

PATRIOT NATIONAL BANCORP INC
Form 10-Q/A
August 23, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No.1)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of August 8, 2018, there were 3,904,578 shares of the registrant's common stock outstanding.

EXPLANATORY NOTE

Patriot National Bancorp, Inc. (the “Company”) originally filed its Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the “Original Filing”) with the Securities and Exchange Commission (“SEC”) on August 14, 2018. The Company is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q (the “Form 10-Q/A” and, together with the Original Filing, the “Form 10-Q”) solely to correct certain inadvertent errors in the column of Three Months Ended June 30, 2018 in the Consolidated Statements of Comprehensive Income (Loss) (Unaudited) as follows:

<i>(In thousands)</i>	Three Months Ended	
	June 30, 2018	
	Reported in	
	Original Corrected Filing	
Net income	\$1,036	1,036
Other comprehensive (loss) income		
Unrealized holding loss on securities	(710)	(403)
Income tax effect	191	108
Total other comprehensive loss	(519)	(295)
Comprehensive income	\$517	741

Except as described above, this Form 10-Q/A does not amend, modify, update or change any other items or disclosures in the Original Filing, which continue to speak as of the date of the Original Filing (including, but not limited to, any forward-looking statements made in the Original Filing, which have not been revised to reflect events that occurred or facts that became known after the Original Filing, and such forward-looking statements should be read in their historical context). Accordingly, this Form 10-Q/A should be read in conjunction with the Original Filing and the Company’s other filings made with the SEC subsequent to the Original Filing.

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

<i>(In thousands, except share data)</i>	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	\$4,589	3,582
Interest bearing deposits	81,052	45,659
Total cash and cash equivalents	85,641	49,241
Investment securities:		
Available-for-sale securities, at fair value	23,982	25,576
Other investments, at cost	4,450	4,450
Total investment securities	28,432	30,026
Federal Reserve Bank stock, at cost	2,564	2,502
Federal Home Loan Bank stock, at cost	5,807	5,889
Loans receivable (net of allowance for loan losses: 2018: \$6,525, 2017: \$6,297)	750,804	713,350
Accrued interest and dividends receivable	3,306	3,496
Premises and equipment, net	35,715	35,358
Other real estate owned	991	-
Deferred tax asset	11,085	10,397
Goodwill	2,100	-
Core deposit intangible, net	534	-
Other assets	3,256	1,821
Total assets	\$930,235	852,080
Liabilities		
Deposits:		
Noninterest bearing deposits	\$83,808	81,197
Interest bearing deposits	628,504	556,242
Total deposits	712,312	637,439
Federal Home Loan Bank and correspondent bank borrowings	110,000	120,000
Senior notes, net	11,740	11,703
Subordinated debt, net	9,576	-
Junior subordinated debt owed to unconsolidated trust	8,090	8,086
Note payable	1,484	1,580

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Advances from borrowers for taxes and insurance	2,876	2,829
Accrued expenses and other liabilities	5,796	3,694
Total liabilities	861,874	785,331

Commitments and Contingencies

Shareholders' equity

Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$.01 par value, 100,000,000 shares authorized; 2018: 3,978,319 shares issued; 3,904,578 shares outstanding. 2017: 3,973,416 shares issued; 3,899,675 shares outstanding	40	40
Additional paid-in capital	106,982	106,875
Accumulated deficit	(36,808)	(38,832)
Less: Treasury stock, at cost: 2018 and 2017, 73,741 and 73,741 shares, respectively	(1,179)	(1,179)
Accumulated other comprehensive loss	(674)	(155)
Total shareholders' equity	68,361	66,749
Total liabilities and shareholders' equity	\$930,235	852,080

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	2017	June 30,	2017
	2018		2018	
<i>(In thousands, except per share amounts)</i>				
Interest and Dividend Income				
Interest and fees on loans	\$9,201	7,591	17,975	14,198
Interest on investment securities	291	242	557	413
Dividends on investment securities	128	93	249	175
Other interest income	270	19	421	83
Total interest and dividend income	9,890	7,945	19,202	14,869
Interest Expense				
Interest on deposits	1,997	1,129	3,654	2,118
Interest on Federal Home Loan Bank borrowings	502	183	759	261
Interest on senior debt	228	228	457	457
Interest on subordinated debt	112	89	211	174
Interest on note payable	10	8	17	17
Total interest expense	2,849	1,637	5,098	3,027
Net interest income	7,041	6,308	14,104	11,842
Provision (Credit) for Loan Losses	50	260	235	(1,489)
Net interest income after provision (credit) for loan losses	6,991	6,048	13,869	13,331
Non-interest Income				
Loan application, inspection and processing fees	12	15	20	36
Deposit fees and service charges	132	146	266	295
Gains on sale of loans	66	-	66	-
Rental Income	83	91	167	185
Loss on sale of investment securities	-	-	-	(78)
Other income	93	97	189	188
Total non-interest income	386	349	708	626
Non-interest Expense				
Salaries and benefits	2,854	2,497	5,623	4,927
Occupancy and equipment expense	776	807	1,517	1,582
Data processing expense	322	326	639	446
Professional and other outside services	457	550	1,029	1,202
Merger and tax initiative project expenses	592	-	1,115	-
Advertising and promotional expense	59	111	137	185

