PATRIOT NATIONAL BANCORP INC
Form 10-K
April 01, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PERSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Year Ended December 31, 2014

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

900 Bedford Street, Stamford, Connecticut 06901

(Address of principal executive offices)

(203) 324-7500

(Registrant's telephone number, including area code)

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

Securities registered under Section 12(b) 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 10K or any amendment to this Form 10K

Yes ____ No__X__

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

Yes __X__ No_____

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

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

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

Yes _____ No _X_

Aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2014 based on the last sale price as reported on the NASDAQ Global Market :$6.8 million

Number of shares of the registrant's Common stock, $0.01 par value per share, 3,948,067 shares outstanding as of February 28, 2015.

Document Incorporated by Reference

Proxy or Information Statement for 2014 Annual meeting of Shareholders. (A definitive proxy or Information statement will be filed with the Securities and Exchange Commission within 120 days after the close of the Fiscal year covered by this form 10-K.)

Incorporated into part III of this Form 10-K.

PATRIOT NATIONAL BANCORP, INC.

2014 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 statements, including this one, and in particular in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” 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 effect on the quality of Bancorp’s loans, (8) recent governmental initiatives that 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 that may adversely affect the Company; (10) the application of generally accepted accounting principles, consistently applied, (11) the fact that one period of reported results may not be indicative of future periods, (12) 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.

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 has branch offices in Bedford and Scarsdale, both located in Westchester County, New York.

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 had 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, 3.36 million shares of its common stock at a purchase price of $15.00 per share (adjusted for a 1-for-10 reverse stock split discussed below) for an aggregate purchase price of $50.4 million. 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 was following the departure of Christopher Maher, who resigned as President, CEO and director for personal reasons. Mr. Neilson had 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.

On March 4, 2015, the Company affected a 1-for-10 reverse stock split. All common stock and per share data included in these financial statements have been restated to give effect to the reverse stock split.

Business Operations

The Bank conducts business at its main office located 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 commercial real estate loans, commercial business loans, and a variety of consumer loans with an emphasis on serving the needs of individuals, small and medium-sized businesses and professionals. The Bank previously had offered loans on residential real estate, but discontinued doing so during 2013. The Bank’s lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County in New York, although the Bank’s loan business is not necessarily limited to these areas.

Consumer and commercial deposit accounts offered include: checking, interest-bearing “NOW”, money market, time certificates of deposit, savings, CDARS, Individual Retirement Accounts (“IRAs”) and Health Savings Accounts (“HSAs”). Other services offered by the Bank include ACH transfers, lockbox, internet banking, bill paying, remote deposit capture, debit cards, money orders, traveler’s checks and ATMs. In addition, the Bank may in the future offer other financial services.

The Bank’s employees perform most routine day-to-day banking transactions. 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.

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 government securities. An objective of the Bank’s investment policy is to maintain a balance of high quality diversified investments to minimize risk while maintaining adequate levels of liquidity and limiting its exposure to interest rate movements and credit risk. Government agency issues currently comprise the majority of the Bank’s investment portfolio.

Employees

As of December 31, 2014, Bancorp had 83 full-time employees and 9 part-time employees. None of the employees of Bancorp are covered by a collective bargaining agreement.

Competition

The Bank competes with a variety of financial institutions for loans and deposits in its market area. These include larger financial institutions with greater financial resources, larger branch systems and higher lending limits as well as the ability to conduct larger advertising campaigns to attract business. The larger institutions may also 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. To attract business in this competitive environment, the Bank relies on local promotional activities, personal contact by officers and directors, customer referrals and on its ability to distinguish itself by offering personalized and responsive banking service.

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 its lending or deposit 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. 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 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 banks and other financial institutions of 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 of the Office of the Comptroller of the Currency ("OCC") 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 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.

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

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

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

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

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

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

On October 26, 2001, the United and Strengthening America by Providing Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the *USA Patriot Act,* was enacted to further strengthen domestic security following the September 11, 2001 attacks. This Act amended 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.

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 and has had a major impact on the financial services industry, including the organization, financial condition and operations of banks and bank holding companies. 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 have to comply with, including any applicable rules promulgated by the Bureau of Consumer Financial 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 broadened 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.

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

It is difficult to predict at this time what specific impact yet to be implemented Dodd-Frank Act rules and regulations will have on the Company. 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.

In 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 became effective for the Company on January 1, 2015. The Company does not foresee any difficulties in complying with these new regulations.

Recent Developments with Regulators

In September 2014, the Bank's formal written agreement (the "Agreement") with the Office of the Comptroller of the Currency which had been entered into in February 2009 was terminated. The Agreement required the Bank to review, adopt and implement a number of policies and programs related to credit and operational issues.

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 these 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.

ITEM 1A. Risk Factors

The Bank's financial condition and results of operation are subject to various risks inherent to our business, including those noted below.

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. A downturn in the real estate market within Bancorp's market area may 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 Westchester County, New York, areas historically of high affluence that had been materially impacted by the financial troubles experienced by large financial service companies on Wall Street and other companies during the financial crisis. Since then, credit markets have become tighter 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
- 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 2014, the economic climate improved gradually, contributing to 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.

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 could have an adverse effect on borrowers’ capacity to timely repay their obligations before risk grades could reflect those changing conditions. 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 primarily through our branch network, borrowed funds, primarily in the form of wholesale borrowings, and the cash flows generated through the repayment of loans and securities. In addition, depending on current market conditions, we may have the ability to access the capital markets.

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.

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 with certainty, 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. 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 mostly 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, because of their skills, knowledge of Bancorp’s market, years of industry experience and the difficulty of promptly finding qualified replacement personnel could have an adverse impact on Bancorp’s business.

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, and Bancorp may not be successful in retaining or attracting such 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 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 and 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, which may make us 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 loan approval or 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.

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 cash dividends to our shareholders.

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, our stock price 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.

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. During the financial crisis, declines in the housing market with falling home prices and increasing foreclosures, unemployment and under-employment, had 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 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 reduced or ceased providing funding to borrowers, including other financial institutions. This market turmoil and the tightening of credit 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 have 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 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 higher FDIC premiums than are currently assessed. These increases and any future increases or required prepayments in FDIC insurance premiums may materially adversely affect our results of operations.

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 would reduce net interest income. Bancorp expects competition to increase in the future as a result of legislative, regulatory and technological changes. Bancorp's profitability depends upon its continued ability to successfully compete in its market area.

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

Bancorp is subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency as the Bank's chartering authority, by the FDIC, as insurer of its deposits, and by the Federal Reserve Board as regulator of Bancorp. Changes in state and federal banking laws and regulations or in federal monetary policies could adversely affect the Bank's ability to maintain profitability and continue to grow and, in light of recent economic conditions, such changes are expected but cannot be predicted. For example, new legislation or regulation could limit the manner in which Bancorp may conduct its business, including the Bank's ability to obtain financing, attract deposits, make loans and achieve satisfactory interest spreads. 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 organization. Complying with any new legislative or regulatory requirements, and any programs established thereunder 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 of companies, such as Bancorp. 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.

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 governance requirements.

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 a building at 999 Bedford Street in November 2014, and intends to move the main branch banking office to this location. The Bank purchased the current Stamford and Greenwich branch buildings in 2013. During 2014, the Bank purchased the Milford branch building and also began construction of a new branch facility in Darien and the renovation of a branch office purchased from another financial institution in Westport. The Bank intends to move from existing branches in Darien and Westport upon completion of the new facilities. At December 31, 2014 three branches were owned, another three owned buildings were in process of becoming branch facilities, and the Bank's seven other branch banking offices and additional administrative and operational office space were 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 March 2015 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.

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, 2014, the last sale price for Bancorp Common Stock on the NASDAQ Global Market was $16.40.

The following table sets forth the high and low sales prices of Bancorp Common Stock for the last two fiscal years of each quarter adjusted for a 1-for-10 reverse stock split. No cash dividends were declared during this time.

	2014			**2013**		
	Sales Price		**Cash Dividends**	**Sales Price**		**Cash Dividends**
Quarter Ended	**High**	**Low**	**Declared**	**High**	**Low**	**Declared**
March 31	$14.00	$9.60	$ -	$17.20	$10.50	$ -
June 30	17.40	12.00	-	16.30	11.70	-
September 30	23.80	13.40	-	14.80	12.90	-
December 31	19.40	15.80	-	13.90	10.10	-

Holders

There were approximately 472 shareholders of record of Bancorp Common Stock as of December 31, 2014. 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. 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 capital program, 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 OCC 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. 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 2014, Bancorp did not have any sales of unregistered securities.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

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.

ITEM 6. Selected Financial Data

At or for the year ended December 31,	2014	2013	2012	2011	2010
(Dollars in thousands, except per share data)					
Balance Sheet Data:					
Cash and due from banks	73,258	34,866	70,303	54,716	136,324
Federal funds sold	-	-	-	-	10,000
Short-term investments	-	-	711	710	453
Investment securities	46,818	47,738	51,293	76,185	49,765
Loans, net	471,984	418,148	458,794	501,227	534,531
Total assets (2)	632,624	541,248	617,855	665,816	784,325
Total deposits (1)	443,033	430,204	497,283	544,909	646,809
Total borrowings	128,248	65,248	65,248	65,248	65,248
Total shareholders' equity	58,735	41,841	49,568	50,550	67,172
Operating Data:					
Interest and dividend income	$20,368	$21,654	$25,216	$28,332	$35,609
Interest expense	2,970	4,854	7,419	8,510	13,475
Net interest income	17,398	16,800	17,797	19,822	22,134
Provision for loan losses	-	970	(2,379)	7,464	7,714
Non-interest income	1,832	2,426	3,274	3,411	2,354
Non-interest expense	18,271	25,884	23,986	31,228	31,948
(Benefit) provision for income taxes	(14,750)	(339)	-	-	225
Net income (loss)	15,709	(7,289)	(536)	(15,459)	(15,399)
Per Share Data:					
Basic and diluted income (loss) per share (3)	4.08	(1.90)	(0.14)	(4.00)	(13.00)
Dividends per share	-	-	-	-	-
Key Performance Ratios:					
Return on average assets	2.81 %	(1.28 %)	(0.08 %)	(2.29 %)	(1.89 %)
Return on average equity	32.94 %	(16.43 %)	(1.05 %)	(27.64 %)	(37.88 %)
Dividend payout ratio	N/A	N/A	N/A	N/A	N/A
Average equity to average assets	8.53 %	7.80 %	7.96 %	8.28% %	4.98 %

(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.

(3) All common stock and per share data have been restated to give effect to the reverse stock split of 1-for-10 effective March 4, 2015.

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

Critical Accounting Policies

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.

Bancorp's significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in this 2014 Annual Report on Form 10-K.

Summary

During 2014, the company obtained yearly net income for the first time since 2007 primarily as a result of balance sheet and operational restructuring initiatives implemented during 2013 and 2014 by new executive management.

The following were among the Company's notable achievements in 2014:

- Net interest margin (NIM) of 3.37%
- Recognition of $16.8 million of deferred tax assets ("DTA') in September 2014
- Total loan growth of $53.9 million or 12.9% as compared to December 31, 2013
- Improved capital ratios
- Continued asset quality improvement
- Non- interest expense reduction of $7.6 million or 29.4%

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FINANCIAL CONDITION

Assets

Bancorp’s total assets increased $91.4 million, or 16.9%, from $541.2 million at December 31, 2013 to $632.6 million at December 31, 2014 as generation of income and recognition of the majority of the Bank’s deferred tax asset enabled the Bank to grow capital and assets.

