430,204,082	497,282,898	544,909,393	646,808,829	761,334,292
Total borrowings	65,248,000	65,248,000	65,248,000	65,248,000	65,248,000
Total shareholders equity	41,840,688	49,567,798	50,549,660	67,172,188	35,861,310

(1) Includes $24.7 million of deposits held for sale at December 31, 2012.

(2) Includes $88,000 of branch assets held for sale at December 31, 2012.

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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 2013 Annual Report on Form 10-K. The preparation of consolidated 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 and 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.

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 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 collateral value if the loan is collateral dependent or observable market price) of the impaired loan is lower than the carrying value of that loan. 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. Under this system, management assigns risk ratings between one and eleven. 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 the Loan Committee.

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The Company provides for loan losses based on the consistent application of our documented allowance for loan loss methodology. Loan losses are charged to the allowance for loans losses and recoveries are credited to it. Additions to the allowance for loan losses are provided by charges against income based on various factors which, in our judgment, deserve current recognition in estimating probable losses. Loan losses are charged-off in the period the loans, or portion thereof, are deemed uncollectible. Generally, the Company will record a loan charge-off (including a partial charge-off) to reduce a loan to the estimated fair value of the underlying collateral, less cost to sell, for collateral dependent loans. The Company regularly reviews the loan portfolio and makes adjustments for loan losses in order to maintain the allowance for loan losses in accordance with U.S. generally accepted accounting principles. The allowance for loan losses consists primarily of the following two components:

(1) Allowances are established for impaired loans (generally defined by the Company as non-accrual loans, troubled debt restructured loans and loans that were previously classified as troubled debt restructurings but have been upgraded). The amount of impairment provided for as an allowance is represented by the deficiency, if any, between the present value of expected future cash flows discounted at the original loan s effective interest rate or the underlying collateral value, less estimated costs to sell, if the loan is collateral dependent, and the carrying value of the loan. Impaired loans that have no impairment losses are not considered for general valuation allowances described below.

(2) General allowances are established for loan losses on a portfolio basis for loans that do not meet the definition of impaired. The portfolio is grouped into similar risk characteristics, primarily loan type, loan-to-value if collateral dependent, and internal risk ratings. Management applies an estimated loss rate to each loan group. The loss rates applied are based on the Company s cumulative prior two year loss experience adjusted, as appropriate, for the environmental factors discussed below. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be more or less than the allowance for loan losses management has established, which could have an effect on the Company s financial results.

The adjustments to the Company s loss experience are based on Management s evaluation of several environmental factors, including:

- Changes in local, regional, national and international economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;

- Changes in the nature and volume of the portfolio and in the terms of the loans;

- Changes in the experience, ability, and depth of lending management and other relevant staff;

- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;

Changes in the quality of the loan review system;

Changes in the value of the underlying collateral for collateral-dependent loans;

The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and

The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

In underwriting a loan secured by real property, we require an appraisal of the property by an independent licensed appraiser approved by the Company s Board of Directors. All appraisals are reviewed by qualified parties independent from the firm preparing the appraisals. The appraisal is subject to review by an independent third party hired by the Company. Management reviews and inspects properties before disbursement of funds during the term of a construction loan. Generally, management obtains updated appraisals when a loan is deemed impaired and if a construction loan, within 120 days prior to the scheduled maturity date. These appraisals may be more limited than those prepared for the underwriting of a new loan.

Each quarter management evaluates the allowance for loan losses and adjust the allowance as appropriate through a provision for loan losses. While the Company uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. In addition, as an integral part of their examination process, the Office of the Comptroller of the Currency will periodically review the allowance for loan losses. The OCC may require the Company to adjust the allowance based on their analysis of information available to them at the time of their examination.

Fair Value Measurements

Bancorp uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

Fair value measurements focus on exit prices in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

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The Company s fair value measurements are classified into a fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three categories within the hierarchy are as follows:

Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.
The asset s or liability s fair value measurement level within the fair value hierarchy is based on the lower level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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, 2013, and no impairment charges were recorded during the year ended December 31, 2013.

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Income taxes

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes a benefit from its tax positions only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information.

The Company s policy for recording interest and penalties related to uncertain tax positions is to record such items as part of its provision for federal and state income taxes.

The periods subject to examination for the Company s Federal returns are the tax years 2008 through 2013. The periods subject to examination for the Company s significant state return, which is Connecticut, are the tax years 2009 through 2013. The Company believes that its income tax filing positions and deductions will be sustained upon examination and does not anticipate any adjustments that will result in a material change in its financial statements. As a result, no reserve for uncertain income tax positions has been recorded.

Recent Economic Developments

There have been significant and historical disruptions in the financial system during the past few 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.

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 financial condition, a higher level of FDIC insurance premiums is assessed.

Summary

During the year ended December 31, 2013, Bancorp took several steps to restructure its balance sheet and operations intended to result in future profitable operations. First, Bancorp repaid $57.0 million of high cost borrowings incurring a prepayment penalty of $4.1 million. Second, Bancorp purchased two branch buildings where the cost of the leases exceeded the cost to own the properties. Third, Bancorp streamlined the branch operations, back office personnel and changed strategy relating to originating mortgages for sale where we had not been able to achieve the scale necessary for success. In this process, Bancorp incurred $522,000 of one-time restructuring expenses. Based on the steps taken during the year, we believe we have positioned Bancorp for profitability and to entertain growth opportunities.

Bancorp reported a net loss of $7.3 million ($.19 loss per share) for 2013 compared to a net loss of $536,000 ($0.01 loss per share) for 2012. The primary reason for the decrease, in addition to the $4.6 million in non-interest expense discussed above, is the decrease in interest and dividend income of $3.6 million due to the lower interest rate environment and smaller investment portfolio than in the prior year, partially offset by a decrease of $2.6 million in interest expense. The provision for loan losses increased $3.3 million when compared to prior year primarily due to an increase of $1.0 million due to additional specific reserves for certain impaired loans and the release of $2.4 million in excess reserves in 2012. Non-interest income decreased $848,000 primarily due to gains recognized in the prior year on the sale of investment securities and loans of $911,000 and $336,000, respectively, partially offset by gains recognized on the sale of branch assets and deposits of $51,000 and increases in loan application fees and mortgage banking activity of $147,000 and $92,000 respectively. Non-interest expenses increased $1.9 million, primarily due to the $4.1 million in prepayment penalties mentioned above, partially offset by the impact of the restructuring charges incurred in 2012 and 2013. Primarily as a result of restructuring charges, salaries and benefits and occupancy and equipment expense decreased $891,000 and $509,000 respectively in 2013. In addition, restructuring charges and asset disposals recorded in 2013 were $522,000 compared to $939,000 recorded in 2012. Regulatory assessments and insurance expense decreased $565,000 and $157,000 respectively. Total assets ended the year at $541.2 million, which represents a decrease of $76.6 million from 2012. Management strategically planned for the reduction in assets in 2013, as part of the Company s ongoing turnaround plan to maintain regulatory capital ratios while incurring the $4.1 million prepayment penalties on borrowings and $0.5 million in restructuring charges.

Net interest income for the year ended December 31, 2013 decreased $1 million, or 5.6%, to $16.8 million as compared to $17.8 million for the year ended December 31, 2012. This is the result of a reduced level of average earning assets and the overall lower interest rate environment.

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Total assets decreased $76.6 million, or 12%, from $617.9 million at December 31, 2012 to $541.2 million during the year as the loan portfolio decreased $40.7 million from $458.8 million at December 31, 2012 to $418.1 million at December 31, 2013. Cash and cash equivalents decreased $36.1 million, or $51%, from $71.0 million at December 31, 2012 to $34.9 million at December 31, 2013 primarily due to a significant but intentional decline in deposits, resulting from the Company s strategic initiative to restructure the balance sheet and the purchase of two branch buildings. The available-for-sale securities portfolio decreased $4.0 million, or 10%, to $37.7 million at December 31, 2013 as compared to $41.7 million at December 31, 2012. Premises and equipment net increased $10.8 million primarily due to the purchase of two branch buildings. Other real estate owned decreased $4.9 million. As of December 31, 2013, for the first time since December 31, 2008, Bancorp had no other real estate owned properties on its balance sheet. Total deposits decreased $67.1 million, or 13%, partially due to a branch sale from $497.3 million at December 31, 2012 to $430.2 million at December 31, 2013. This is reflective of management s pricing strategy to lower the cost of funds and reduce the reliance on higher cost funding products. Total borrowings remain unchanged from December 31, 2012. Shareholders equity decreased $7.7 million from $49.6 million at December 31, 2012 as compared to $41.8 million at December 31, 2013. This is primarily the result of the net loss of $7.3 million and the $569,000 reduction of accumulated other comprehensive income, partially offset by equity award grants of $131,000.

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FINANCIAL CONDITION

Assets

Bancorp s total assets decreased $76.6 million, or 12%, from $617.9 million at December 31, 2012 to $541.2 million at December 31, 2013 as the Bank reduced its concentration of residential loans by $12.8 million primarily through loan sales. Commercial real estate loans decreased $24.3 million, primarily due to loan payoffs. Consumer home equity loans decreased $5.1 million and construction loans continued to pay off and overall balances were reduced by $4.7 million or 94.8%. Construction to permanent loans increased $6.5 million. Interest bearing deposits decreased $34.3 million compared to December 31, 2012, primarily due to a branch sale and the planned reduction of higher cost deposit accounts to achieve net interest margin and the low interest rate environment.