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Loan administration and processing expense	30	14	43	23
Regulatory assessments	298	163	550	342
Insurance expense	53	56	108	115
Communications, stationary and supplies	110	103	223	190
Other operating expense	410	387	768	696
Total non-interest expense	5,961	5,014	11,752	9,708
Income before income taxes	1,416	1,383	2,825	4,249
Provision for Income Taxes	380	579	724	1,715
Net income	\$1,036	804	2,101	2,534
Basic earnings per share	\$0.27	0.21	0.54	0.65
Diluted earnings per share	\$0.26	0.21	0.54	0.65

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)**

<i>(In thousands)</i>	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Net income	\$1,036	804	2,101	2,534
Other comprehensive income				
Unrealized holding (loss) gain on securities	(403)	48	(710)	287
Income tax effect	108	(18)	191	(111)
Reclassification for realized losses on sale of investment securities	-	-	-	(78)
Income tax effect	-	-	-	30
Total other comprehensive (loss) income	(295)	30	(519)	128
Comprehensive income	\$741	834	1,582	2,662

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

<i>(In thousands, except shares)</i>	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2017	3,899,675	\$ 40	106,875	(38,832)	(1,179)	(155)	66,749
Comprehensive income:							
Net income	-	-	-	2,101	-	-	2,101
Unrealized holding loss on available-for-sale securities, net of tax	-	-	-	-	-	(519)	(519)
Total comprehensive income	-	-	-	2,101	-	(519)	1,582
Common stock dividends				(77)			(77)
Share-based compensation expense	-	-	107	-	-	-	107
Vesting of restricted stock	4,903	-	-	-	-	-	-
Balance at June 30, 2018	3,904,578	\$ 40	106,982	(36,808)	(1,179)	(674)	68,361
Balance at December 31, 2016	3,891,897	\$ 40	106,729	(42,902)	(1,177)	(120)	62,570
Comprehensive income:							
Net income	-	-	-	2,534	-	-	2,534
Unrealized holding gain on available-for-sale securities, net of tax	-	-	-	-	-	128	128
Total comprehensive income	-	-	-	2,534	-	128	2,662
Share-based compensation expense	-	-	68	-	-	-	68
Vesting of restricted stock	2,231	-	-	-	-	-	-
Balance at June 30, 2017	3,894,128	\$ 40	106,797	(40,368)	(1,177)	8	65,300

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

<i>(In thousands)</i>	Six Months Ended	
	June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	\$2,101	2,534
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums, net	25	53
Amortization and accretion of purchase loan premiums and discounts	352	260
Amortization of debt issuance costs	41	41
Provision (credit) for loan losses	235	(1,489)
Depreciation and amortization	716	590
Amortization of core deposit intangible	18	-
Loss on sales of available-for-sale securities	-	78
Share-based compensation	107	68
(Increase) decrease in deferred income taxes	(497)	1,339
Changes in assets and liabilities:		
Decrease (increase) in accrued interest and dividends receivable	190	(482)
Decrease (increase) in other assets	871	(184)
Increase (decrease) in accrued expenses and other liabilities	230	(1,061)
Net cash provided by operating activities	4,389	1,747
Cash Flows from Investing Activities:		
Proceeds from sales on available-for-sale securities	35,532	13,848
Principal repayments on available-for-sale securities	859	1,244
Purchases of available-for-sale securities	-	(15,567)
Purchases of Federal Reserve Bank stock	(62)	(315)
Redemptions (purchases) of Federal Home Loan Bank stock	82	(224)
Increase in net originations of loans receivable	(16,436)	(21,911)
Purchase of loan pools receivable	-	(73,022)
Purchase of premises and equipment	(1,067)	(2,302)
Escrow deposit for pending acquisition	(500)	-
Net cash used in business combination	(4,736)	-
Net cash provided by (used in) investing activities	13,672	(98,249)
Cash Flows from Financing Activities:		
Increase in deposits, net	28,689	32,715
Repayments of FHLB and correspondent bank borrowings	(19,800)	(18,000)
Proceeds from issuance of subordinated debt, net	9,576	-
Principal repayments of note payable	(96)	(94)
Decrease in advances from borrowers for taxes and insurance	47	435

Dividends paid on common stock	(77)	-
Net cash provided by financing activities	<i>18,339</i>	<i>15,056</i>
Net Increase (decrease) in cash and cash equivalents	<i>36,400</i>	<i>(81,446)</i>
Cash and cash equivalents at beginning of period	<i>49,241</i>	<i>92,289</i>
Cash and cash equivalents at end of period	<i>\$85,641</i>	<i>10,843</i>
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	<i>\$4,205</i>	<i>2,974</i>
Cash paid for income taxes	<i>\$1,243</i>	<i>375</i>
Business Combination Non-Cash Disclosures		
Assets acquired in business combination (net of cash received)	<i>\$60,492</i>	-
Liabilities acquired in business combination	<i>\$56,095</i>	-
Contingent liability assumed in business combination	<i>\$1,761</i>	-

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 1: Basis of Financial Statement Presentation

The accompanying unaudited condensed consolidated financial statements of Patriot National Bancorp, Inc. (the “Company”) or (“Patriot”) and its wholly-owned subsidiaries including Patriot Bank, N.A. (the “Bank”) (collectively, “Patriot”), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) have been omitted. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included on the Form 10-K for the year ended *December 31, 2017*.