- Cash and cash equivalents increased $38.4 million primarily due to the Bank’s efforts to increase liquidity.
- Loans increased $53.9 million as loan purchases and originations exceeded payments of loan principal. Loan growth had been constrained by the Bank’s capital levels during 2013.
- Cash surrender value of Bank Owned Life Insurance (“BOLI”) decreased $22.0 million as the Bank liquidated the policies in December 2014, and used the proceeds to purchase residential mortgage loans.
- Premises and equipment increased $7.3 million as the Bank purchased a branch it had been leasing and is in the process of completing three additional branches for future relocation from current branch sites.
- Deferred tax assets of $14.9 million were reported at December 31, 2014 as the Bank was able to recognize the majority of its deferred tax asset in September 2014.

Investments

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

(in thousands)	**2014**	**2013**	**2012**
U.S. Government Agency bonds	$7,409	$7,079	$7,526
U.S. Government Agency mortgage-backed securities	17,337	21,752	25,707
Corporate bonds	8,936	8,870	8,486
Federal Reserve Bank stock	2,058	1,444	1,730
Federal Home Loan Bank stock	6,628	4,143	4,344
Other investments	4,450	4,450	3,500
Total Investments	$46,818	$47,738	$51,293

Total investments decreased $920,000, or 1.9%, primarily due to principal payments of $4.5 million on the government agency mortgage-backed securities, partially offset by Federal Home Loan Bank and Federal Reserve Bank stock purchases of $2.5 million and $614,000 respectively. In addition, the Bank’s unrealized loss on available for sale securities decreased $734,000 from $1.2 million to $453,000.

The following table presents the maturity distribution of available-for-sale investment securities at December 31, 2014 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.

(dollars in thousands)	One year or less	Over one through five years	Over five through ten years	No maturity	Total	Weighted Average Yield
U. S. Government Agency bonds	$ -	$ 2,500	$ 5,000	$ -	$ 7,500	1.83 %
U. S. Government Agency mortgage-backed securities	-	-	-	17,635	17,635	2.16 %
Corporate bonds	-	-	9,000	-	9,000	1.71 %
Total	$ -	$ 2,500	$ 14,000	$ 17,635	$ 34,135	1.97 %
Weighted average yield	-	1.34 %	1.98 %	2.16 %	1.97 %	

The following table presents a summary of investments for any issuer that exceeds 10% of shareholders' equity at December 31, 2014:

(in thousands)	Amortized Cost	Fair Value
Available for sale securities:		
U. S. Government Agency mortgage-backed securities and bonds	$ 25,135	$ 24,746

Loans

The following tables provide a summary of Bancorp’s loan portfolio at December 31 for each of the years shown:

(in thousands)

	2014	**2013**	**2012**	**2011**	**2010**
Real Estate					
Commercial	$254,505	$222,772	$246,998	$215,019	$228,043
Residential	108,543	106,968	119,864	189,383	188,164
Construction	3,096	260	4,998	12,293	63,837
Construction to permanent	10,627	11,372	4,908	10,018	10,301
Commercial	53,973	35,137	36,436	31,810	14,597
Consumer home equity	41,631	44,315	49,436	49,912	43,007
Consumer installment	4,533	3,005	2,169	2,177	1,956
Total Loans	476,908	423,829	464,809	510,612	549,905
Allowance for loan losses	(4,924)	(5,681)	(6,016)	(9,385)	(15,374)
Loans receivable, net	$471,984	$418,148	$458,793	$501,227	$534,531

Bancorp’s net loan portfolio increased $53.9 million, or 12.9%, to $472.0 million at December 31, 2014 from $418.1 million at December 31, 2013 as a result of loan purchases and originations in excess of loan payoffs. Significant increases in the portfolio included a $31.7 million increase in commercial real estate loans, and an $18.9 million increase in commercial loans.

The allowance for loan losses decreased by $757,000, primarily due to the charge-off of loans which were specifically reserved for in the allowance, and to continued improvement in asset quality.

At December 31, 2014, the net loan to deposit ratio was 107% and the net loan to asset ratio was 75%. At December 31, 2013, the net loan to deposit ratio was 97%, and the net loan to asset ratio was 77%.

Loan Concentrations

The Bank has no concentrations of loans other than those disclosed in the summary below. Commercial real estate plus construction represents 56.2% of total loans, up from 55.4% at December 31, 2013.

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, 2014, by type of loan:

(in thousands)	**Due in one year or less**	**Due after one year through five years**	**Due after five years**	**Total**
Commercial real estate	$23,596	$56,185	$174,724	$254,505
Residential real estate	-	-	108,543	108,543
Construction loans	2,557	539	-	3,096
Construction to permanent loans	-	3,963	6,664	10,627
Commercial loans	18,557	22,298	13,118	53,973
Consumer home equity	-	80	41,551	41,631
Consumer installment	3	1,969	2,561	4,533
Total	$44,713	$85,034	$347,161	$476,908
Fixed rate loans	$23,585	$53,948	$31,836	$109,369
Variable rate loans	21,128	31,086	315,325	367,539
Total	$44,713	$85,034	$347,161	$476,908

Allowance for Loan Losses

The allowance for loan losses decreased $757,000 from December 31, 2013 to December 31, 2014 primarily due to charge-offs of loans which had specific reserves. Improved credit quality of the loan portfolio, including reduction of non-accrual, impaired and delinquent loans, resulted in a calculated allowance that was sufficient despite the growth in the portfolio. Based upon the overall assessment and evaluation of the loan portfolio at December 31, 2014, management believes the allowance for loan losses of $4.9 million, which represents 1.03% of gross loans outstanding, is adequate to absorb existing losses in the loan portfolio. At December 31, 2013, the allowance for loan losses was $5.7 million, or 1.34%, of gross loans outstanding.

Analysis of Allowance for Loan Losses

(in thousands)	**2014**	**2013**	**2012**	**2011**	**2010**
Balance at beginning of period	$5,681	$6,016	$9,385	$15,374	$15,794
Charge-offs:					
Commercial real estate	(297)	(403)	(50)	(2,941)	(2,560)
Residential real estate	(195)	(919)	(85)	(1,458)	(600)
Construction	(260)	(205)	(101)	(3,305)	(4,726)
Commercial	(49)	(63)	(48)	(375)	(396)
Consumer	(66)	(78)	(786)	(174)	(88)
Total charge-offs	(867)	(1,668)	(1,070)	(8,253)	(8,370)
Recoveries	110	363	80	854	236
Net charge-offs	(757)	(1,305)	(990)	(7,399)	(8,134)
Additions charged to operations	-	970	(2,379)	7,464	7,714
Transferred to held-for-sale	-	-	-	(6,054)	-
Balance at end of period	$4,924	$5,681	$6,016	$9,385	$15,374
Ratio of net charge-offs during the period to average loans outstanding during the period	0.18 %	0.29 %	0.20 %	1.52 %	1.32 %
Ratio of ALLL / Gross Loans	1.03 %	1.34 %	1.29 %	1.84 %	2.80 %

Allocation of the Allowance for Loan Losses

(dollars in thousands)	**2014**		**2013**		**2012**		**2011**		**2010**	
	Allowance for loan losses	**% of loans**	**Allowance for loan losses**	**% of loans**	**Allowance for loan losses**	**% of loans**	**Allowance for loan losses**	**% of loans**	**Allowance for loan losses**	**% of loans**
Real Estate:										
Commercial	$1,419	53.4 %	$1,585	52.6 %	$3,509	53.1 %	$4,019	42.1 %	$7,633	41.5 %
Residential	831	22.8	795	25.2	897	25.8	2,551	37.1	2,364	34.2
Construction	63	0.6	260	0.1	311	1.1	867	2.4	3,478	11.6
Construction to permanent	215	2.2	25	2.7	19	1.1	547	2.0	492	1.9
Commercial	1,918	11.3	2,285	8.3	942	7.8	882	6.2	441	2.7
Consumer	478	9.7	534	11.2	217	11.1	459	10.2	578	8.2
Unallocated	-	N/A	197	N/A	121	N/A	60	N/A	388	N/A
Total	$4,924	100.0%	$5,681	100.0%	$6,016	100.0%	$9,385	100.0%	$15,374	100.0%

Non-Accrual, Past Due and Restructured Loans

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 non-accrual 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 non-accrual 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.

The following table is a summary of non-accrual and accruing loans which were past due by over 90 days at the end of each of the last five years.

(dollars in thousands)	**2014**	**2013**	**2012**	**2011**	**2010**
Loans past due over 90 days still accruing	$279	$866	$2,234	$9,461	$3,374
Non accrual loans	866	12,337	23,810	20,683	89,150
Total	$1,145	$13,203	$26,044	$30,144	$92,524
% of Total Loans	0.24 %	3.12 %	5.60 %	5.90 %	16.83 %
% of Total Assets	0.18 %	2.44 %	4.22 %	4.53 %	11.80 %
Additional income on non-accrual loans if recognized on an accrual basis	$23	$545	$1,172	$2,275	$6,618

Non-accrual loans decreased from $12.3 million at December 31, 2013 to $0.9 million at December 31, 2014. The $0.9 million of non-performing loans was comprised of 4 borrowers at December 31, 2014, compared to 15 borrowers at December 31, 2013. Included in non-accruing loans were loans of $138,000 and $7.8 million as of December 31, 2014 and 2013, respectively that were current within 30 days as to payments. One loan of $0.3 million which had been non-accrual at December 31, 2014 subsequently paid off in February 2015.

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 asset quality.

Loans past due ninety days or more, and still accruing interest were $279,000 and $866,000 at December 31, 2014 and December 31, 2013, respectively. Loans over 90 days past due were comprised of four commercial and industrial loans at December 31, 2014. All four loans were mature lines of credit with acceptable risk ratings awaiting renewal. These loans were past maturity dates and were current within 60 days as to interest payments. Loans over 90 days past due were comprised of two loans at 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 loans maturity dates and were in the process of being renewed.

At December 31, 2014, there was one loan totaling $1.1 million that was considered a troubled debt restructuring, as compared to 2 loans totaling $2.2 million that were considered troubled debt restructurings at December 31, 2013, all of which were considered impaired loans. Loan modifications, which resulted in these loans being considered troubled debt restructurings, were primarily in the form of rate concessions or term extensions. There were no commitments to advance additional funds under modified terms for these loans.

Other Real Estate Owned

There was no real estate owned at December 31, 2014 and December 31, 2013. During the twelve months ended December 31, 2014, one OREO property was foreclosed, and subsequently sold. 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.

Deferred Taxes

The determination of the amount of deferred 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. The valuation allowance is analyzed quarterly for changes affecting the deferred tax asset. In September 2014, the Company released $16.8 million, or 96.7%, of the valuation allowance previously recorded on its net deferred tax asset.

After weighing all the evidence Management determined that it was more likely than not that the Bank would be able to realize substantially all of its deferred tax asset and, therefore, the valuation allowance on that portion was no longer required.

The positive evidence that outweighed the negative evidence in Management's assessment included, but was not limited to, the following:

- Strong positive trend in financial performance over the last four quarters
- Forecasted taxable income for 2015 and future periods
- Net operating loss carry-forwards that do not begin to expire until 2029
- A significant improvement in the quality of the loan portfolio
- Favorable changes in operations which permanently reduce operating expenses.