Investments

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

	2013	2012	2011
U. S. Government Agency bonds	$ 7,079,350	$ 7,526,170	$ 5,037,085
U. S. Government Agency mortgage-backed securities	21,752,212	25,706,891	50,049,429
Corporate bonds	8,869,794	8,486,259	11,383,458
Federal Reserve Bank stock	1,444,300	1,730,200	1,707,000
Federal Home Loan Bank stock	4,142,600	4,343,800	4,508,300
Other investments	4,450,000	3,500,000	3,500,000
Total Investments	$ 47,738,256	$ 51,293,320	$ 76,185,272

Total investments decreased $3.6 million, or 6.9%, primarily due to principal payments of $3.3 million on the government agency mortgage-backed securities and an increase in the unrealized loss of $569,000 on available for sale securities. In addition, there were stock repurchases of $286,000 and $201,000 in Federal Reserve Bank stock and Federal Home Loan Bank stock, respectively. These were partially offset with a purchase of other investments of $950,000.

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The following table presents the maturity distribution of available-for-sale investment securities at December 31, 2013 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 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 bonds	$	$ 2,500,000	$ 5,000,000	$	$	$ 7,500,000	1.83%
U. S. Government Agency mortgage-backed securities					22,387,986	22,387,986	2.15%
Corporate bonds			9,000,000			9,000,000	1.71%
Total	$	$ 2,500,000	$ 14,000,000	$	$ 22,387,986	$ 38,887,986	1.99%
Weighted average yield		1.34%	1.84%		2.15%	1.99%	

The following table presents a summary of investments for any issuer that exceeds 10% of shareholders equity at December 31, 2013:

	Amortized Cost	Fair Value
Available for sale securities:		
U. S. Government Agency mortgage-backed securities and bonds	$ 29,887,986	$ 28,831,562
Other Investments:		
Solomon Hess SBA Loan Fund LLC	$ 4,450,000	$ 4,450,000

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Loans

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

	2013	2012	2011	2010	2009
Real Estate					
Commercial	$ 223,165,092	$ 247,495,321	$ 215,659,837	$ 228,842,489	$ 230,225,306
Residential	106,198,275	119,033,025	188,108,855	187,058,318	195,571,225
Construction	260,000	4,997,991	12,306,922	63,889,083	154,457,082
Construction to permanent	11,303,002	4,851,768	10,012,022	10,331,043	15,989,976
Commercial	35,061,249	36,428,751	31,810,735	14,573,790	19,298,505
Consumer home equity	44,080,895	49,180,908	49,694,546	42,884,962	44,309,265
Consumer and other	2,989,662	2,162,718	2,164,972	1,932,763	1,155,059
Total loans	423,058,175	464,150,482	509,757,889	549,512,448	661,006,418
Premiums on purchased loans	200,180	219,649	231,125	242,426	131,993
Net deferred costs (fees)	570,657	439,041	622,955	150,440	(138,350)
Allowance for loan losses	(5,680,689)	(6,015,636)	(9,384,672)	(15,374,101)	(15,794,118)
Loans, net	$ 418,148,323	$ 458,793,536	$ 501,227,297	$ 534,531,213	$ 645,205,943

Bancorp s net loan portfolio decreased $40.6 million, or 8.9%, to $418.1 million at December 31, 2013 from $458.8 million at December 31, 2012. The decline in the loan portfolio was primarily the result of sales of residential real estate loans and loan payoffs. Significant decreases in the portfolio include a $24.3 million decrease in commercial loans, $12.8 million decrease in residential loans, $5.1 million decrease in consumer home equity loans and a $4.7 million decrease in construction loans. These were partially offset with a $6.5 million increase in construction to permanent loans. The allowance for loan losses decreased by $335,000. The decline in the loan portfolio in 2013 primarily reflects management s decision to reduce a growing concentration in lower yielding residential real estate loans.

At December 31, 2013, the net loan to deposit ratio was 97% and the net loan to asset ratio was 77%. At December 31, 2012, the net loan to deposit ratio was 92%, and the net loan to asset ratio was 74%. Excluding the deposits held for sale at December 31, 2012, the net loan to deposit ratio was 97%.

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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, 2013, 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	$ 4,374,526	$ 30,856,845	$ 187,933,721	$ 223,165,092
Residential real estate			106,198,275	106,198,275
Construction loans	260,000			260,000
Construction to permanent loans	1,197,474		10,105,528	11,303,002
Commercial loans	8,322,710	16,454,884	10,283,655	35,061,249
Consumer home equity		97,520	43,983,375	44,080,895
Consumer and other	9,981	1,491,833	1,487,848	2,989,662
Total	$ 14,164,691	$ 48,901,082	$ 359,992,402	$ 423,058,175
Fixed rate loans	$ 992,370	$ 30,566,049	$ 26,698,925	$ 58,257,344
Variable rate loans	13,172,321	18,335,033	333,293,477	364,800,831
Total	$ 14,164,691	$ 48,901,082	$ 359,992,402	$ 423,058,175

Loan Concentrations

The Bank has no concentrations of loans other than those disclosed in the above summary loan portfolio table. Commercial real estate plus construction represents 55.5% of total loans, up from 55.4% at December 31, 2012.

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 quarterly 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 $335,000 from December 31, 2012 to December 31, 2013 primarily due to a reduction in loan balances and the improved credit quality of the loan portfolio.

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As of the first quarter of 2012, the Bank had used a 12 quarter un-weighted average to calculate loss history. Beginning in the second quarter of 2012, the Bank implemented changes to the allowance methodology, resulting in a reduction of the allowance for loan losses of $1.1 million. In making this transition, the changes serve to update the methodology to reflect the direction of the current loan portfolio. The changes are threefold:

First, the Bank adopted a two year, instead of a three year, weighted average historical loss factor as the basis for the calculation of its historical loss experience. This is used to calculate expected losses in the ASC 450-20, *Contingencies* pools prior to the application of qualitative risk adjustment factors. Weightings were allocated 59% to the last four quarters and 41% to the previous four quarters. This change was made to be more responsive to the changing credit environment. Net charge-offs have declined. This shorter average historical loss period will produce results more indicative of the current period and expected behavior of the portfolio.

Second, the Bank adopted an Internal Risk Ratings Based (IRB) approach to calculating historical loss rates. This approach calibrates expected losses with actual risk assessment and equates the likelihood of loss to the level of risk in a credit facility rating. All loans are reviewed annually. Similarly, the Loan Committee can adjust a risk rating. Previously, loss history was applied to categories of loans and adjusted by qualitative factors apportioned by risk rating within the categories.

Third, the Bank increased the detail of analysis within the segments, particularly within Commercial Real Estate lending, which is currently the Bank s largest concentration overall, by expanding the number of ASC 450-20 pools. In all, ten sub-concentrations have been added to the analysis. The greater level of detail enables the Bank to better apply qualitative risk adjustment factors to the segments affected and to monitor changes in credit risk within the portfolio.

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. 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, future payments are reasonably assured, and there is 6 months of performance.

Management considers all non-accrual loans and troubled debt restructurings 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.

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Analysis of Allowance for Loan Losses

	2013	2012	2011	2010	2009
			(thousands of dollars)		
Balance at beginning of period	$ 6,016	$ 9,385	$ 15,374	$ 15,794	$ 16,247
Charge-offs:					
Commercial real estate	(403)	(50)	(2,941)	(2,560)	(2,380)
Residential real estate	(918)	(85)	(1,458)	(600)	(356)
Construction	(205)	(101)	(3,305)	(4,726)	(9,097)
Commercial	(63)	(48)	(375)	(396)	(468)
Consumer home equity	(58)	(745)	(150)	(46)	(1,378)
Consumer	(21)	(41)	(24)	(42)	(51)
Total charge-offs	(1,668)	(1,070)	(8,253)	(8,370)	(13,730)
Recoveries	363	80	854	236	188
Net charge-offs	(1,305)	(990)	(7,399)	(8,134)	(13,542)
Additions charged to operations	970	(2,379)	7,464	7,714	13,089
Transferred to held-for-sale			(6,054)		
Balance at end of period	$ 5,681	$ 6,016	$ 9,385	$ 15,374	$ 15,794
Ratio of net charge-offs during the period to average loans outstanding during the period	0.29%	0.20%	1.52%	1.32%	1.81%
Ratio of ALLL / Gross Loans	1.34%	1.29%	1.84%	2.80%	2.39%

Allocation of the Allowance for Loan Losses

Balance at end of each period applicable to:	Amounts (thousands of dollars) 2013	2012	2011	2010	2009	Percent of loans in each category to total loans 2013	2012	2011	2010	2009
Real Estate:										
Commercial	$ 1,585	$ 3,509	$ 4,019	$ 7,633	$ 5,752	52.75%	53.32%	42.31%	41.64%	34.83%
Residential	795	897	2,551	2,364	1,575	25.10%	25.65%	36.90%	34.04%	29.59%
Construction	260	311	867	3,478	6,557	0.06%	1.08%	2.41%	11.63%	23.37%
Construction to permanent	25	19	547	492	93	2.67%	1.05%	1.96%	1.88%	2.42%
Commercial	2,285	942	882	441	521	8.29%	7.85%	6.24%	2.65%	2.92%
Consumer installment	101	33	55	80	47	10.42%	10.60%	0.42%	0.35%	0.17%
	433	184	404	498	703	0.71%	0.47%	9.76%	7.81%	6.70%

Consumer home equity										
Unallocated	197	121	60	388	546	N/A	N/A	N/A	N/A	N/A
Total	$ 5,681	$ 6,016	$ 9,385	$ 15,374	$ 15,794	100.00%	100.00%	100.00%	100.00%	100.00%

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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.