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

Other Assets

During the fourth quarter of 2014, Bancorp's Bank Owned Life Insurance ("BOLI") policy of $22.4 million was liquidated and adjustable rate residential mortgage loans were purchased with the proceeds. The loans purchased had a composite yield of approximately 300 basis points higher than the existing crediting rate on the BOLI policy. In addition, the tax-exempt feature of the BOLI held no value for Bancorp due to the significant amount of net operating loss ("NOL") carry forwards in the Company's deferred tax assets.

Premises and equipment increased $7.3 million from $15.1 million at December 31, 2013 to $22.4 million at December 31, 2014. This increase was primarily due to purchases totaling $8.3 million which was partially offset by depreciation of $1.1 million. All facility purchase transactions were undertaken after careful cost/ benefit analysis showed a clear benefit to the Company in owning rather than leasing the subject properties.

Deposits

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

(in thousands)	**2014**	**2013**	**2012**

Non-interest bearing	$63,398	$55,358	$65,176
Interest bearing			
NOW	26,269	28,618	30,191
Savings	93,790	80,983	77,761
Money market	24,650	29,310	42,402
Time certificates, less than $100,000	106,340	129,548	160,611
Time certificates, $100,000 or more	97,876	106,387	121,142
Brokered Deposits	30,710	-	-
Total interest bearing	379,635	374,846	432,107
Total Deposits (1)	$443,033	$430,204	$497,283

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

Total deposits increased $12.8 million, or 3.0%, to $443.0 million at December 31, 2014.

Non-interest bearing deposits increased $8.0 million, or 14.5%, to $63.4 million.

Interest bearing deposits increased $4.8 million, or 1.3%, to $379.6 million primarily due to increases in brokered deposits of $30.7 million and savings accounts of $12.8 million partially offset by a decrease in certificates of deposit of $31.7 million, or 13.4% when compared to last year. Brokered deposits of approximately $30.0 million were obtained in December 2014 to fund anticipated loan growth. The increase in savings balances was primarily due to promotional rates and shift in balances from other deposit products. The decrease in time deposits was primarily the result of strategic pricing initiatives intended to reduce higher cost deposits.

As of December 31, 2014, the Bank’s maturities of time deposits were:

(in thousands)	**Less than $100,000**	**$100,000 or greater**	**Totals**
Three months or less	$47,878	$35,079	$82,957
Four to six months	39,925	18,259	58,184
Seven months to one year	37,657	32,240	69,897
Over one year	11,590	12,298	23,888
Total	$137,050	$97,876	$234,926

Borrowings

Borrowings increased to $128.2 million at December 31, 2014 as compared to $65.2 million at December 31, 2013. Borrowings at December 31, 2014 were comprised of $120.0 million in Federal Home Loan Bank Advances and $8.2 million in junior subordinated debentures. Borrowings at December 31, 2013 were comprised of $57.0 million in Federal Home Loan Bank Advances, and $8.2 million in junior subordinated debentures.

The increase in FHLB borrowings of $63.0 million in 2014 was primarily due to a strategic business decision made to increase profitability in future periods. Mangement took advantage of the low cost funding provided through the FHLB Bank Advances program to enter into a loan participation of approximately $50.0 million.

All FHLB borrowings at December 31, 2014 and December 31, 2013 had maturities of less than one year.

Shareholders’ Equity

Shareholders’ equity increased $16.9 million from $41.8 million at December 31, 2013 to $58.7 million at December 31, 2014. This is primarily the result of net income of $15.7 million, and an increase in accumulated other comprehensive income of $910,000.

Average Balances

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

Average Balance Sheet

Net Interest income- Rate and Volume Variance Analysis

(dollars in thousands)	2014 Average Balance	2014 Interest Income/ Expense	2014 Average Rate	2013 Average Balance	2013 Interest Income/ Expense	2013 Average Rate	2012 Average Balance	2012 Interest Income/ Expense	2012 Average Rate
Interest earning assets:									
Loans	$427,032	$19,601	4.59 %	$454,849	$20,706	4.55 %	$494,333	$23,482	4.75 %
Cash equivalents	42,405	67	0.16 %	32,022	60	0.19 %	55,638	98	0.18 %
Investments	46,544	700	1.50 %	49,070	888	1.81 %	60,799	1,636	2.69 %
Total interest earning assets	$515,981	$20,368	3.95 %	$535,941	$21,654	4.04 %	$610,770	$25,216	4.13 %
Cash and due from banks	1,863			3,337			4,660		
Allowance for loan losses	(5,277)			(5,813)			(7,771)		
Other assets	46,636			35,328			32,206		
Total Assets	$559,203			$568,793			$639,865		
Interest bearing liabilities:									
Time certificates	$221,659	$2,016	0.91 %	$253,714	$3,422	1.35 %	$313,693	$4,932	1.57 %
Savings accounts	88,008	330	0.37 %	87,676	350	0.40 %	66,137	331	0.50 %
Money market accounts	27,144	14	0.05 %	35,268	41	0.11 %	46,944	72	0.15 %
NOW accounts	26,226	4	0.02 %	29,337	9	0.03 %	25,617	16	0.06 %
Borrowings	79,216	181	0.23 %	45,678	748	1.64 %	61,320	1,768	2.88 %
Subordinated debt	8,248	425	5.15 %	8,248	284	3.44 %	8,248	300	3.64 %
Total interest bearing liabilities	$450,501	$2,970	0.66 %	$459,921	$4,854	1.06 %	$521,959	$7,419	1.42 %
Demand deposits	57,850			59,892			61,586		
Other liabilities	3,158			4,606			5,370		

Shareholder's equity	47,694			44,374			50,950		
Total liabilities and equity	$559,203			$568,793			$639,865		
Net interest income		$17,398			$16,800			$17,797	
Interest margin			3.37 %			3.13 %			2.91 %
Interest spread			3.29 %			2.98 %			2.71 %

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The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-earning assets and interest-bearing liabilities:

	2014 vs. 2013 Increase (decrease) due to		Total	2013 vs. 2012 Increase (decrease) due to		Total
(dollars in thousands)	Volume	Rate	Increase (decrease)	Volume	Rate	Increase (decrease)
Interest earning assets:						
Loans	$(1,256)	$151	$ (1,105)	$(1,817)	$(959)	$ (2,776)
Cash equivalents	17	(10)	7	(42)	4	(38)
Investments	(44)	(144)	(188)	(278)	(470)	(748)
Total interest earning assets	(1,283)	(3)	(1,286)	(2,137)	(1,425)	(3,562)
Interest bearing liabilities:						
Time certificates	$(393)	$(1,013)	$ (1,406)	$(872)	$(638)	$ (1,510)
Savings accounts	1	(21)	(20)	94	(75)	19
Money market accounts	(8)	(19)	(27)	(15)	(16)	(31)
NOW accounts	(1)	(4)	(5)	2	(9)	(7)
Borrowings	332	(899)	(567)	(471)	(549)	(1,020)
Subordinated debt	-	141	141	-	(16)	(16)
Total interest bearing liabilities	(69)	(1,815)	(1,884)	(1,262)	(1,303)	(2,565)

RESULTS OF OPERATIONS

Comparison of Results of Operations for the years 2014 and 2013

For the year ended December 31, 2014, Bancorp recorded net income of $15.7 million ($4.08 per share) compared to a net loss of $7.3 million ($1.90 per share) for the year ended December 31, 2013.

Income before income tax expense was $1.0 milllion, an increase of $8.6 million compared to a loss before income tax expense of $7.6 million in 2013.

- Net interest income increased $0.6 million
- Provision for loan losses decreased $1.0 million
- Non-interest income decreased $0.6 million
- Non-interest expense decreased $7.6 million

The positive results for 2014 were Bancorp's first year of net profitability since 2007 and were primarily due to balance sheet and operational restructuring initiatives implemented during 2013 and 2014 by new executive management. These initiatives included:

- Prepayment of high cost borrowings and replacement with borrowings at significantly lower rates.
- Strategic repricing of deposits coupled with the borrowing initiative to substantially reduce the cost of funds.
- Streamlining of branch and back office operations and exit from the Residential Lending business, resulting in non-interest expense reductions.
- Obtaining vendor price concessions
- Purchasing three branch buildings where the cost of the leases exceeded the cost to own the properties.

Bancorp's improved earnings and balance sheet resulting from the initiatives noted and continued efficiencies created during 2014 enabled the Company to recognize a $16.8 million income tax benefit in the third quarter of 2014 via reversal of most of the valuation allowance against its Deferred Tax Asset ("DTA"). Recognition of the DTA also increased regulatory capital, enabling Bancorp to increase its asset base.

Net interest Income

Net interest income is the difference between interest income on interest earning assets and interest expense on interest-bearing liabilities. Net interest income depends on the relative amounts of interest earning assets and interest bearing liabilities and the interest rates earned or paid on them, respectively.

Net interest income increased $0.6 million from $16.8 million for the year ended December 31, 2013 to $17.4 million for the year ended December 31, 2014.

Total interest and dividend income decreased $1.3 million, or 6.0%, primarily as a result of lower average loan balances. Increased yields on loans were offset by lower yields on investments.

- Average loan balances were $27.8 million lower in 2014 than in 2013, including a decrease in the average residential real estate loan balance of $27.7 million. The decrease in average loan balances resulted in lower interest income of $1.3 million.
- Average yields on loans increased to 4.59% from 4.55% in 2013. This benefitted interest income by $151,000 and was largely derived from loan mix as lower yielding residential loans constituted a smaller portion of the average loan portfolio in 2014.
- Average yields on investments decreased to 1.50% from 1.81% in 2013 resulting in lower interest income of $144,000. The decrease in yields was primarily due to bonds repricing lower during 2013, in addition to increased prepayments and resulting premium amortization on mortgage-backed-securities.

Total interest expense decreased $1.9 million from $4.9 million for the year ended December 31, 2013 to $3.0 million for the year ended December 31, 2014 as average deposit and borrowing rates were significantly lower in 2014.

- o Deposit expense decreased $1.5 million primarily due to strategic pricing initiatives which reduced dependence upon high cost term deposits as a funding source. The average rate on interest bearing deposits decreased from 0.94% to 0.65% in 2014, resulting in a $1.1 million decrease in interest expense. The remaining $0.4 million reduction in deposit expense was primarily due to shift in funding mix from higher rate time deposits to FHLB borrowings. Average time deposits were $32.1 million lower than in 2013. Average borrowings increased $33.5 million from 2013.
- o Interest expense on borrowings decreased $0.6 million from 2014. The average rate on borrowings decreased from 1.64% to 0.23% in 2014, resulting in a $0.9 million decrease in interest expense. Higher average balances due to the previously noted shift from time deposits resulted in incremental expense of $0.3 million.
- o Interest expense on subordinated debt increased $141,000 from 2013, primarily due to incremental expense of $117,000 related to deferred interest payments from prior years.

Management regularly reviews loan and deposit rates and strives to price Bancorp's products competitively. The Company tracks its mix of asset and liability maturities and manages its balance sheet in an effort to maintain a reasonable match.

Provision for loan losses

During 2014, Bancorp did not make any additional provisions for loan losses due to continued improvement in asset quality. During 2013 Bancorp recorded a provision of $1.0 million as a specific reserve for one impaired loan. Net charge-offs decreased to $757,000 as compared to $1.3 million in 2013. In addition, criticized assets decreased by $15.2 million to $13.0 million at December 31, 2014 from $28.2 million at December 31, 2013. Bancorp continues to maintain conservative underwriting standards including minimum loan to value ratios.