	2013	2012	2011	2010	2009
		(thousands of dollars)			
Loans delinquent over 90 days still accruing	$ 866	$ 2,234	$ 9,461	$ 3,374	$ 3,571
Non-accrual loans	12,308	23,810	20,683	89,150	113,537
	$ 13,174	$ 26,044	$ 30,144	$ 92,524	$ 117,108
% of Total Loans	3.11%	5.60%	5.91%	16.83%	17.72%
% of Total Assets	2.44%	4.22%	4.53%	11.80%	13.52%
Additional income on non-accrual loans if recognized on an accrual basis	$ 545	$ 1,172	$ 2,275	$ 6,618	$ 5,312

Included in non-accruing loans were loans of $7.8 million and $3.5 million as of December 31, 2013 and 2012, respectively that were current within 30 days as to payments. Loans past due ninety days or more, and still accruing interest were $866,000 and $2.2 million at December 31, 2013 and December 31, 2012, respectively. Loans over 90 days past due were comprised of two loans as of December 31, 2013; one loan for $841,000 was current and a $25,000 loan was current within 60 days as to interest payments. Both loans were past the loan s maturity date and are in the process of being renewed. Four of the five loans as of December 31, 2012, totaling $1,667,000, were making payments, but past the loan s maturity date and are in the process of being renewed. The other loan totaling $567,000 was over 90 days past due as to payments and past the loan s maturity date, but was subsequently paid off in 2013.

During 2013, 2012 and 2011, interest income collected and recognized on impaired loans was $773,637, $230,900 and $464,785 respectively.

At December 31, 2013, there were two loans totaling $2.2 million that were considered troubled debt restructurings, as compared to 8 loans totaling $11.6 million that were considered troubled debt restructurings at December 31, 2012, all of which are considered impaired loans. Loan modifications, which resulted in these loans being considered troubled debt restructurings, are primarily in the form of rate concessions or term extensions. There were no commitments to advance additional funds under modified terms for these loans.

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The Company s most recent impairment analysis resulted in identification of $22.0 million of impaired loans, for which specific reserves of $1.9 million were required at December 31, 2013, compared to $33.4 million of impaired loans at December 31, 2012, for which specific reserves of $968,000 were required. The $22.0 million of impaired loans at December 31, 2013 is comprised of exposure to 22 borrowers, compared to the $33.4 million of impaired loans at December 31, 2012 which was comprised of exposure to 30 borrowers. In all cases, the Bank has obtained current appraisal reports from independent licensed appraisal firms and reduced those values for estimated selling expenses to determine estimated impairment.

The non-performing loans decreased from $23.8 million at December 31, 2012 to $12.3 million at December 31, 2013. The $12.3 million of non-performing loans was comprised of 15 borrowers at December 31, 2013, compared to 24 borrowers at December 31, 2012. The non-performing loans peaked at $137.9 million at September 30, 2009. The decrease in the number of non-performing loans represents the Bank s continuous focus on the workout effort.

Based upon the overall assessment and evaluation of the loan portfolio, management believes the allowance for loan losses of $5.7 million, at December 31, 2013, which represents 1.34% of gross loans outstanding, is adequate under prevailing economic conditions, to absorb existing losses in the loan portfolio. At December 31, 2012, the allowance for loan losses was $6.0 million, or 1.29%, of gross loans outstanding. The loan portfolio was reduced by $40.6 million, or 8.9%.

Other Real Estate Owned

The following table is a summary of Bancorp s other real estate owned as of December 31, 2013 and 2012.

	December 31, 2013	December 31, 2012
Residential construction	$	$ 1,109,204
Commercial		
Residential real estate		3,764,640
Other real estate owned	$	$ 4,873,844

There was no other real estate owned at December 31, 2013. The balance of other real estate owned at December 31, 2012 was comprised of two properties, all of which were obtained through loan foreclosure proceedings. During the year ended December 31, 2013, the Bank did not acquire any properties and two properties were sold with an aggregate carrying value of $5.0 million. During the year ended December 31, 2012, the Bank acquired three properties and sold four properties with an aggregate carrying value of $3.2 million.

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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, 2013. The deferred tax position has been affected by several significant transactions in prior years. These transactions include the change in ownership, in addition to, the increased provision for loan losses, the 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, 2013, 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 $18.1 million against its deferred tax asset at December 31, 2013. 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.

Deposits

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

	2013	2012	2011
Non-interest bearing	$ 55,358,161	$ 65,176,125	$ 65,613,374
Interest bearing			
Certificates of deposit, less than $100,000	129,548,033	160,610,601	198,207,998
Certificates of deposit, $100,000 or more	106,387,098	121,142,374	144,405,859
Money markets	29,309,657	42,401,428	52,889,642
Savings	80,982,920	77,760,967	59,396,310
NOW	28,618,213	30,191,403	24,396,210
Total interest bearing	374,845,921	432,106,773	479,296,019
Total deposits (1)	$ 430,204,082	$ 497,282,898	$ 544,909,393

(1) Included in total deposits are $24.7 million of deposits held for sale at December 31, 2012.

Total deposits decreased $67.1 million, or 14%, to $430.2 million at December 31, 2013. During the second quarter, the bank sold $14.5 million of branch deposits. Interest bearing deposits decreased $57.3 million, or 13%, to $374.8 million while non-interest bearing deposits decreased $9.8 million, or 15%, to $55.4 million at December 31, 2013.

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Certificates of deposit decreased by $45.8 million, which represents a decrease of 16% when compared to last year. Certificates of deposit less than $100,000 and certificates of deposit greater than $100,000 decreased by $31.1 million, or 19%, and $14.8 million, or 12%, respectively. This is a result of management intentionally allowing higher rate certificates of deposit to mature. Money market fund accounts decreased $13.1 million, or 31%. This is a result of the lower interest rates paid on these products in the current environment. NOW accounts decreased $1.6 million, or 5%. These were partially offset by an increase in savings accounts of $3.2 million, or 4% as compared to last year.

As of December 31, 2013, the Bank s maturities of time deposits were:

	Less than $100,000	**$100,000 or greater**	**Totals**
	(thousands of dollars)		
Three months or less	$ 45,351	$ 37,461	$ 82,812
Four to six months	33,323	22,055	55,378
Seven months to one year	32,417	29,948	62,365
Over one year	18,457	16,922	35,380
Total	$ 129,548	$ 106,387	$ 235,935

Borrowings

Borrowings remain unchanged at $65.2 million at December 31, 2013 as compared to December 31, 2012. Borrowings at December 31, 2013 are comprised of $57 million in Federal Home Loan Bank Advances and $8.2 million in junior subordinated debentures. Borrowings at December 31, 2012 are comprised of $50 million in Federal Home Loan Bank Advances, $7 million in securities sold under repurchase agreements and $8.2 million in junior subordinated debentures.

The Bank had $57 million in short-term borrowings from the Federal Home Loan Bank outstanding at December 31, 2013 compared to no short-term borrowings at December 31, 2012. In addition, at December 31, 2013, the Bank had no advances from the Federal Home Loan Bank with maturities greater than one year, compared to $50 million in Federal Home Loan Bank advances for the same period in 2012.

Shareholders Equity

Shareholders equity decreased $7.7 million from $49.6 million at December 31, 2012 as compared to $41.8 million at December 31, 2013. This is the result of the net loss of $7.3 million and the $569,000 reduction of accumulated other comprehensive income, partially offset by equity award grants of $131,000.

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Other

The aggregate cash surrender value of the bank-owned life insurance at December 31, 2013 increased $523,000 to $22.0 million due to income earned of $523,000 for the year.

The decrease in accrued interest receivable is due to lower outstanding balances in loans at year end and lower yields on the current portfolio.

Premises and equipment increased $10.8 million from $4.3 million at December 31, 2012 to $15.1 million at December 31, 2013. This is due primarily to the purchases of two branch locations of $11.3 million and equipment and software licenses of $278,000 and $125,000 respectively, partially offset by asset disposals of $616,000, in addition to the amortization associated with leasehold improvements, furniture and fixtures, and equipment.