During the fourth quarter of 2014 management implemented changes to the methodology for calculating the allowance for the loan losses by updating our study of the Loss Emergence Period ("LEP"). A more detailed description of the change is presented under the discussion entitled "Allowance for Loan Losses" ("ALL") within the significant accounting policies section of Note 1 to the consolidated financial statements.

Non-interest income

Non-interest income decreased by $594,000, or 24.5%, from $2.4 million in 2013 to $1.8 million in 2014. Non-interest income for 2014 included a $455,000 loss on disposition of the Bank's BOLI policy. Excluding this loss non-interest income was $139,000, or 5.7%, lower than in 2013. Other significant reductions included:

- Lower mortgage banking fees of $231,000 primarily due to the decision during 2013 to discontinue originating and selling residential mortgage loans
- No branch or portfolio loan sales in 2014 as compared to combined proceeds of $79,000 for both in 2013.
- Decrease in BOLI income of $84,000 primarily due to lower crediting rates during 2014

Partially offsetting the noted reductions were increased loans and deposit fees totaling $118,000 and incremental rental income of approximately $275,000.

Non-interest expense

Non-interest expense decreased $7.6 million, or 29.4%, from $25.9 million for the year ended December 31, 2013 to $18.3 million for the year ended December 31, 2014. Non-interest expense in 2013 included prepayment penalties on borrowings of $4.1 million and restructuring charges of $522,000. Non-interest expense in 2014 included expense of $437,000 related to disposition of the BOLI policy. Excluding these non-recurring expenses, non-interest expense decreased by $3.4 million, or 16.1%, and included the following differences:

- Salaries and benefits were reduced by $1.6 million, primarily due to savings from employment reductions in addition to reduced expense resulting from changing health benefit providers.
- Occupancy and equipment expense decreased $354,000 primarily due to purchasing three branches from May 2013 to June 2014 which had formerly been leased, in addition to closing a branch in 2013.
- Professional and other outside services decreased $524,000 primarily due to lower legal fees resulting from improved asset quality, renegotiation of several vendor contracts and reduced consultant usage.
- Regulatory assessments reduction of $281,000 primarily due to rating upgrades received.
- Other real estate operations ("OREO") reduction of $200,000.

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 ($1.90 per share) compared to a net loss of $536,000 ($0.14 per share) for the year ended December 31, 2012.

Net interest income decreased $1.0 million 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 decreased $3.6 million, or 14.1%, as a result of lower outstanding average earning assets, 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 $2.5 million from $7.4 million for the year ended December 31, 2012 to $4.9 million for the year ended December 31, 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, and expense reduction due to the prepayment of high cost FHLB borrowings during 2013 and the subsequent obtainment of new borrowings at significantly lower rates.

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. Excluding prepayment penalties on borrowings of $4.1 million in 2013 and restructuring charges of $522,000, as compared to $939,000 in 2012, non-interest expense was $1.8 million lower than in 2012. Salaries and benefits, occupancy and equipment and insurance expense all showed significant reductions as a result of restructuring initiatives implemented in 2013. Regulatory assessments decreased $565,000 as a result of an upgrade received from the Bank’s regulators in 2013.

Net interest income

Bancorp’s net interest income of $16.8 million for the year ended December 31, 2013 was $1.0 million, or 5.6% 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 14.1%, 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. 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 decrease 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%. 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 borrowings decreased by $1.0 million, or 54%, as Bancorp restructured high cost advances in 2013, lowering the average cost of borrowings from 2.88% to 1.64%. Total borrowings remain unchanged at $57.0 million as of December 31, 2012 and December 31, 2013.

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 reserve for one impaired 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 had 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.

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 average deposit balances. 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 by 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 regulatory assessments decreased $565,000. Data processing expense decreased $173,000 primarily due to changes in a service contract.

LIQUIDITY

Bancorp's liquidity position was 16% and 13% at December 31, 2014 and 2013, 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 which have not been pledged. 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.

At December 31, 2014, cash and cash equivalents and unpledged available-for-sale securities were $73.3 million and $26.2 million, respectively. In addition to Federal Home Loan Bank advances outstanding at December 31, 2014, the Bank had the ability to borrow an additional $29.8 million from the Federal Home Loan Bank of Boston, which included a $2.0 million overnight line of credit. At December 31, 2014 the Bank had $120.0 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, 2014:

(in thousands)	**Total**	**Less than one year**	**One to three years**	**Three to five years**	**Over five years**
Certificates of deposit	$204,216	$180,327	$17,299	$6,590	$-
Brokered deposits	30,710	30,710	-	-	-
Junior subordinated debt owed to unconsolidated trust	8,248	-	-	-	8,248
FHLB Advances	120,000	120,000	-	-	-
Operating lease obligations	3,177	1,363	1,195	295	324
Total contractual obligations	$366,351	$332,400	$18,494	$6,885	$8,572

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OFF-BALANCE SHEET ARRANGEMENTS

The following table presents Bancorp's off-balance sheet commitments as of December 31, 2014. 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.

(in thousands)	**2014**
Commitments to extend credit:	
Future loan commitments	**$19,734**
Home equity lines of credit	**23,608**
Unused lines of credit	**33,923**
Undisbursed construction loans	**6,071**
Financial standby letters of credit	**1,125**
	$84,461

REGULATORY CAPITAL REQUIREMENTS

The following tables illustrate Bancorp's and the Bank's regulatory capital ratios at December 31, 2014 and December 31, 2013 respectively:

Patriot National Bancorp, Inc.

	December 31, 2014	December 31, 2013
Tier 1 Leverage Capital	9.62%	9.33%
Tier 1 Risk-based Capital	12.98%	12.70%
Total Risk-based Capital	14.08%	13.95%

Patriot National Bank

	December 31, 2014	December 31, 2013
Tier 1 Leverage Capital	9.63%	9.28%
Tier 1 Risk-based Capital	12.98%	12.61%
Total Risk-based Capital	14.08%	13.86%

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 9%, a Tier 1 risk-based capital ratio of at least 10.50% and a total risk-based capital ratio of at least 12%. 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 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. Bancorp’s market risk is primarily limited to interest rate 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 can be matched against longer term deposits and borrowings 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 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. In addition to the Management Asset and 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, ALCO and Liquidity policies.

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.

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 true impact of these downward shocks.

Net Interest Income and Economic Value
Summary Performance
(dollars in thousands)

	December 31, 2014					
	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	19,986	(104)	-0.5 %	74,830	(8,854)	-10.6 %
+ 100	20,152	62	0.3 %	79,390	(4,294)	-5.1 %
BASE	20,090	-	-	83,684	-	-
- 100	20,552	462	2.3 %	91,063	7,379	8.8 %
- 200	20,408	318	1.6 %	95,939	12,255	14.6 %

	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)	-4.6 %	59,238	(11,808)	-16.6 %
+ 100	16,656	(271)	-1.6 %	65,079	(5,967)	-8.4 %
BASE	16,927	-	-	71,046	-	-
- 100	17,124	197	1.2 %	78,332	7,286	10.3 %
- 200	16,864	(63)	-0.4 %	82,687	11,641	16.4 %

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.

ITEM 8. Financial Statements and Supplementary Data

The Financial Statements required by this item are presented in the order shown below, in ITEM 15:

The supplementary data required by this item (selected quarterly financial data) is provided below.

The following table presents quarterly results of operations (unaudited) to the consolidated financial statements:

(in thousands)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter (2)**
2014:				
Interest income	$ 4,879	$ 4,856	$4,977	$5,656
Interest expense	870	722	691	687
Net interest income	4,009	4,134	4,286	4,969
Provision for loan losses	-	-	-	-
Non-interest income	593	623	587	29
Non-interest expense	4,283	4,232	4,424	5,332
Income (loss) before income taxes	319	525	449	(334)
(Benefit) provision for income taxes	-	-	(16,812)	2,062
Net income (loss)	$ 319	$ 525	$17,261	$(2,396)
Net income (loss) per common share:				
Basic and diluted (1)	$ 0.08	$ 0.14	$4.53	$(0.67)

(in thousands)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
2013:				
Interest income	$5,501	$5,309	$5,614	$ 5,230
Interest expense	1,627	1,276	1,083	868
Net interest income	3,874	4,033	4,531	4,362
Provision for loan losses	(30)	-	1,000	-
Non-interest income	487	769	560	610
Non-interest expense	6,369	8,714	6,461	4,340
(Loss) income before income taxes	(1,978)	(3,912)	(2,370)	632
Benefit for income taxes	(21)	-	-	(318)
Net (loss) income	$(1,957)	$(3,912)	$(2,370)	$ 950
Net (loss) income per common share:				
Basic and diluted (1)	$(0.51)	$(1.02)	$(0.62)	$ 0.25

(1) All common stock and per share data has been restated to give effect to the reverse stock split of 1-for-10 effective March 4, 2015.

(2) Fourth quarter results were significantly impacted by the liquidation of the Company's BOLI policy. Excluding the BOLI transaction, the following are the fourth quarter results: net interest income and provision for loan losses-unchanged; non- interest income-$484; non-interest expense-$4,895; income before taxes-$558; provison for income

taxes-$217 and net income-$341.

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

None.

ITEM 9A. Controls and Procedures

(a) Evaluation of Disclosure 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.

(b) Management's Annual 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.

During the fourth quarter management identified a material weakness in internal control relating to the determination of certain quantitative and qualitative factors considered by management in the allowance for loan loss estimation process. No restatement of prior period financial statements and no change in previously released financial results were required as a result of this finding. Management remediated this weakness by enhancing the documentation and controls over the process supporting certain quantitative and qualitative factors considered in the estimation of the allowance for loan losses. Except for the foregoing, there was no change in the Company's internal control over financial reporting in the quarter ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014, 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, 2014, the Company's internal control over financial reporting is effective based on the criteria established in *Internal Control – Integrated Framework (1992)*.

ITEM 9B. Other Information

None.

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 or information statement for its 2015 Annual Meeting of Shareholders, to be filed within 120 days following December 31, 2014.

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 or Information 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 or Information Statement, which section is incorporated herein by reference.

The table below provides information as of December 31, 2014, with respect to the compensation plan under which equity securities of the Company are authorized for issuance to directors, officers or employees.

Plan Category	# of common shares to be issued upon vesting of restricted shares	Weighted average grant date fair value	# of common shares available for issuance under the Plan excluding unvested
Equity Compensation plans approved by security holders	79,209	13.40	185,210
Equity Compensation plans not approved by security holders	-	-	-
Total (1)	**79,209**	**13.40**	**185,210**

(1) All common stock and per share data included in these financial statements has been restated to give effect to the reverse stock split of 1-for-10 effective March 4, 2015.

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 or Information 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 or Information Statement.

Part IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) Exhibits

Exhibit No.	Description
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.
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 Exhibit 10(a)(20) on the Quarterly Report on Form 10-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 Report on Form 8-K dated February 5, 2014 (Commission File No. 000-29599)).

10(a) (20)	Amended Financial Services Agreement, (incorporated by reference to Exhibit 10(a) (20) to Bancorp's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (Commission File No. 000-29599)).

Exhibit No.	Description
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
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.

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, 2014 and 2013 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, 2014. 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, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/KPMG LLP

Stamford, Connecticut

March 31, 2015

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013

	2014	**2013**
	(in thousands, except shares)	
ASSETS		
Cash and due from banks (Note 2):		
Noninterest bearing deposits and cash	$2,095	$1,570
Interest bearing deposits	71,163	33,296
Total cash and cash equivalents	73,258	34,866
Securities:		
Available for sale securities, at fair value (Note 3)	33,682	37,701
Other Investments	4,450	4,450
Federal Reserve Bank stock, at cost	2,058	1,444
Federal Home Loan Bank stock, at cost (Note 8)	6,628	4,143
Total securities	46,818	47,738
Loans receivable (net of allowance for loan losses: 2014: $4,924, 2013: $5,681) (Notes 4 and 17)	471,984	418,148
Accrued interest and dividends receivable	1,918	1,566
Premises and equipment, net (Notes 5 and 9)	22,357	15,061
Cash surrender value of bank owned life insurance (Note 11)	-	22,025
Deferred tax asset (Note 10)	14,926	-
Other assets	1,363	1,844
Total assets	$632,624	$541,248
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Notes 7 and 17):		
Noninterest bearing deposits	$63,398	$55,358
Interest bearing deposits	379,635	374,846
Total deposits	443,033	430,204
Federal Home Loan Bank borrowings (Note 8)	120,000	57,000
Junior subordinated debt owed to unconsolidated trust (Note 8)	8,248	8,248
Accrued expenses and other liabilities	2,608	3,955
Total liabilities	573,889	499,407
Commitments and Contingencies (Notes 8,9 and 14)		

Shareholders' equity (1)(Notes 12 and 16)		
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; 2014: 3,952,177 shares issued; 3,951,007 shares outstanding. 2013: 3,878,668 shares issued; 3,877,497 shares outstanding	395	388
Additional paid-in capital	105,752	105,484
Accumulated deficit	(46,975)	(62,684)
Less: Treasury stock, at cost: 2014 and 2013, 1,170 shares	(160)	(160)
Accumulated other comprehensive loss	(277)	(1,187)
Total shareholders' equity	58,735	41,841
Total liabilities and shareholders' equity	$632,624	$541,248

See Accompanying Notes to Consolidated Financial Statements.

(1) On March 4, 2015, the Company affected a 1-for-10 reverse stock split. All common stock data included in these financial statements has been restated to give effect to the reverse stock split.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
	(in thousands, except per share amounts)		
Interest and Dividend Income			
Interest and fees on loans	**$19,601**	$20,706	$23,482
Interest on investment securities	**528**	775	1,508
Dividends on investment securities	**172**	113	128
Other interest income	**67**	60	98
Total interest and dividend income	**20,368**	21,654	25,216
Interest Expense			
Interest on deposits	**2,364**	3,822	5,351
Interest on Federal Home Loan Bank borrowings	**181**	666	1,459
Interest on subordinated debt	**425**	284	300
Interest on other borrowings	**-**	82	309
Total interest expense	**2,970**	4,854	7,419
Net interest income	**17,398**	16,800	17,797
Provision for Loan Losses (Note 4)	**-**	970	(2,379)
Net interest income after provision for loan losses	**17,398**	15,830	20,176
Non-interest Income			
Mortgage banking activity	**25**	255	164
Loan application, inspection and processing fees	**214**	249	101
Fees and service charges	**896**	744	857
Gain on sale of loans	**-**	28	336
Net gain on sale of investment securities	**-**	-	911
Gain on sale of branch assets and deposits	**-**	51	-
Earnings on cash surrender value of bank owned life insurance	**439**	523	517
Other income	**258**	576	388
Total non-interest income	**1,832**	2,426	3,274
Non-interest Expense			
Salaries and benefits (Notes 9,12 and 14)	**8,097**	9,702	10,593
Occupancy and equipment expense	**3,556**	3,911	4,419
Data processing expense	**1,115**	1,296	1,469
Advertising and promotional expense	**252**	217	86
Professional and other outside services	**2,312**	2,836	2,601

Loan administration and processing expense	**65**	220	137
Regulatory assessments	**879**	1,159	1,724
Insurance expense	**349**	315	471
Other real estate operations (Note 6)	**12**	212	(58)
Material and communications	**376**	397	504
Restructuring charges and asset disposals (Note 20)	**-**	522	940
Prepayment penalty on borrowings	**-**	4,116	-
Other operating expense	**1,258**	981	1,100
Total non-interest expense	**18,271**	25,884	23,986
Income (loss) before income taxes	**959**	**(7,628)**	**(536)**
Benefit for Income Taxes (Note 10)	**(14,750)**	(339)	-
Net income (loss)	**$15,709**	$(7,289)	$(536)
Income (loss) per share (1) (Note 13)	**$4.08**	$(1.90)	$(0.14)

See Accompanying Notes to Consolidated Financial Statements.

(1) On March 4, 2015, the Company affected a 1-for-10 reverse stock split. All per share data has been restated to give effect to the reverse stock split.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
	(in thousands)		
Net income (loss)	**$15,709**	$(7,289)	$(536)
Other comprehensive income (loss)(Note 18):			
Unrealized holding gains (losses) on securities, net of taxes:	**910**	(569)	47
Less reclassification adjustment for net losses included in net income	**-**	-	(799)
Total	**910**	(569)	(752)
Comprehensive income (loss)	**$16,619**	$(7,858)	$(1,288)

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2014, 2013 and 2012

(in thousands)	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2011	$ 384	$ 105,051	$ (54,859)	$ (160)	$ 134	$ 50,550
Comprehensive loss						
Net loss	-	-	(536)	-	-	(536)
Unrealized holding loss on available for sale securities	-	-	-	-	(752)	(752)
Total comprehensive loss						(1,288)
Share-based compensation expense	-	306	-	-	-	306
Issuance of restricted stock	1	(1)				-
Balance, at December 31, 2012	$ 385	$ 105,356	$ (55,395)	$ (160)	$ (618)	$ 49,568
Comprehensive loss						
Net loss	-	-	(7,289)	-	-	(7,289)
Unrealized holding loss on available for sale securities	-	-	-	-	(569)	(569)
Total comprehensive loss						(7,858)
Share-based compensation expense	-	131	-	-	-	131
Issuance of restricted stock	3	(3)				-
Balance, at December 31, 2013	$ 388	$ 105,484	$ (62,684)	$ (160)	$ (1,187)	$ 41,841
Comprehensive income						
Net income	**-**	**-**	**15,709**	**-**	**-**	**15,709**
Unrealized holding gain on available for sale securities	**-**	**-**	**-**	**-**	**910**	**910**
Total comprehensive income						**16,619**
Share-based compensation expense	**-**	**275**	**-**	**-**	**-**	**275**
Issuance of restricted stock	**7**	**(7)**				**-**
Balance, at December 31, 2014	**$ 395**	**$ 105,752**	**$ (46,975)**	**$ (160)**	**$ (277)**	**$ 58,735**

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
	(in thousands)		
Cash Flows from Operating Activities:			
Net income (loss):	**$15,709**	$(7,289)	$(536)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Restructuring charges and asset disposals	**-**	(163)	(64)
Amortization of investment premiums, net	**238**	187	311
Amortization and accretion of purchase loan premiums and discounts, net	**(883)**	20	11
Provision for loan losses	**-**	970	(2,379)
Net gain on sale of investment securities	**-**	-	(911)
Gain on sale of loans	**-**	(283)	(420)
Originations of mortgage loans held for sale	**-**	(35,647)	(5,206)
Proceeds from sales of mortgage loans held for sale	**-**	37,429	3,763
Loss on disposal of fixed assets	**-**	-	16
Earnings on cash surrender value of life insurance	**(439)**	(523)	(517)
Liquidation of cash surrender value of life insurance	**22,464**	-	-
Depreciation and amortization	**1,085**	1,215	1,216
Loss (gain) on sale of other real estate owned	**4**	(114)	(185)
Proceeds from sale of branch assets and deposits	**-**	127	-
Gain on sale of branch assets and deposits	**-**	(51)	-
Share-based compensation	**275**	131	306
Changes in assets and liabilities:			
Decrease (increase) in net deferred loan costs	**12**	(132)	184
(Increase) decrease in accrued interest and dividends receivable	**(352)**	328	559
Increase in deferred tax asset	**(14,750)**	-	-
Decrease (increase) in other assets	**481**	737	(160)
(Decrease) increase in accrued expenses and other liabilities	**(1,347)**	(1,637)	858
Net cash provided by (used in) operating activities	**22,497**	**(4,695)**	**(3,154)**
Cash Flows from Investing Activities:			
Principal repayments on available for sale securities	**4,515**	2,313	24,516
(Purchases) redemptions of Federal Reserve Bank stock	**(614)**	286	(23)
(Purchases) redemptions of Federal Home Loan Bank stock	**(2,485)**	201	165
Proceeds from sale of loans	**-**	10,655	99,738
(Increase) decrease in loans	**(52,965)**	25,462	(60,646)
Purchase of other real estate owned	**(264)**	-	-
Proceeds from sale of other real estate owned	**260**	5,068	3,347
Capital improvements of other real estate owned	**-**	(80)	(111)
Purchase of bank premises and equipment, net	**(8,381)**	(8,279)	(616)

Net cash (used in) provided by investing activities	**(59,934)**	**35,626**	**66,370**
Cash Flows from Financing Activities:			
Net Increase (decrease) in deposits	**12,829**	(52,541)	(47,627)
Decrease in deposits held for sale	**-**	(14,538)	-
Increase in FHLB borrowings	**63,000**	7,000	-
Decrease in repurchase agreements	**-**	(7,000)	-
Net cash provided by (used in) financing activities	**75,829**	**(67,079)**	**(47,627)**
Net increase (decrease) in cash and cash equivalents	**38,392**	**(36,148)**	**15,589**
Cash and cash equivalents at beginning of year	**34,866**	71,014	55,425
Cash and cash equivalents at end of year	**$73,258**	$34,866	$71,014

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014, 2013 and 2012	**2014**	2013	2012
	(in thousands)		
Supplemental Disclosures of Cash Flow Information			
Interest paid	**$4,191**	$4,706	$7,127
Income taxes paid	**$3**	$3	$10
Supplemental disclosures of noncash operating, investing and financing activities:			
Unrealized holding gain (loss) on available for sale securities arising during the period	**$910**	$(569)	$(834)
Transfer of loans to other real estate owned	**$-**	$3,698	$6,112
Transfer of other real estate owned to premises and equipment	**$-**	$-	$950
Reduction in deposits held for sale	**$-**	$10,167	$24,705
Reduction in branch assets held for sale	**$-**	$12	$88

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

Note 1 . Nature of Operations and Summary of Significant Accounting Policies

Patriot National Bancorp, Inc. (the "Company"), a Connecticut corporation, is a bank holding company that was organized in 1999. On December 1, 1999, all the issued and outstanding shares of Patriot National Bank (the "Bank") were converted into Company common stock and the Bank became a wholly owned subsidiary of the Company. The Bank is a nationally chartered commercial bank whose deposits are insured under the Bank Insurance Fund, which is administered by the Federal Deposit Insurance Corporation. The Bank provides a full range of banking services to commercial and consumer customers through its main office in Stamford, Connecticut, seven other branch offices in Connecticut and two branch offices in New York. The Bank's customers are concentrated in Fairfield and New Haven Counties in Connecticut and Westchester County in New York.