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The following table presents average balance sheets (daily averages), interest income, interest expense and the corresponding yields earned and rates paid:

Distribution of Assets, Liabilities and Shareholder s Equity

Interest Rates and Interest Differential and Rate Volume Variance Analysis [1]

(thousands of dollars)

	2013			2012			2011			2013 vs. 2012 Fluctuations Interest Income/Expense [3] Due to Change in:			20 Inte
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Volume	Rate	Total	Vol
	$ 454,849	$ 20,706	4.55%	$ 494,333	$ 23,482	4.75%	$ 487,826	$ 25,958	5.32%	$ (1,817)	$ (959)	$ (2,776)	$ 3
	32,022	60	0.19%	55,638	98	0.18%	62,519	144	0.23%	(42)	4	(38)	
	49,070	888	1.81%	60,799	1,636	2.69%	80,121	2,230	2.78%	(278)	(469)	(747)	(5
ts	$ 535,941	$ 21,654	4.04%	$ 610,770	$ 25,216	4.13%	$ 630,466	$ 28,332	4.49%	(2,137)	(1,424)	(3,561)	(1
	3,337			4,660			19,695						
	(5,813)			(7,771)			(12,386)						
	35,328			32,206			37,572						
	$ 568,793			$ 639,865			$ 675,347						
	$ 253,714	$ 3,422	1.35%	$ 313,693	$ 4,932	1.57%	$ 343,625	$ 5,947	1.73%	$ (872)	$ (638)	$ (1,510)	$ (4
	87,676	350	0.40%	66,137	331	0.50%	56,391	235	0.42%	94	(75)	19	
	35,268	40	0.11%	46,944	72	0.15%	67,815	89	0.13%	(15)	(17)	(32)	
	29,337	9	0.03%	25,617	16	0.06%	23,086	12	0.05%	2	(9)	(7)	
	43,818	666	1.52%	54,320	1,459	2.69%	50,000	1,632	3.26%	(244)	(549)	(793)	1
	8,248	284	3.44%	8,248	300	3.64%	8,248	286	3.47%		(16)	(16)	
	1,860	82	4.41%	7,000	309	4.41%	7,000	309	4.41%	(227)	(0)	(227)	
	$ 459,921	$ 4,853	1.06%	$ 521,959	$ 7,419	1.42%	$ 556,165	$ 8,510	1.53%	(1,262)	(1,304)	(2,566)	(3
	59,892			61,586			57,548						
	4,606			5,370			5,705						
	44,374			50,950			55,929						
	$ 568,793			$ 639,865			$ 675,347						

$ 16,801	$ 17,797	$ 19,822	$ (875)	$ (120)	$ (995)	$
3.13%	2.91%	3.14%				
2.98%	2.71%	2.96%				

(1) The rate volume analysis reflects the changes in net interest income arising from changes in interest rates and from asset and liability volume, including mix. The change in interest attributable to volume includes changes in interest attributable to mix.

(2) Includes non-accruing loans

(3) Favorable/(unfavorable) fluctuations.

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RESULTS OF OPERATIONS

Comparison of Results of Operations for the years 2013 and 2012

For the year ended December 31, 2013, Bancorp recorded a net loss of $7.3 million ($0.19 per share) compared to a net loss of $536,000 ($0.01 per share) for the year ended December 31, 2012.

Net interest income decreased 5.6% from $17.8 million for the year ended December 31, 2012 to $16.8 million for the year ended December 31, 2013. Total interest and dividend income was $3.6 million, or 14.13%, lower in 2013 compared to the prior year as a result of lower outstanding average earning assets, loan payoffs on loans carrying interest rates higher than current market rates and new loan originations at rates lower than maintained in the portfolios in 2012.

Total interest expense decreased from $7.4 million for the year ended December 31, 2012 to $4.9 million for the year ended December 31, 2013. Interest expense was lower in 2013 as a result of a decrease in the level of outstanding average interest bearing deposits, reduced dependence upon high cost term deposits as a funding source, the reduction in interest rates due to the prepayment of high cost FHLB borrowings and the overall lower interest rate environment.

Noninterest income was $2.4 million for the year ended December 31, 2013 compared to $3.3 million for the year ended December 31, 2012. The decrease was caused primarily from the gain on the sale of investment securities in 2012 of $911,000.

Total non-interest expense of $25.9 million for 2013 was $1.9 million higher than the $24.0 million recorded for 2012. Prepayment penalties on the high cost borrowings were $4.1 million. Restructuring charges relating to branch closings, asset disposals and reduction in back office personnel accounted for $522,000, compared to $939,000 in 2012. Salaries and benefits, occupancy and equipment expense and insurance expense all showed significant improvement primarily as a result of restructuring initiatives implemented in 2013. Regulatory assessments decreased $565,000 as a result of management s ongoing strategies.

The following are measurements relating to Bancorp s earnings:

	2013	2012	2011
Loss on average assets	(1.28%)	(0.08%)	(2.29%)
Loss on average equity	(16.43%)	(1.05%)	(27.64%)
Dividend payout ratio	N / A	N / A	N / A
Average equity to average assets	7.80%	7.96%	8.28%
Loss per share	$ (0.19)	$ (0.01)	$ (0.40)

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Interest income and expense

Bancorp s net interest income of $16.8 million for the year ended December 31, 2013 was $1.0 million, or 5.60% less than the $17.8 million recorded for the year ended December 31, 2012. Total interest and dividend income of $21.7 million was $3.4 million, or 14.13%, lower than the $25.2 million recorded in 2012. Average interest earning assets decreased from $610.8 million in 2012 to $535.9 million in 2013. Average loans outstanding decreased from $494.3 million to $454.8 million. The average yield on the portfolio decreased from 4.75% in 2012 to 4.55% in 2013. The lower yield on the portfolio was due to the pay off of loans in the portfolio at rates currently higher than market and the closing of new loans at rates currently lower than the average yield of the portfolio. Average investments outstanding during the year were $11.8 million lower than the $60.8 million maintained during 2012 as Bancorp did not want to commit additional funds to longer term investments during this historically low interest rate environment. The yield on the portfolio declined from 2.69% in 2012 to 1.81% in 2013 due to sales of higher yielding instruments in 2012. Cash equivalents decreased from an average outstanding of $55.6 million in 2012 to $32.0 million in 2013 with a corresponding yield of 18 basis points for both years. The reduction in excess liquidity was used to pay off higher yielding certificates of deposits and high cost borrowings, and therefore, had a positive impact on the net interest margin.

Total interest expense decreased from $7.4 million in 2012 to $4.9 million in 2013. The variance of $2.6 million, or 35%, was due to both lower levels of average outstanding interest bearing liabilities and a significant reduction in the cost of funds for the deposit portfolio and FHLB advances. Total interest expense on certificates of deposit decreased by $1.5 million, or 31%, from $4.9 million in 2012 to $3.4 million in 2013. The portfolio dropped from $313.7 million with a cost of funds of 1.57% to $253.7 million in 2013 at a cost of 1.35%. The reduction in the portfolio was based upon management s strategy to use overnight investments to pay off rate sensitive certificates of deposit as they mature thereby improving the net interest margin and strengthening the overall capital position. Savings accounts increased by $21.5 million during the year based upon the growth in a new core relationship product with a short term promotional introductory rate. The overall cost of funds for savings decreased by 10 basis points during the year and interest expense increased by $19,000. Interest expense on FHLB advances decreased by $793,000, or 54%, as Bancorp restructured certain high cost advances in 2013 by lowering the average cost of funds from 2.69% to 1.52%. Total borrowings remain unchanged at $57.0 million as of both December 31, 2012 and December 31, 2013.

Management regularly reviews loan and deposit rates and attempts to price Bancorp s products competitively. Bancorp tracks its mix of asset/liability maturities and strives to maintain a reasonable match. Performance ratios are reviewed monthly by management and the Board and are used to set strategies.

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Provision for loan losses

During 2013 Bancorp recorded a provision of $1.0 million compared to a credit to the provision of approximately $2.4 million in 2012. The $1.0 million charge to the provision was a specific reserves for one loan. The $2.4 million credit to the provision for 2012 was based upon management s evaluation of the adequacy of the allowance for loan losses. Overall credit quality has improved and recoveries from previously charged-off loans were $363,000 in 2013 compared to $80,000 in 2012. Total criticized loans decreased by $39.6 million from $67.8 million at December 31, 2012 to $28.2 million at December 31, 2013. Bancorp continues to maintain conservative underwriting standards including minimum loan to value ratios. In addition, the size of the loan portfolio has been reduced with loans receivable of $418.1 million at December 31, 2013 being $40.6 million, or 9%, lower than the prior year end. During the second quarter of 2012 management implemented changes to the methodology for calculating the allowance for loan losses in order to enhance the methodology and better reflect the direction of the loan portfolio.

A more detailed description of the change in methodology and an analysis of the change in the allowance for loan losses is presented under the discussion entitled Allowance for Loan Losses within the critical accounting policies section above.

Non-interest income

Non-interest income decreased by $848,000, or 26%, from $3.3 million in 2012 to $2.4 million in 2013. Gains on the sale of investment securities and loans were lower by $911,000 and $308,000, respectively, primarily due to investment sales and bulk loan sales in 2012. Excluding these non-recurring items non-interest income increased in 2013. Fees and service charges were lower by $113,000, or 13%, primarily due to a reduction in the size of the balance sheet. These decreases in non-interest income were more than offset by an increase in loan applications, inspection and processing fees of $147,000, an increase in mortgage banking activity of $92,000 and the gain recognized on the sale of branch assets and deposits of $51,000.

Non-interest expense

Non-interest expense increased $1.9 million, or 8%, from $24.0 million for the year ended December 31, 2012 to $25.9 million for the year ended December 31, 2013. Prepayment penalties on the high cost borrowings were $4.1 million of the increase, partially offset with lower restructuring charges of $418,000. Excluding these non-recurring expenses, non-interest expense decreased by 1.8 million. Salaries and benefits were reduced by $0.9 million, or 8%, in 2013, occupancy and equipment expense was lower by $509,000, or 12% and insurance expense decreased $157,000, primarily due to fewer branch facilities requiring property and casualty insurance. Regulatory assessments decreased $565,000. Data processing expense decreased $173,000 primarily due to changes in a service contract.

Income Taxes

As of December 31, 2013, Bancorp continued to maintain a full valuation allowance of $18.1 million against the net deferred tax asset. The possibility of further loan losses, coupled with Bancorp s losses which began in the third quarter of 2008, creates sufficient uncertainty regarding the Company s ability to realize these deferred tax assets. In future periods, if it becomes more likely that these assets can be utilized, Bancorp may reverse some or all of the valuation allowance. Evidence to substantiate reversing the allowance would include sustained profitability.

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Comparison of Results of Operations for the years 2012 and 2011

Bancorp recorded improved operating results for the year ended December 31, 2012, reporting a net loss of $536,000 ($0.01 per share) compared to a net loss of $15.5 million ($0.40 per share) for the year ended December 31, 2011. The primary reasons for the improved operating performance were a reduction in the provision for loan losses of $9.8 million, a decrease in restructuring charges and asset disposals of $2.0 million, lower salaries and benefits and occupancy and equipment expense of $2.3 million as a result of the restructuring charges recorded in 2011 and an improvement of $936,000 in other real estate operations due to fewer properties acquired through foreclosure.

Net interest income decreased 10% from $19.8 million for the year ended December 31, 2011 to $17.8 million for the year ended December 31, 2012. Total interest and dividend income was $3.1 million, or 11%, lower in 2012 compared to the prior year as a result of lower outstanding average earning assets, loan payoffs on loans carrying interest rates higher than current market rates and new loan originations and investment purchases at rates lower than maintained in the portfolios in 2011.

Total interest expense decreased from $8.5 million for the year ended December 31, 2011 to $7.4 million for the year ended December 31, 2012. Interest expense was lower in 2012 as a result of a decrease in the level of outstanding average interest bearing deposits, reduced dependence upon high cost term deposits as a funding source and the overall lower interest rate environment.

Noninterest income was $3.3 million for the year ended December 31, 2012 compared to $3.4 million for the year ended December 31, 2011. The variance was caused primarily from a reduction of $108,000 in fees and service charges.

Total non-interest expense of $24.0 million for 2012 was $7.2 million lower than the $31.2 million recorded for 2011. Restructuring charges relating to branch closings and asset disposals and reduction in back office personnel accounted for $2.0 million of the reduction. Lower expenses from other real estate operations accounted for a $936,000 improvement in total operating costs. Salaries and benefits, occupancy and equipment expense, professional and outside services and advertising and promotional expense all showed significant improvement as a result of cost containment programs implemented in 2011.

The following are measurements relating to Bancorp s earnings:

	2012	2011	2010
Loss on average assets	(0.08%)	(2.29%)	(1.89%)
Loss on average equity	(1.05%)	(27.64%)	(37.88%)
Dividend payout ratio	N / A	N / A	N / A
Average equity to average assets	7.96%	8.28%	4.98%
Loss per share	$ (0.01)	$ (0.40)	$ (1.30)

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Interest income and expense

Bancorp s net interest income of $17.8 million for the year ended December 31, 2012 was $2.0 million, or 10% less than the $19.8 million recorded for the year ended December 31, 2011. Total interest and dividend income of $25.2 million was $3.1 million, or 11%, lower than the $28.3 million recorded in 2011. Average interest earning assets decreased from $630.5 million in 2011 to $610.8 million in 2012. Average loans outstanding increased slightly from $487.8 million to $494.3 million. The average yield on the portfolio decreased from 5.32% in 2011 to 4.75% in 2012. The lower yield on the portfolio was due to the pay off of loans in the portfolio at rates currently higher than market and the closing of new loans at rates currently lower than the average yield of the portfolio. Average investments outstanding during the year were $19.3 million lower than the $80.1 million maintained during 2011 as Bancorp did not want to commit additional funds to longer term investments during this historically low interest rate environment. The yield on the portfolio declined slightly from 2.78% in 2011 to 2.69% in 2012 due to sales of higher yielding instruments. Cash equivalents decreased from an average outstanding of $62.5 million in 2011 to $55.6 million in 2012 with a corresponding drop in yield from 23 basis points to 18 basis points. The reduction in excess liquidity was used to pay off higher yielding certificates of deposit, and therefore, had a positive impact on the net interest margin.

Total interest expense decreased from $8.5 million in 2011 to $7.4 million in 2012. The variance of $1.1 million, or 13%, was due to both lower levels of average outstanding interest bearing liabilities and a significant reduction in the cost of funds for the certificates of deposit portfolio. Total interest expense on certificates of deposit decreased by $1.0 million, or 17%, from $5.9 million in 2011 to $4.9 million in 2012. The portfolio dropped from $343.6 million with a cost of funds of 1.73% to $313.7 million in 2012 at a cost of 1.57%. The reduction in the portfolio was based upon management s strategy to use overnight investments to pay off rate sensitive certificates of deposit as they mature thereby improving the net interest margin and strengthening the overall capital position. Savings accounts increased by $9.7 million during the year based upon the growth in a new core relationship product with a short term promotional introductory rate. The overall cost of funds for savings increased by 8 basis points during the year and interest expense increased by $100,000. Interest expense on FHLB advances decreased by $173,000, or 11%, as Bancorp restructured certain outstanding advances in the fourth quarter of 2011 by extending the term and lowering the rate. Outstanding advances remain at $50 million as of both December 31, 2011 and December 31, 2012.

Management regularly reviews loan and deposit rates and attempts to price Bancorp s products competitively. Bancorp tracks its mix of asset/liability maturities and strives to maintain a reasonable match. Performance ratios are reviewed monthly by management and the Board and are used to set strategies.

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Provision for loan losses

During 2011 Bancorp recorded a charge to the provision for loan losses of $7.5 million compared to a credit to the provision of $2.4 million in 2012. The $7.5 million provision in 2011 was primarily related to $6.0 million of loans transferred to held-for-sale in connection with a bulk loan sale of problem assets. The $2.4 million credit to the provision for 2012 was based upon management s evaluation of the adequacy of the allowance for loan losses. Overall credit quality has improved and charge offs are down from $8.3 million in 2011 to $1.1 million in 2012. Bancorp continues to maintain conservative underwriting standards including low loan to value ratio guidelines. In addition, the size of the loan portfolio has been significantly reduced with loans receivable of $458.8 million at December 31, 2012 being $42.4 million, or 8%, lower than the prior year end. During the second quarter of 2012 management implemented changes to the methodology for calculating the allowance for loan losses in order to enhance the methodology and better reflect the direction of the loan portfolio.

A more detailed description of the change in methodology and an analysis of the change in the allowance for loan losses is presented under the discussion entitled Allowance for Loan Losses within the critical accounting policies section above.

Non-interest income

Non-interest income decreased by $138,000, or 4%, from $3.4 million in 2011 to $3.3 million in 2012. Fees and service charges were lower by $108,000, or 11%, primarily due to a reduction in the size of the balance sheet. Gain on the sale of investment securities was lower by $199,000. Earnings on the cash surrender value of life insurance were down by $119,000, or 19%, due to the lower interest rate environment. These decreases in non-interest income were partially offset by an increase in the gain on the bulk sale of residential loans of $257,000 and an increase in mortgage banking activity of $105,000.

Non-interest expense

Non-interest expense decreased $7.2 million, or 23%, from $31.2 million for the year ended December 31, 2011 to $24.0 million for the year ended December 31, 2012. Restructuring charges and asset disposals accounted for $2.0 million of the decrease as total charges in 2011 of $3.0 million related to the closing of four branches and the reduction in force of back office personnel. Primarily as a result of that restructuring, salaries and benefits were reduced by $1.8 million, or 15%, in 2012 and occupancy and equipment expense was lower by $512,000, or 10%. As a result of improved credit quality and reduced foreclosure activity, other real estate operations were reduced by $936,000. Professional and other outside services decreased from $3.4 million in 2011 to $2.6 million, or 24%, consisting primarily of legal and consulting services relating to loan collection activity. Advertising and promotional expense was lower by $487,000, or 85%, as marketing activities were scaled back in accordance with the overall plan to reduce the size of the balance sheet. The decrease of $398,000, or 46%, in insurance expense is primarily related to lower premiums on D&O insurance coverage and fewer branch facilities requiring property and casualty insurance.