On March 11, 2003, the Company formed Patriot National Statutory Trust I (the "Trust") for the purpose of issuing trust preferred securities and investing the proceeds in subordinated debentures issued by the Company, and on March 26, 2003, the first series of trust preferred securities were issued. In accordance with generally accepted accounting principles, the Trust is not included in the Company's consolidated financial statements.

The following is a summary of the Company's significant accounting policies:

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 the Company's most critical accounting policies and estimates in that they are important to the portrayal of the Company's financial condition and results. They require management's most subjective and complex judgment as a result of the need to make estimates about the effect of matters that are inherently uncertain. These policies as well as the Company's other significant accounting policies are described below.

Principles of consolidation and basis of financial statement presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank, and the Bank's wholly owned subsidiaries, PinPat Acquisition Corporation and ABC HOLD Co, LLC, and have been prepared in conformity with U.S. generally accepted accounting principles. All significant intercompany balances and transactions have been eliminated.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

Cash and cash equivalents

Cash and due from banks, federal funds sold and short-term investments are recognized as cash equivalents in the consolidated balance sheets. Federal funds sold generally mature in one day. For purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains amounts due from banks which, at times, may exceed federally insured limits. The Company has not experienced any losses from such concentrations. The short-term investments represent an investment in a money market mutual fund. The Company did not maintain any balances in federal funds sold or short-term investments during 2014.

Investments in debt and marketable equity securities

Management determines the appropriate classification of securities at the date individual investment securities are acquired, and the appropriateness of such classification is reassessed at each balance sheet date.

The Bank is required to maintain an investment in capital stock of the Federal Home Loan Bank of Boston (“FHLB”), as collateral, in an amount equal to a percentage of its outstanding mortgage loans and loans secured by residential properties, including mortgage-backed securities. The stock is purchased from and redeemed by the FHLB based upon its $100 par value. The stock is a non-marketable equity security and as such is classified as restricted stock, carried at cost and evaluated for impairment in accordance with relevant accounting guidance. In accordance with this guidance, the stock’s value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of any decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the potential impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB.

Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein. Consideration was given to the long-term prospects for the FHLB. Management also considered that the FHLB's regulatory capital ratios have increased from the prior year, liquidity appears adequate, and new shares of FHLB stock continue to exchange hands at $100 par value.

The Bank is required to maintain an investment in capital stock of the Federal Reserve Bank ("FRB"), as collateral, in an amount equal to one percent of six percent of the Bank's total equity capital as per the latest Report of Condition (Call Report). The stock is purchased from and redeemed by the FRB based upon its $100 par value. The stock is a non-marketable equity security and as such is classified as restricted stock, carried at cost and evaluated for impairment in accordance with relevant accounting guidance. In accordance with this guidance, the stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of any decline in net assets of the FRB as compared to the capital stock amount and the length of time this situation has persisted; (b) the potential impact of legislative and regulatory changes on the customer base of the FRB; and (c) the liquidity position of the FRB.

Member banks may carry over changes within a calendar year until the cumulative change exceeds the lesser of 15% or 100 shares of Federal Reserve Bank stock. However, any change required by a member bank's capital and surplus, as shown in its Report of Condition as of December 31 of each year, must be applied for even if the change is less than 100 shares of Federal Reserve Bank stock and less than 15% of the Federal Reserve Bank stock held by the member bank.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein. Consideration was given to the long-term prospects for the FRB. Management also considered that liquidity appears adequate and new shares of FRB stock continue to exchange hands at the $100 par value.

Debt securities, if any, that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and are recorded at amortized cost. “Trading” securities, if any, are carried at fair value with unrealized gains and losses recognized in earnings. Securities classified as “available for sale” are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of taxes. Purchase premiums and discounts are recognized in interest income using the interest method over the contractual lives of the securities.

The Company conducts a quarterly review and evaluation of the securities portfolio to determine if a decline in the fair value of any security below its cost basis is other-than-temporary. Our evaluation of other-than-temporary impairment, or OTTI, considers the duration and severity of the impairment, our intent and ability to hold the securities and our assessments of the reason for the decline in value and the likelihood of a near-term recovery. If such decline is deemed other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged to earnings as a component of non-interest income, except for the amount of the total OTTI for a debt security that does not represent credit losses which is recognized in other comprehensive income/loss, net of applicable taxes.

Security transactions are recorded on the trade date. Realized gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method and reported in non-interest income.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

Loans held for sale

Loans held for sale, are those loans the Company has the intent to sell in the foreseeable future, and are carried at the lower of aggregate cost or fair value, less estimated selling costs. Gains and losses on sales of loans are recognized on the trade dates, and are determined by the difference between the sales proceeds and the carrying value of the loans. Once loans are transferred to held for sale, any subsequent impairment in loans held for sale is recorded in non-interest income.

Loans receivable

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

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

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

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

The Company's real estate loans are collateralized by real estate located principally in Fairfield and New Haven Counties in Connecticut and Westchester County, New York, and accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in regional real estate market conditions.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

Impaired loans also include loans modified in troubled debt restructurings (TDRs), where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. TDRs are normally placed on non-accrual status until the loan qualifies for return to accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured term of the loan agreement for a minimum of six months.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer installment loans for impairment disclosures, unless such loans are individually evaluated for impairment due to financial difficulties of the borrower.

Allowance for loan losses

The allowance for loan losses (ALL) 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 Company's December 31, 2014 allowance calculation included the use of more definitive and distinct Loss Emergence Periods (LEPs) for each loan segment, allowing the Company to more accurately forecast probable losses that have already occurred in the loan portfolio, which may not have emerged into "problem loan" status.

The updates and refinements to the allowance methodology did not have a significant impact on the total Allowance for Loan Losses, but as depicted in the tables in footnote 4, did result in some realignment of Allowance allocations. Notably, the Residential Mortgage allocation increased, which was primarily the result of higher NPLs and calculated loss rates, higher qualitative factor adjustments, and a higher LEP. As this category has incurred the most amount of dollars charged-off each of the past three years and has been a significant contributor to the Company's non-performing loans, the Company believes the resulting December 31, 2014 Allowance allocation for this portfolio segment was reasonable and appropriate.

The ALL for homogeneous loans is calculated using a systematic methodology with both a quantitative and a qualitative analysis that is applied on a quarterly basis. The ALL model is comprised of five distinct portfolio segments:

1) Commercial Real Estate
2) Residential Real Estate
3) Construction
4) Commercial
5) Consumer

Each segment has a distinct set of risk characteristics monitored by management. We further assess and monitor risk and performance at a more disaggregated level which includes our internal risk rating system for the commercial segments and type of collateral, lien position and loan-to-value, or LTV, for the consumer segments.

We first apply historical loss rates to pools of loans with similar risk characteristics. Loss rates are calculated by historical charge-offs that have occurred within each pool of loans over the loss emergence period, or LEP. The LEP is an estimate of the average amount of time from the point at which a loss is incurred on a loan to the point at which the loss is confirmed. In general, the LEP will be shorter in an economic slowdown or recession and longer during times of economic stability or growth, as customers are better able to delay loss confirmation after a potential loss event has occurred.

In conjunction with our annual review of the ALL assumptions, we have updated our study of LEPs for our commercial portfolio segments using our loan charge-off history.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

Another key assumption is the look-back period, or LBP, which represents the historical data period utilized to calculate loss rates. We lengthened the LBP for all segments in order to capture relevant historical data believed to be reflective of losses inherent in the portfolios. We use a 2- year LBP for portfolio segments.

After consideration of the historic loss calculations, management applies additional qualitative adjustments so that the ALL is reflective of the inherent losses that exist in the loan portfolio at the balance sheet date. Qualitative adjustments are made based upon changes in economic conditions, loan portfolio and asset quality data and credit process changes, such as credit policies or underwriting standards. The evaluation of the various components of the ALL requires considerable judgment in order to estimate inherent loss exposures.

Qualitative adjustments are aggregated into the nine categories described in the Interagency Policy Statement (“Interagency Statement”) issued by the bank regulators. Within the statement, the following qualitative factors are considered:

1. Changes in our lending policies and procedures, including underwriting standards, collection, charge-off and recovery practices not considered elsewhere in estimating credit losses;
2. Changes in national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
3. Changes in the nature and volume of our loan portfolio and terms of loans;
4. Changes in the experience, ability and depth of our lending management and staff;
5. Changes in the volume and loss severity of past due loans, the volume of nonaccrual loans, and the volume and loss severity of adversely classified or graded loans;
6. Changes in the quality of our loan review system;
7. Changes in the value of the underlying collateral for collateral-dependent loans;
8. The existence and effect of any concentrations of credit and changes in the level of such concentrations; and
9. The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in our current loan portfolio.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

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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. Subsequent recoveries, if any, are credited to the allowance. 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 and loan-to-value if collateral dependent. 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 above. 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.

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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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

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.

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 OCC 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.

Transfers of financial assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and no condition both constrains the transferee from taking advantage of that right and provides more than a trivial benefit for the transferor, and (3) the transferor does not maintain effective control over the transferred assets through either (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

Other real estate owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of cost or estimated fair value less cost to sell at the date of foreclosure, establishing a new cost basis. In addition, when the Company acquires other real estate owned ("OREO"), it obtains a current appraisal to substantiate the net carrying value of the asset. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in operations. Costs relating to the development and improvement of the property are capitalized, subject to the limit of fair value of the collateral. Gains or losses are included in non-interest expenses upon disposal.

Write-downs required upon transfer to other real estate owned are charged to the allowance for loan losses. Thereafter, an allowance for other real estate owned losses is established for any further declines in the property's value. These losses are included in non-interest expenses in the consolidated statement of operations.

Premises and equipment

Premises and equipment are stated at cost, net of accumulated depreciation and amortization. Leasehold improvements are capitalized and amortized over the shorter of the terms of the related leases or the estimated economic lives of the improvements. Depreciation is charged to operations for buildings, furniture, equipment and software using the straight-line method over the estimated useful lives of the related assets which range from three to forty years. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

Impairment of assets

Long-lived assets, which are held and used by the Company, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment is indicated by that review, the asset is written down to its estimated fair value through a charge to non-interest expense.

Cash surrender value of bank owned life insurance

Cash surrender value of bank owned life insurance ("BOLI") represented life insurance on certain employees who have consented to allow the Bank to be the beneficiary of those policies. Changes in the cash value of the policies, as well as insurance proceeds received above the carrying value, were recorded in other non-interest income and are not subject to income tax. The funds were held in a segregated account and invested in marketable securities. The Bank liquidated the BOLI policy in December 2014.

Income taxes

The Company recognizes income taxes under the asset and liability method. Under this method, net deferred taxes are recognized for the estimated tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and loss carry forwards. Deferred tax assets (DTAs) and liabilities (DTLs) 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 DTAs and DTLs of a change in tax rates is recognized in income in the period that includes the enactment date.

In certain circumstances deferred tax assets are subject to reduction by a valuation allowance. A valuation allowance is subject to ongoing adjustment based on changes in circumstances that affect management's judgment about the realizability of the deferred tax asset. Adjustments to increase or decrease the valuation allowance are charged or credited to income tax provision (benefit).

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 consolidated 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 Company had a net deferred tax asset of $14.9 million at December 31, 2014 compared to a net deferred tax asset of $0 at December 31, 2013. The change in net deferred tax asset of $14.9 million was primarily due to the release of the valuation allowance.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

The Company evaluates its ability to realize its net deferred tax assets on a quarterly basis. In doing so the Company considers all available evidence, both positive and negative, to determine whether it is more likely than not that the deferred tax assets will be realized. When comparing 2014 to prior periods, management noted positive evidence which included strong positive trend in financial performance, forecasted 2015 and future period taxable income, a significant improvement in the quality of the loan portfolio, favorable changes in operations which permanently reduce operating expenses and net operating loss carry-forwards that do not begin to expire until 2029. The positive evidence noted above resulted in management's conclusion to release the valuation allowance against the net deferred tax at September 30, 2014. The positive trend in the Bank's financial performance continued through the fourth quarter, and management determined that a valuation allowance against the net deferred tax asset was not necessary at December 31, 2014.

Management will continue to evaluate the bank's ability to realize its net deferred tax asset. Future evidence may prove that it is more likely than not that a portion of the net deferred tax asset will not be realized at which point a valuation allowance may be reestablished.

The Company has no unrecognized tax benefits and related interest or penalties at December 31, 2014. Management does not believe that there is any tax position for which it is reasonably possible that will result in unrecognized tax benefits within the next 12 months.

The Company's returns for tax years 2010 through 2013 are subject to examination by the Internal Revenue Service ("IRS") for U.S. federal tax purposes, and by its major state tax authority, Connecticut. During 2013, the IRS had completed its examination of the U.S. federal tax returns of the Company for tax years ended December 31, 2004 thru 2009. There were no changes made by the IRS to the Company's reported tax. There are no other on-going audits in other tax jurisdictions.

Related party transactions

Directors and officers of the Company and the Bank and their affiliates have been customers of and have had transactions with the Bank, and it is expected that such persons and entities will continue to have such transactions in the future. Management believes that all deposit accounts, loans, services and commitments comprising such transactions were made in the ordinary course of business, and on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with other customers who are not directors or officers. In the opinion of management, the transactions with related parties did not involve more than normal risks of collectability or favored treatment or terms, or present other unfavorable features. Note 17 contains details regarding related party transactions.

Earnings or loss per share

Basic earnings or loss per share represents income or loss relating to common shareholders and is computed by dividing net income or loss by the weighted-average number of common shares outstanding. Diluted earnings or loss per share reflects additional common shares that would have been outstanding if potential dilutive common shares had been issued, as well as any adjustments to income resulting from the assumed issuance unless such assumed issuance is anti-dilutive. Potential common shares that may be issued by the Company include any stock options and warrants, and are determined using the treasury stock method. The Company did not have any potentially dilutive shares outstanding in 2013 or 2014.

Treasury shares are not deemed outstanding for income (loss) per share purposes.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

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Share-based compensation plan

The Company accounts for share-based compensation transactions at fair-value and recognizes the related expense in the consolidated statements of operations.

The Compensation Committee establishes terms and conditions applicable to the vesting of restricted stock awards and stock options. Restricted stock grants vest in quarterly or annual installments over a three, four or five year period from the date of grant. The fair value of stock options granted would be estimated utilizing the Black-Scholes options pricing modeling. The Company is expensing the grant date fair value of all share-based compensation over the requisite vesting periods on a straight-line basis.

Comprehensive income (loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income (loss). Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of shareholders' equity in the consolidated balance sheets, such items, along with net income, are components of comprehensive income.

Segment reporting

The Company’s only business segment is Community Banking. During the years ended 2014, 2013 and 2012, this segment represented all the revenues and income of the consolidated group and, therefore, is the only reported segment.

Fair value

The Company 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.

See Note 19 for additional information regarding fair value.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

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Recently Issued Accounting Standards Updates

ASU 2014-14, "*Receivables - Troubled Debt Restructuring by Creditors (Subtopic 310-40)*" – Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure which will require creditors to derecognize certain foreclosed government-guaranteed mortgage loans and to recognize a separate other receivable that is measured at the amount the creditor expects to recover from the guarantor, and to treat the guarantee and the receivable as a single unit of account. ASU 2014-14 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the ASU is effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. An entity can elect a prospective or a modified retrospective transition method, but must use the same transition method that it elected under FASB ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. Early adoption, including adoption in an interim period, is permitted if the entity already adopted ASU 2014-04. The Company intends to adopt the accounting standard during the first quarter of 2015, with no material impact on its financial statements anticipated.

ASU No. 2014-12*, Compensation-Stock Compensation (Topic 718) "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)."* – The ASU provides explicit guidance to account for a performance target that could be achieved after the requisite service period as a performance condition. For awards within the scope of this Update, the Task Force decided that an entity should apply existing guidance in Topic 718 as it relates to share-based payments with performance conditions that affect vesting. Consistent with that guidance, performance conditions that affect vesting should not be reflected in estimating the fair value of an award at the grant date. Compensation cost should be recognized when it is probable that the performance target will be achieved and should represent the compensation cost attributable to the period for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The amendments are effective for annual and interim periods beginning after December 15, 2015. The Company intends to adopt the accounting standard during the first quarter of 2015, with no material impact on its financial statements anticipated.

ASU No. 2014-09, *"Revenue from Contracts with Customers (Topic 606)"* – which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

ASU No. 2014-04, *"Receivables – Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure*," was issued to clarify that when an in substance repossession or foreclosure occurs, a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014-04 is effective for annual reporting periods beginning after December 15, 2014. The Company intends to adopt the accounting standard during the first quarter of 2015, with no material impact on its financial statements anticipated.

ASU No. 2014-01, "*Accounting for Investments in Qualified Affordable Housing Projects (Topic 323)*"- allows an entity that invests in low income housing projects and meets all the specified conditions to use the proportional amortization method to account for the costs of those investments. The effective date is for annual periods and interim periods within those annual periods beginning after December 15, 2014. The Company intends to adopt the accounting standard during the first quarter of 2015, with no material impact on its financial statements anticipated.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

Note 2 . Restrictions on Cash and Due From Banks

At December 31, 2014 and 2013, the Company was required to maintain $25,000 in the Federal Reserve Bank for clearing purposes for its transaction accounts and non-personal time deposits.

Note 3 . Available-for-Sale Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair value of available-for-sale securities at December 31, 2014 and 2013 are as follows:

(in thousands)	**Amortized Cost**	**Gross Unrealized Losses**	**Fair Value**
2014			
U. S. Government agency bonds	**$ 7,500**	**$ (91)**	**$7,409**
U. S. Government agency mortgage-backed securities	**17,635**	**(298)**	**17,337**
Corporate bonds	**9,000**	**(64)**	**8,936**
	$ 34,135	**$ (453)**	**$33,682**
2013			
U. S. Government agency bonds	$ 7,500	$ (421)	$7,079
U. S. Government agency mortgage-backed securities	22,388	(636)	21,752
Corporate bonds	9,000	(130)	8,870
	$ 38,888	$ (1,187)	$37,701

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

The amortized cost and fair value of available-for-sale debt securities at December 31, 2014 by contractual maturity are presented below. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be repaid without any penalties. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

	Less Than 12 Months		**12 Months or More**		**Total**	
(in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
2014						
U. S. Government agency bonds	**$-**	**$ -**	**$7,409**	**$ (91)**	**$7,409**	**$ (91)**
U. S. Government agency mortgage -backed securities	**-**	**-**	**17,337**	**(298)**	**17,337**	**(298)**
Corporate bonds	**-**	**-**	**8,936**	**(64)**	**8,936**	**(64)**
Totals	**$-**	**$ -**	**$33,682**	**$ (453)**	**$33,682**	**$ (453)**
2013						
U. S. Government agency bonds	$7,079	$ (421)	$-	$ -	$7,079	$ (421)
U. S. Government agency mortgage -backed securities	8,871	(291)	12,881	(345)	21,752	(636)
Corporate bonds	-	-	8,870	(130)	8,870	(130)
Totals	$15,950	$ (712)	$21,751	$ (475)	$37,701	$ (1,187)

At December 31, 2014, all eleven available-for-sale securities had unrealized losses with an aggregate depreciation of 1.3% from the amortized cost. At December 31, 2013, all eleven securities had unrealized losses with an aggregate depreciation of 3.2% from the amortized cost.

The Company performs a quarterly analysis of those securities that are in an unrealized loss position to determine if those losses qualify as other-than-temporary impairments. This analysis considers the following criteria in its determination: the ability of the issuer to meet its obligations when the loss position is due to a deterioration in credit quality, 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 for improvement or deterioration.

Management believes that none of the unrealized losses on available-for-sale securities noted above are other than temporary due to the fact that they relate to market interest rate changes on U.S. Government agency debt, corporate debt and mortgage-backed securities issued by U.S. Government agencies. Management considers the issuers of the securities to be financially sound, the corporate bonds are investment grade and the Company expects to receive all contractual principal and interest related to these investments. Because the Company does not intend to sell the investments, and it is not more-likely-than-not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2014.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

At December 31, 2014 and 2013, available-for-sale securities with a carrying value of $4.4 million and $5.8 million, respectively, were pledged to secure municipal deposits.

The amortized cost and fair value of available-for-sale debt securities at December 31, 2014 by contractual maturity are presented below. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be repaid without any penalties. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

(in thousands)	Amortized Cost	Fair Value
Maturity:		
Corporate bonds 5 to 10 years	$ 9,000	$ 8,936
U.S. Government agency bonds < 5 years	2,500	2,489
U.S. Government agency bonds 5 to 10 years	5,000	4,920
U.S. Government agency mortgage-backed securities	17,635	17,337
Total	$ 34,135	$ 33,682

During 2014 and 2013, there were no sales of available-for-sale securities. During 2012, sales of available-for-sale securities resulted in the Company recognizing proceeds of $45.2 million and net gains of $911,000.

Note 4 . Loan Receivables and Allowance for Loan Losses

Loans receivable, net, consists of the following at December 31, 2014 and 2013:

(in thousands)

	December 31, 2014	December 31, 2013
Real Estate		
Commercial	**$ 254,505**	$ 222,772
Residential	**108,543**	106,968
Construction	**3,096**	260
Construction to permanent	**10,627**	11,372
Commercial	**53,973**	35,137
Consumer home equity	**41,631**	44,315
Consumer installment	**4,533**	3,005
Total Loans	**476,908**	423,829
Allowance for loan losses	**(4,924)**	(5,681)
Loans receivable, net	**$ 471,984**	$ 418,148

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

A summary of changes in the allowance for loan losses for the years ended December 31, 2014, 2013 and 2012 are as follows:

(in thousands)	**2014**	2013	2012
Balance, beginning of period	**$5,681**	$6,016	$9,385
Provision for loan losses	**-**	970	(2,379)
Loans charged-off	**(867)**	(1,668)	(1,070)
Recoveries of loans previously charged-off	**110**	363	80
Balance, end of period	**$4,924**	$5,681	$6,016

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

The Company has established credit policies applicable to each type of lending activity in which it engages, evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 75% of the market value of the collateral for commercial real estate at the date of the credit extension depending on the Company's evaluation of the borrowers' creditworthiness and type of collateral and up to 80% for multi–family real estate. In the case of construction loans, the maximum loan-to-value is 65% of the “as completed” appraised value. The appraised value of collateral is monitored on an ongoing basis and additional collateral is requested when warranted. Real estate is the primary form of collateral. Other important forms of collateral are accounts receivable, inventory, other business assets, marketable securities and time deposits.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

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

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

Construction Loans – Construction loans are short-term loans (generally up to 18 months) secured by land for both residential and commercial development. The loans are generally made for acquisition and improvements. Funds are disbursed as phases of construction are completed. Included in this category are loans to construct single family homes where no contract of sale exists, based upon the experience and the financial strength of the builder, the type and location of the property and other factors. Construction loans are generally personally guaranteed by the principal(s). Repayment of such loans may be negatively impacted by the builders' inability to complete construction, by a downturn in the new construction market, by a significant increase in interest rates or by decline in general economic conditions.