Income Taxes

As of December 31, 2012, Bancorp continued to maintain a full valuation allowance of $15.0 million against the net deferred tax asset. The possibility of further loan losses and higher cost levels associated with carrying nonperforming assets, coupled with Bancorp s losses beginning in the third quarter of 2008, creates sufficient uncertainty regarding the Company s ability to realize these deferred tax assets. In future periods, if it becomes more likely that these assets can be utilized, Bancorp may reverse some or all of the valuation allowance. Evidence to substantiate reversing the allowance would include sustained profitability.

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LIQUIDITY

Bancorp s liquidity position was 13% and 18% at December 31, 2013 and 2012, respectively. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets as described in the accompanying consolidated balance sheets are considered liquid assets: cash and due from banks, federal funds sold, short-term investments and available-for-sale securities. Liquidity is a measure of Bancorp s ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover increases in its loan portfolio and downward fluctuations in deposit accounts. Management believes Bancorp s short-term assets provide sufficient liquidity to satisfy loan demand, cover potential fluctuations in deposit accounts and to meet other anticipated cash requirements.

In addition, the Company has historically had a high retention rate of maturing certificates of deposit. The Company has the ability to modify the rate of retention by adjusting rates and terms on various deposit products.

At December 31, 2013, cash and cash equivalents and securities classified as available-for-sale were $34.9 million and $37.7 million, respectively. In addition to Federal Home Loan Bank advances outstanding at December 31, 2013, the Bank had the ability to borrow an additional $39.0 million from the Federal Home Loan Bank of Boston, which included a $2.0 million overnight line of credit. At December 31, 2013 the Bank had $57.0 million in Federal Home Loan Bank advances, none of which were under the overnight line of credit. The Bank also has the ability to borrow from the Federal Reserve Bank.

The following table presents Bancorp s contractual obligations as of December 31, 2013:

	Total	Less than one year	One to three years	Three to five years	Over five years
Certificates of deposit	$ 235,935,131	$ 200,555,373	$ 22,176,069	$ 13,203,689	$
Junior subordinated debt owed to unconsolidated trust	8,248,000				8,248,000
FHLB Advances	57,000,000	57,000,000			
Operating lease obligations	3,812,637	1,638,568	1,991,091	182,978	
Total contractual obligations	$ 304,995,768	$ 259,193,941	$ 24,167,160	$ 13,386,667	$ 8,248,000

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OFF-BALANCE SHEET ARRANGEMENTS

The following table presents Bancorp s off-balance sheet commitments as of December 31, 2013. These commitments 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 or are contingent upon the customer adhering to the terms of the agreements, the total commitment amounts do not necessarily represent future cash requirements.

Future loan commitments	$ 7,102,437
Home equity lines of credit	28,707,608
Unused lines of credit	40,207,868
Undisbursed construction loans	2,187,752
Financial standby letters of credit	1,117,997
Total commitments	$ 79,323,662

REGULATORY CAPITAL REQUIREMENTS

The Company s and the Bank s actual capital amounts and ratios at December 31, 2013 and 2012 were:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
2013	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
The Company:						
Total Capital (to Risk Weighted Assets)	$ 56,060	13.95%	$ 43,300	8.00%	$ N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	51,027	12.70%	21,650	4.00%	N/A	N/A
Tier 1 Capital (to Average Assets)	51,027	9.33%	21,888	4.00%	N/A	N/A
The Bank:						
Total Capital (to Risk Weighted Assets)	$ 55,758	13.86%	$ 43,270	8.00%	$ 54,087	10.00%
Tier 1 Capital (to Risk Weighted Assets)	50,730	12.61%	21,635	4.00%	32,452	6.00%
Tier 1 Capital (to Average Assets)	50,730	9.28%	21,872	4.00%	27,340	5.00%

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2012	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
The Company:						
Total Capital (to Risk Weighted Assets)	$ 63,253	15.64%	$ 49,447	8.00%	$ N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	58,186	14.39%	24,724	4.00%	N/A	N/A
Tier 1 Capital (to Average Assets)	58,186	9.33%	24,948	4.00%	N/A	N/A
The Bank:						
Total Capital (to Risk Weighted Assets)	$ 61,908	15.31%	$ 49,447	8.00%	$ 61,808	10.00%
Tier 1 Capital (to Risk Weighted Assets)	56,840	14.05%	24,723	4.00%	37,085	6.00%
Tier 1 Capital (to Average Assets)	56,840	9.11%	24,952	4.00%	31,190	5.00%

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. Under the regulatory framework for prompt correction action, to be considered well capitalized, an institution must generally have a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%. However, the OCC has the discretion to require increased capital levels.

Management continuously assesses the adequacy of the Bank s capital with the goal to maintain a well capitalized classification.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

Market risk is defined as the sensitivity of income to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices and other market-driven rates or prices. Based upon the nature of Bancorp s business, market risk is primarily limited to interest rate risk, which is the impact, that changing interest rates have on current and future earnings.

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Qualitative Aspects of Market Risk

Bancorp s goal is to maximize long term profitability while minimizing its exposure to interest rate fluctuations. The first priority is to structure and price Bancorp s assets and liabilities to maintain an acceptable interest rate spread while reducing the net effect of changes in interest rates. In order to accomplish this, the focus is on maintaining a proper balance between the timing and volume of assets and liabilities re-pricing within the balance sheet. One method of achieving this balance is to originate variable rate loans for the portfolio and purchase short term investments to offset the increasing short term re-pricing of the liability side of the balance sheet. In fact, a number of the interest-bearing deposit products have no contractual maturity. Therefore, deposit balances may run off unexpectedly due to changing market conditions. Additionally, loans and investments with longer term rate adjustment frequencies are matched against longer term deposits and borrowings when possible to lock in a desirable spread.

The exposure to interest rate risk is monitored by the Management Asset and Liability Committee consisting of senior management personnel. The Committee meets on a monthly basis, but may convene more frequently as conditions dictate. The Committee reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk. This Committee reports to the Board of Directors on a monthly basis regarding its activities. In addition to the Management Asset Liability Committee, there is a Board Asset and Liability Committee *(ALCO),* which meets quarterly. ALCO monitors the interest rate risk analyses, reviews investment transactions during the period and determines compliance with Bank policies.

Quantitative Aspects of Market Risk

Management analyzes Bancorp s interest rate sensitivity position to manage the risk associated with interest rate movements through the use of interest income simulation and GAP analysis. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest sensitive. An asset or liability is said to be interest sensitive within a specific time period if it will mature or reprice within that time period.

Management s goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income. Interest income simulations are completed quarterly and presented to ALCO. The simulations provide an estimate of the impact of changes in interest rates on net interest income under a range of assumptions. Changes to these assumptions can significantly affect the results of the simulations. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and the changes in spreads between different market rates.

Simulation analysis is only an estimate of Bancorp s interest rate risk exposure at a particular point in time. Management regularly reviews the potential effect changes in interest rates could have on the repayment of rate sensitive assets and funding requirements of rate sensitive liabilities.

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The table below sets forth examples of changes in estimated net interest income and the estimated net portfolio value based on projected scenarios of interest rate increases and decreases. The analyses indicate the rate risk embedded in Bancorp s portfolio at the dates indicated should all interest rates instantaneously rise or fall. The results of these changes are added to or subtracted from the base case; however, there are certain limitations to these types of analyses. Rate changes are rarely instantaneous and these analyses may also overstate the impact of short-term repricings. As a result of the historically low interest rate environment, the calculated effects of the 100 and 200 basis point downward shocks cannot absolutely reflect the risk to earnings and equity since the interest rates on certain balance sheet items have approached their minimums, and, therefore, it is not possible for the analyses to fully measure the entire impact of these downward shocks.

Net Interest Income and Economic Value
Summary Performance
December 31, 2013

	Net Interest Income			**Net Portfolio Value**		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+ 200	16,147	(780)	-4.61%	59,238	(11,808)	-16.62%
+ 100	16,656	(271)	-1.60%	65,079	(5,967)	-8.40%
BASE	16,927			71,046		
- 100	17,124	197	1.16%	78,332	7,286	10.26%
- 200	16,864	(63)	-0.37%	82,687	11,641	16.39%

December 31, 2012

	Net Interest Income			**Net Portfolio Value**		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+ 200	21,113	2,434	13.03%	46,403	(8,067)	-14.81%
+ 100	20,011	1,332	7.13%	50,576	(3,894)	-7.15%
BASE	18,679			54,470		
- 100	18,873	194	1.04%	58,725	4,255	7.81%
- 200	18,819	140	0.75%	69,726	15,256	28.01%

Impact of Inflation and Changing Prices

Bancorp s financial statements have been prepared in terms of historical dollars, without considering changes in relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution s performance than the effect of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. Notwithstanding this, inflation can directly affect the value of loan collateral, in particular, real estate. Inflation, or disinflation, could significantly affect Bancorp s earnings in future periods.