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

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

The following tables set forth activity in our allowance for loan losses, by loan type, for the twelve months ended December 31, 2014. The following tables also detail the amount of loans receivable, net, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment.

(in thousands)

Twelve months ended December 31, 2014	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential**	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses:								
Beginning Balance	$ 2,285	$ 1,585	$ 260	$ 25	$ 795	$ 534	$ 197	$ 5,681
Charge-offs	(49)	(297)	(260)	-	(195)	(66)	-	(867)
Recoveries	6	60	10	-	30	4	-	110
Provision	(324)	71	53	190	201	6	(197)	-
Ending Balance	$ 1,918	$ 1,419	$ 63	$ 215	$ 831	$ 478	$ -	$ 4,924
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 7	$ -	$ 7
Ending balance: collectively evaluated for impairment	1,918	1,419	63	215	831	471	-	4,917
Total Allowance for Loan Losses	$ 1,918	$ 1,419	$ 63	$ 215	$ 831	$ 478	$ -	$ 4,924
	$ 53,973	$ 254,505	$ 3,096	$ 10,627	$ 108,543	$ 46,164	$ -	$ 476,908

Total Loans ending balance								
Ending balance: individually evaluated for impairment	2	7,398	-	-	3,764	560	-	11,724
Ending balance: collectively evaluated for impairment	$ 53,971	$ 247,107	$ 3,096	$ 10,627	$ 104,779	$ 45,604	$ -	$ 465,184

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

The following tables set forth activity in our allowance for loan losses, by loan type, for the twelve months ended December 31, 2013. The following tables also detail the amount of loans receivable, net, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment.

(in thousands) **Twelve months ended December 31, 2013**	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential**	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses:								
Beginning Balance	$ 942	$ 3,509	$ 311	$ 19	$ 897	$ 217	$ 121	$ 6,016
Charge-offs	(63)	(403)	(205)	-	(919)	(78)	-	(1,668)
Recoveries	4	335	20	-	1	3	-	363
Provision	1,402	(1,856)	134	6	816	392	76	970
Ending Balance	$ 2,285	$ 1,585	$ 260	$ 25	$ 795	$ 534	$ 197	$ 5,681
Ending balance: individually evaluated for impairment	$ 1,500	$ 31	$ 260	$ -	$ 98	$ 2	$ -	$ 1,891
Ending balance: collectively evaluated for impairment	785	1,554	-	25	697	532	197	3,790
Total Allowance for Loan Losses	$ 2,285	$ 1,585	$ 260	$ 25	$ 795	$ 534	$ 197	$ 5,681
Total Loans ending balance	$ 35,137	$ 222,772	$ 260	$ 11,372	$ 106,968	$ 47,320	$ -	$ 423,829

Ending balance: individually evaluated for impairment	6,152	7,766	260	1,189	6,060	594	-	22,021
Ending balance: collectively evaluated for impairment	$ 28,985	$ 215,006	$ -	$ 10,183	$ 100,908	$ 46,726	$ -	$ 401,808

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

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

Appraisals on properties securing non-performing loans and Other Real Estate Owned ("OREO") are updated annually. We update our impairment analysis monthly based on the most recent appraisal as well as other factors (such as senior lien positions, property taxes, etc.).

The majority of the Company's impaired loans have been resolved through courses of action other than via bank liquidations of real estate collateral through OREO. These include normal loan payoffs, the traditional workout process, triggering personal guarantee obligations, and troubled debt restructurings. However, as loan workout efforts progress to a point where the bank's liquidation of real estate collateral is the likely outcome, the impairment analysis is updated to reflect actual recent experience with bank sales of OREO properties.

A disposition discount is built into our impairment analysis and reflected in our allowance once a property is determined to be a likely OREO (e.g. foreclosure is probable). To determine the discount we compare the average sales prices of our prior OREO properties to the appraised value that was obtained as of the date when we took title to the property. The difference is the bank-owned disposition discount.

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

In addition, the Company engages a third party independent loan reviewer that performs quarterly reviews of a sample of loans, validating the Bank's risk ratings assigned to such loans. Any upgrades to classified loans must be approved by the Management Loan Committee.

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

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

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

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

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

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The following table details the credit risk exposure of loans receivable, by loan type and credit quality indicator at December 31, 2014:

CREDIT RISK PROFILE BY CREDIT WORTHINESS CATEGORY

CREDIT RISK PROFILE BY CREDIT WORTHINESS CATEGORY

(in thousands)	**Commercial**		**Commercial Real Estate**		**Construction**		**Construction to Permanent**		**Residential Real Estate**		**Consumer**		
LTVs:	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**<75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**Ot**
Internal Risk Rating													
Pass	$41,200	$6,878	$240,926	$7,206	$2,936	$160	$10,627	$-	$93,238	$14,586	$43,820	$1,627	$7
Special Mention	121	-	1,945	1,983	-	-	-	-	-	-	-	-	-
Substandard	5,774	-	2,445	-	-	-	-	-	339	380	7	-	-
	$47,095	$6,878	$245,316	$9,189	$2,936	$160	$10,627	$-	$93,577	$14,966	$43,827	$1,627	$7

CREDIT RISK PROFILE

(in thousands)	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential Real Estate**	**Consumer**	**Totals**

Performing	$ 53,971	$ 254,367	$ 3,096	$ 10,627	$ 107,824	$ 46,157	$476,042
Non Performing	2	138	-	-	719	7	866
Total	$ 53,973	$ 254,505	$ 3,096	$ 10,627	$ 108,543	$ 46,164	$476,908

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

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The following table details the credit risk exposure of loans receivable, by loan type and credit quality indicator at December 31, 2013:

CREDIT RISK PROFILE BY CREDITWORTHINESS CATEGORY

CREDIT RISK PROFILE BY CREDIT WORTHINESS CATEGORY

(in thousands)	**Commercial**		**Commercial Real Estate**		**Construction**		**Construction to Permanent**		**Residential Real Estate**		**Consumer**		
LTVs:	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**<75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**Oth**
Internal Risk Rating													
Pass	$23,671	$3,868	$198,787	$7,940	$-	$-	$10,183	$-	$83,252	$20,778	$42,780	$3,849	$650
Special Mention	170	-	6,551	2,496	-	-	-	-	-	-	-	-	-
Substandard	7,428	-	3,684	3,314	60	200	1,189	-	1,981	957	10	31	-
	$31,269	$3,868	$209,022	$13,750	$60	$200	$11,372	$-	$85,233	$21,735	$42,790	$3,880	$650

CREDIT RISK PROFILE

(in thousands)	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential Real Estate**	**Consumer**	**Totals**

Performing	$ 28,985	$ 221,007	$ -	$ 10,183	$ 104,030	$ 47,287	$411,492
Non Performing	6,152	1,765	260	1,189	2,938	33	12,337
Total	$ 35,137	$ 222,772	$ 260	$ 11,372	$ 106,968	$ 47,320	$423,829

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

Non-accrual and past due loans

Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The recorded balance of these nonaccrual loans was $866,000 and $12.3 million at December 31, 2014, and December 31, 2013 respectively. Generally, loans are placed on non-accruing status when they become 90 days or more delinquent, and remain on non-accrual status until they are brought current, have six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exist. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent and still be on a non-accruing status. Additionally, certain loans that cannot demonstrate sufficient global cash flow to continue loan payments in the future and certain troubled debt restructures (TDRs) are placed on non-accrual status.

Loans past due ninety days or more, and still accruing interest, were $279,000 and $866,000 at December 31, 2014, and December 31, 2013 respectively. Loans over 90 days past due were comprised of four commercial loans as of December 31, 2014. All four loans were mature lines of credit with acceptable risk ratings awaiting renewal. These loans were past the loan’s maturity date and were current within 60 days as to interest payments. Loans over 90 days past due were comprised of two loans as of December 31, 2013. One loan for $841,000 was current and the second loan for $25,000 was current within 60 days as to interest payments, both were past the loan’s maturity date and in the process of being renewed.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

The following table sets forth the detail, and delinquency status, of non-accrual loans and past due loans at December 31, 2014:

(in thousands)	**Non-Accrual and Past Due Loans Non-Accrual Loans**						
2014	**31-60 Days Past Due**	**61-90 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**>90 Days Past Due and Accruing**	**Total Non-Accrual and Past Due Loans**
Commercial							
Pass	$ -	$ -	$ -	$ -	$ -	$ 279	$ 279
Substandard	-	-	2	2	-	-	2
Total Commercial	$ -	$ -	$ 2	$ 2	$ -	$ 279	$ 281
Commercial Real Estate							
Substandard	$ -	$ -	$ -	$ -	$ 138	$ -	$ 138
Total Commercial Real Estate	$ -	$ -	$ -	$ -	$ 138	$ -	$ 138
Residential Real Estate							
Substandard	$ -	$ -	$ 719	$ 719	$ -	$ -	$ 719
Total Residential Real Estate	$ -	$ -	$ 719	$ 719	$ -	$ -	$ 719
Consumer							
Substandard	$ -	$ -	$ 7	$ 7	$ -	$ -	$ 7
Total Consumer	$ -	$ -	$ 7	$ 7	$ -	$ -	$ 7
Total	$ -	$ -	$ 728	$ 728	$ 138	$ 279	$ 1,145

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

December 31, 2014, 2013 and 2012

The following table sets forth the detail, and delinquency status, of non-accrual loans and past due loans at December 31, 2013:

(in thousands)	**Non-Accrual and Past Due Loans Non-Accrual Loans**						
2013	**31-60 Days Past Due**	**61-90 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**>90 Days Past Due and Accruing**	**Total Non-Accrual and Past Due Loans**
Commercial							
Pass	$-	$ -	$ -	$-	$ -	$ 25	$ 25
Substandard	-	-	2	2	6,150	-	6,152
Total Commercial	$-	$ -	$ 2	$2	$ 6,150	$ 25	$ 6,177
Commercial Real Estate							
Substandard	$-	$ -	$ 1,765	$1,765	$ -	$ 841	$ 2,606
Total Commercial Real Estate	$-	$ -	$ 1,765	$1,765	$ -	$ 841	$ 2,606
Construction							
Substandard	$-	$ -	$ 260	$260	$ -	$ -	$ 260
Total Construction	$-	$ -	$ 260	$260	$ -	$ -	$ 260
Construction to Permanent							
Substandard	$-	$ -	$ -	$-	$ 1,189	$ -	$ 1,189
Total Construction to Permanent	$-	$ -	$ -	$-	$ 1,189	$ -	$ 1,189
Residential Real Estate							
Substandard	$-	$ -	$ 2,553	$2,553	$ 385	$ -	$ 2,938
Total Residential Real Estate	$-	$ -	$ 2,553	$2,553	$ 385	$ -	$ 2,938
Consumer							
Substandard							