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Item 8. Financial Statements and Supplementary Data

The consolidated balance sheets of Bancorp as of December 31, 2013 and December 31, 2012 and the related consolidated statements of operations, comprehensive income, shareholders equity and cash flows for the years ended December 31, 2013, December 31, 2012 and December 31, 2011, together with the Report of Independent Registered Public Accounting Firm thereon are included as part of this Form 10-K in the Financial Report following page 67 hereof.

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The following table presents selected quarterly financial information (unaudited):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2013:				
Interest income	$ 5,500,846	$ 5,309,621	$ 5,613,497	$ 5,230,139
Interest expense	1,626,444	1,276,840	1,082,335	867,966
Net interest income	3,874,402	4,032,781	4,531,162	4,362,173
Provision for loan losses	(29,786)		1,000,000	
Non-interest income	487,481	768,502	560,023	609,709
Non-interest expense	6,369,716	8,713,114	6,461,133	4,339,786
(Loss) income before income taxes	(1,978,047)	(3,911,831)	(2,369,948)	632,096
Benefit for income taxes	(21,080)			(317,704)
Net (loss) income	$ (1,956,967)	$ (3,911,831)	$ (2,369,948)	$ 949,800
Net (loss) income per common share:				
Basic and diluted	$ (0.05)	$ (0.10)	$ (0.06)	$ 0.03
2012:				
Interest income	$ 7,186,581	$ 6,310,430	$ 5,983,118	$ 5,736,388
Interest expense	2,027,174	1,927,365	1,750,642	1,714,271
Net interest income	5,159,407	4,383,065	4,232,476	4,022,117
Provision for loan losses	(845,402)	(1,713,425)		179,604
Non-interest income	749,997	455,100	1,456,712	611,687
Non-interest expense	6,209,276	6,206,308	5,671,163	5,899,201
Income (loss) before income taxes	545,530	345,282	18,025	(1,445,001)
Provision for income taxes				
Net income (loss)	$ 545,530	$ 345,282	$ 18,025	$ (1,445,001)
Net income (loss) per common share:				
Basic and diluted	$ 0.01	$ 0.01	$	$ (0.03)

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Based on an evaluation of the effectiveness of Bancorp s disclosure controls and procedures performed by Bancorp s management, with the participation of Bancorp s Chief Executive Officer and its Chief Financial Officer as of the end of the period covered by this report, Bancorp s Chief Executive Officer and Chief Financial Officer concluded that Bancorp s disclosure controls and procedures have been effective.

As used herein, disclosure controls and procedures mean controls and other procedures of Bancorp that are designed to ensure that information required to be disclosed by Bancorp in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Bancorp in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to Bancorp s management, including its principal executive, and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in Bancorp s internal control over financial reporting identified in connection with the evaluation described in the preceding paragraph that occurred during Bancorp s fiscal year ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, Bancorp s internal controls over financial reporting.

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Item 9B. Other Information

Management s Report on Internal Control Over Financial Reporting

The management of Patriot National Bancorp, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed so as to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

The Company s internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and deployment of the assets of the Company and also provide reasonable assurance that transactions are recorded in a timely manner to enable the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and disbursements of the Company are made only in compliance with the authorizations established by management and the directors of the Company, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and/or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2013, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework (1992)*. Based on that assessment, management concluded that as of December 31, 2013, the Company s internal control over financial reporting is effective based on the criteria established in *Internal Control Integrated Framework (1992)*.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance
The information required by Items 401, 405, 406 and 407 (c)(3); (d)(4) and (d)(5) of Regulation S-K is incorporated into this Form 10-K by reference to Bancorp s definitive proxy statement (the *Definitive Proxy Statement*) for its 2014 Annual Meeting of Shareholders, to be filed within 120 days following December 31, 2013.

The Company has adopted a Code of Ethics for its senior financial officers. The information required by Item 406 is contained in Exhibit 14 to this Form 10-K. A copy of this Code of Ethics will be provided to any person so requesting by writing to Patriot National Bancorp, Inc., 900 Bedford Street, Stamford, Connecticut 06901, Attn: Christina L. Maier, Chief Financial Officer.

Item 11. Executive Compensation
The information required by Item 402 of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters
The information required by Item 201(d) and Item 403 of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement, which section is incorporated herein by reference.

The table below provides information as of December 31, 2013, with respect to the compensation plan under which equity securities of the Company are authorized for issuance to directors, officers or employees.

Plan category	Number of common shares to be issued upon vesting of restricted stock shares	Weighted average grant date fair value	Number of common shares remaining available for future issuance under the share-based compensation plan (excluding common shares reflected in first column)
Equity compensation plans approved by security holders	281,835	$ 1.26	2,552,964

Equity compensation plans not approved by security holders			
Total	281,835	$ 1.26	2,552,964

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Items 404 and 407(a) of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by Item 9(e) of Schedule 14A of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement.

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Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) Exhibits

Exhibit No.	Description
2.1	Securities Purchase Agreement by and among Patriot National Bancorp, Inc., Patriot National Bank and PNBK Holdings LLC dated as of December 16, 2009 (incorporated by reference to Exhibit 10.1 to Bancorp s Current Report on Form 8-K dated December 17, 2009).
2.2	Amendment to Securities Purchase Agreement by and among Patriot National Bancorp, Inc., Patriot National Bank and PNBK Holdings LLC dated as of May 3, 2010 (incorporated by reference to Exhibit 10(a) to Bancorp s Current Report on Form 8-K dated May 4, 2010).
3(i)	Certificate of Incorporation of Bancorp, (incorporated by reference to Exhibit 3(i) to Bancorp s Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
3(i)(A)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated July 16, 2004 (incorporated by reference to Exhibit 3(i)(A) to Bancorp s Annual Report on Form 10-KSB for the year ended December 31, 2004 (Commission File No. 000-29599)).
3(i)(B)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated June 15, 2006 (incorporated by reference to Exhibit 3(i)(B) to Bancorp s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (Commission File No. 000-29599)).
3(i)(C)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. (incorporated by reference to Exhibit 3(i) to Bancorp s current report Form 8-K dated October 21, 2010.
3(ii)	Amended and Restated By-laws of Bancorp (incorporated by reference to Exhibit 3(ii) to Bancorp s Current Report on Form 8-K dated November 1, 2010 (Commission File No. 000-29599)).
10(a)(2)	2012 Stock Plan of Bancorp (incorporated by reference from Annex A to the Proxy Statement on Form 14C filed November 1, 2011.

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Exhibit No.	Description
10(a)(14)	Change of Control Agreement, dated as of January 1, 2007 among Philip W. Wolford, Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(14) to Bancorp s Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(15)	Formal Written Agreement between Patriot National Bank and the Office of the Comptroller of the Currency (incorporated by reference to Exhibit 10(a)(15) to Bancorp s Current Report on Form 8-K dated February 9, 2009 (Commission File No. 000-29599)).
10(a)(16)	Formal Written Agreement between Patriot National Bank and the Federal Reserve Bank of New York (incorporated by reference to Exhibit 10(a)(16) to Bancorp s Annual Report on Form 10-K for the year ended December 31, 2010 (Commission File No. 000-29599)).
10(a)(17)	Financial Services Agreement dated November 8, 2011 of Bancorp (incorporated by reference to Exhibit10(a)(20) on the Quarterly Report on Form10-Q dated November 10, 2011. (Commission File No. 000-29599)).
10(a)(18)	Employment letter between Kenneth T. Neilson, Bancorp and Patriot National Bank dated July 9, 2013 (incorporated by reference to Exhibit 10(a)(18) on the Quarterly Report on Form 10-Q dated August 12, 2013 (Commission File No. 000-29599)).
10(a)(19)	Employment agreement, dated as of July 9, 2013, by and among Patriot National Bancorp, Inc., Patriot National Bank and Kenneth T. Neilson (incorporated by reference to Exhibit 10.1 on Bancorp s Current Report on Form 8-K dated February 5, 2014 (Commission File No. 000-29599)).
10(a)(20)	Letter Agreement, dated as of February 3, 2014, by and among Patriot National Bancorp, Inc., Patriot National Bank and Kenneth T. Neilson (incorporated by reference to Exhibit 10.2 on Bancorp s Current Report on Form 8-K dated February 5, 2014 (Commission File No. 000-29599)).
14	Code of Conduct for Senior Financial Officers (incorporated by reference to Exhibit 14 to Bancorp s Annual Report on Form 10-KSB for the year ended December 31, 2004 (Commission File No. 000-29599)).
21	Subsidiaries of Bancorp (Incorporated by reference to Exhibit 21 to Bancorp s Annual Report on Form 10-KSB for the year ended December 31, 1999 (Commission File No. 000-29599)).
23.1	Consent of KPMG LLP
31(1)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31(2)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certification

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Exhibit No.	Description
101.INS#	XBRL Instance Document
101.SCH#	XBRL Schema Document
101.CAL#	XBRL Calculation Linkbase Document
101.LAB#	XBRL Labels Linkbase Document
101.PRE#	XBRL Presentation Linkbase Document
101.DEF#	XBRL Definition Linkbase Document

The exhibits marked with the section symbol (#) are interactive data files.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Patriot National Bancorp, Inc.
(Registrant)

By: /s/ Kenneth T. Neilson
Name: Kenneth T. Neilson
Title: Chief Executive Officer

Date: March 25, 2014

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in capacities and on the dates indicated.

/s/ Kenneth T. Neilson Kenneth T. Neilson President, Chief Executive Officer and Director	March 25, 2014 Date
/s/ Christina L. Maier Christina L. Maier Executive Vice President and Chief Financial Officer	March 25, 2014 Date
/s/ Michael A. Carrazza Michael A. Carrazza Chairman of the Board	March 25, 2014 Date

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Form 10 K Signatures continued

/s/ Edward Constantino Edward Constantino Director	March 25, 2014 Date
/s/ Raymond Smyth Raymond Smyth Director	March 25, 2014 Date
/s/ Emile Van den Bol Emile Van den Bol Director	March 25, 2014 Date
/s/ Michael Weinbaum Michael Weinbaum Director	March 25, 2014 Date

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Patriot National Bancorp, Inc.:

We have audited the accompanying consolidated balance sheets of Patriot National Bancorp, Inc. and subsidiary (the Company) as of December 31, 2013 and 2012 and the related consolidated statements of operations, comprehensive income, shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Patriot National Bancorp, Inc. and subsidiary as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Stamford, Connecticut

March 25, 2014

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2013 and 2012

	2013	2012
ASSETS		
Cash and due from banks (Note 2):		
Noninterest bearing deposits and cash	**$ 1,570,411**	$ 2,736,486
Interest bearing deposits	**33,295,470**	67,567,155
Short-term investments		710,766
Total cash and cash equivalents	**34,865,881**	71,014,407
Securities		
Available for sale securities, at fair value (Note 3)	**37,701,356**	41,719,320
Other Investments	**4,450,000**	3,500,000
Federal Reserve Bank stock, at cost	**1,444,300**	1,730,200
Federal Home Loan Bank stock, at cost (Note 8)	**4,142,600**	4,343,800
Total securities	**47,738,256**	51,293,320
Loans receivable (net of allowance for loan losses: 2013: $5,680,689 2012: $6,015,636) (Notes 4 and 18)	**418,148,323**	458,793,536
Loans held for sale		1,527,299
Accrued interest and dividends receivable	**1,566,415**	1,894,292
Premises and equipment, net (Notes 5 and 9)	**15,061,438**	4,288,372
Cash surrender value of bank owned life insurance (Note 12)	**22,024,770**	21,501,703
Other real estate owned (Note 6)		4,873,844
Deferred tax asset, net of valuation allowance (Note 10)		
Other assets (Note 11)	**1,843,043**	2,580,118
Other branch related assets held for sale		88,244
Total assets	**$ 541,248,126**	$ 617,855,135
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits (Notes 7 and 18):		
Noninterest bearing deposits	**$ 55,358,161**	$ 61,459,959
Interest bearing deposits	**374,845,921**	411,117,558
Deposits held for sale		24,705,381
Total deposits	**430,204,082**	497,282,898
Borrowings (Note 8)		
Repurchase agreements		7,000,000
Federal Home Loan Bank borrowings	**57,000,000**	50,000,000

Total borrowings	**57,000,000**	57,000,000
Junior subordinated debt owed to unconsolidated trust (Note 8)	**8,248,000**	8,248,000
Accrued expenses and other liabilities	**3,955,356**	5,756,439
Total liabilities	**499,407,438**	568,287,337
Commitments and Contingencies (Notes 8, 9 and 15)		
Shareholders equity (Notes 13 and 17)		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding		
Common stock, $.01 par value, 100,000,000 shares authorized; 2013: 38,786,680 shares issued; 38, 774, 975 shares outstanding. 2012: 38,491,819 shares issued; 38,480,114 shares outstanding	**387,867**	384,918
Additional paid-in capital	**105,483,417**	105,355,680
Accumulated deficit	**(62,683,941)**	(55,394,995)
Less: Treasury stock, at cost: 2013 and 2012 11,705 shares	**(160,025)**	(160,025)
Accumulated other comprehensive (loss) income	**(1,186,630)**	(617,780)
Total shareholders equity	**41,840,688**	49,567,798
Total liabilities and shareholders equity	**$ 541,248,126**	$ 617,855,135

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2013, 2012 and 2011

	2013	2012	2011
Interest and Dividend Income			
Interest and fees on loans	**$ 20,705,543**	$ 23,482,365	$ 25,957,563
Interest on investment securities	**774,590**	1,507,614	1,990,248
Dividends on investment securities	**113,467**	128,297	240,025
Interest on federal funds sold			6,875
Other interest income	**60,503**	98,241	137,598
Total interest and dividend income	**21,654,103**	25,216,517	28,332,309
Interest Expense			
Interest on deposits	**3,821,307**	5,351,477	6,283,578
Interest on Federal Home Loan Bank borrowings	**666,176**	1,458,894	1,632,378
Interest on subordinated debt	**284,103**	299,683	285,936
Interest on other borrowings	**81,999**	309,398	308,551
Total interest expense	**4,853,585**	7,419,452	8,510,443
Net interest income	**16,800,518**	17,797,065	19,821,866
Provision for Loan Losses (Note 4)	**970,214**	(2,379,223)	7,464,427
Net interest income after provision for loan losses	**15,830,304**	20,176,288	12,357,439
Non-interest Income			
Mortgage banking activity	**255,580**	163,804	58,440
Loan application, inspection and processing fees	**248,647**	101,339	78,613
Fees and service charges	**743,895**	856,604	964,796
Gain on sale of loans	**28,310**	336,274	79,729
Net gain on sale of investment securities		910,591	1,109,305
Gain on sale of branch asets and deposits	**50,643**		
Earnings on cash surrender value of bank owned life insurance	**523,067**	517,099	636,272
Other income	**575,573**	387,785	484,322
Total non-interest income	**2,425,715**	3,273,496	3,411,477
Non-interest Expense			
Salaries and benefits (Notes 9,13 and 15)	**9,702,350**	10,593,018	12,395,120
Occupancy and equipment expense	**3,910,515**	4,419,260	4,931,152
Data processing expense	**1,296,273**	1,468,551	1,286,170
Advertising and promotional expense	**217,099**	86,338	573,495

Professional and other outside services	**2,835,423**	2,601,133	3,406,640
Loan administration and processing expense	**220,370**	137,192	271,025
Regulatory assessments	**1,159,387**	1,724,224	1,992,865
Insurance expense	**314,534**	471,057	869,479
Other real estate operations (Note 6)	**211,687**	(58,044)	877,969
Material and communications	**396,840**	503,513	684,778
Restructuring charges and asset disposals (Note 21)	**521,903**	939,492	2,986,441
Prepayment penalty on borrowings	**4,116,446**		
Other operating expense	**980,922**	1,100,214	953,268
Total non-interest expense	**25,883,749**	23,985,948	31,228,402
Loss before income taxes	**(7,627,730)**	(536,164)	(15,459,486)
Provision for Income Taxes (Note 10)	**(338,784)**		
Net loss	**$ (7,288,946)**	$ (536,164)	$ (15,459,486)
Loss per share (Note 14)	**$ (0.19)**	$ (0.01)	$ (0.40)
Dividends per share	**$**	$	$

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2013, 2012 and 2011

	2013	2012	2011
Net loss	$ (7,288,946)	$ (536,164)	$ (15,459,486)
Other comprehensive (loss) income: (Note 19)			
Unrealized holding (losses) gains on securities, net of taxes:			
Unrealized holding gains (losses) arising during the period	(568,850)	47,204	(475,273)
Less reclassification adjustment for net gains included in net income		(799,323)	(687,769)
Total	(568,850)	(752,119)	(1,163,042)
Comprehensive loss	**$ (7,857,796)**	**$ (1,288,283)**	**$ (16,622,528)**

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Years Ended December 31, 2013, 2012 and 2011

	Number of Outstanding Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2010	38,362,727	383,744	105,050,433	(39,399,345)	(160,025)	1,297,381	67,172,188
Comprehensive loss							
Net loss				(15,459,486)			(15,459,486)
Unrealized holding loss on available for sale securities, net of taxes (Note 19)						(1,163,042)	(1,163,042)
Total comprehensive loss							(16,622,528)
Balance, December 31, 2011	38,362,727	383,744	105,050,433	(54,858,831)	(160,025)	134,339	50,549,660
Comprehensive loss							
Net loss				(536,164)			(536,164)
Unrealized holding loss on available for sale securities, net of taxes (Note 19)						(752,119)	(752,119)
Total comprehensive loss							(1,288,283)
Share-based compensation			306,421				306,421

expense							
Issuance of restricted stock	117,387	1,174	(1,174)				
Balance, December 31, 2012	38,480,114	$ 384,918	$ 105,355,680	$ (55,394,995)	$ (160,025)	$ (617,780)	$ 49,567,798
Comprehensive loss							
Net loss				(7,288,946)			(7,288,946)
Unrealized holding loss on available for sale securities, net of taxes (Note 19)						(568,850)	(568,850)
Total comprehensive loss							(7,857,796)
Share-based compensation expense			130,686				130,686
Issuance of restricted stock	294,861	2,949	(2,949)				
Balance, December 31, 2013							