The Consolidated Balance Sheet at *December 31, 2017* presented herein has been derived from the audited consolidated financial statements of the Company at that date, but does *not* include all of the information and footnotes required by US GAAP for complete financial statements.

On *May 10, 2018* the Bank completed its acquisition of Prime Bank, a Connecticut bank headquartered in Orange, CT (“Prime Bank”). The closing of the transaction added a new Patriot branch located in the Town of Orange, New Haven County, Connecticut. The results of Prime Bank’s operations were included in the Company’s Consolidated Financial Statements from the date of acquisition.

The preparation of consolidated financial statements in accordance with US GAAP 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, the valuation of deferred tax assets, and business combination as certain of Patriot’s more significant accounting policies and estimates, in that they are critical to the presentation of Patriot’s financial condition and results of operations. As they concern matters that are inherently uncertain, these estimates require management to make subjective and complex judgments in the preparation of Patriot’s Consolidated Financial Statements.

The information furnished reflects, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of the results for the interim periods presented. The results of operations for the *three* months ended

June 30, 2018 are *not* necessarily indicative of the results of operations that *may* be expected for the remainder of 2018.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 2: Accounting Policies

New Accounting Policy

Please refer to the summary of Significant Accounting Policies included in the Company's 2017 Annual Report on Form 10-K for a list of all policies in effect as of *December 31, 2017*. The below summary is intended to provide updates or new policies required as a result of a new accounting standard or a change to the Company's operations or assets that require a new or amended policy.

Acquired Loans

Acquired loans are initially recorded at their acquisition date fair values. The carryover of allowance for loan losses is prohibited as any credit losses in the acquired loans are included in the determination of the fair value of the loans at the acquisition date. Fair values for acquired loans are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, prepayment risk, liquidity risk, default rates, loss severity, payment speeds, collateral values and discount rate.

Acquired Impaired Loans- Purchase Credit Impaired "PCI" Loans

Acquired loans that exhibit evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments are accounted for as PCI loans under Accounting Standards Codification ("ASC") 310-30. The excess of undiscounted cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is accreted into interest income over the remaining life of the loans using the interest method. The difference between contractually required payments at acquisition and the undiscounted cash flows expected to be collected at acquisition is referred to as the non-accretable discount. The non-accretable discount represents estimated future credit losses and other contractually required payments that the Company does *not* expect to collect. Subsequent decreases in expected cash flows are recognized as impairments through a charge to the provision for loan losses resulting in an increase in the allowance for loan losses. Subsequent improvements in expected cash flows result in a recovery of previously recorded

allowance for loan losses or a reversal of a corresponding amount of the nonaccretable discount, which the Company then reclassifies as an accretable discount that is accreted into interest income over the remaining life of the loans using the interest method.

PCI loans are initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, the associated allowance for credit losses related to these loans is *not* carried over at the acquisition date.

Acquired loans that met the criteria for non-accrual of interest prior to acquisition were *not* considered performing upon acquisition. When the customers resume payments, to make the nonaccrual loans current, the loans *may* return to accrual status, including the impact of any accretable discounts, if the Company can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Acquired Non-impaired Loans

Acquired loans that do *not* meet the requirements under ASC 310-30 are considered acquired non-impaired loans. The difference between the acquisition date fair value and the outstanding balance represents the fair value adjustment for a loan and includes both credit and interest rate considerations. Fair value adjustments *may* be discounts (or premiums) to a loan's cost basis and are accreted (or amortized) to net interest income (or expense) over the loan's remaining life in accordance with ASC 310-20. Fair value adjustments for revolving loans are accreted (or amortized) using a straight line method. Term loans are accreted (or amortized) using the constant effective yield method.

Subsequent to the purchase date, the methods used to estimate the allowance for loan losses for the acquired non-impaired loans are consistent with the policy for allowance for loan losses described in Note 5.

Intangible Assets

Intangible assets include core deposit intangibles and goodwill arising from acquisitions. The initial and ongoing carrying value of intangible assets is based upon modeling techniques that require management to make estimates regarding the amount and timing of expected future cash flows. It also requires use of a discount rate that reflects the current return requirements of the market in relation to present risk-free interest rates, required equity market premiums, peer volatility indicators, and company-specific risk indicators.

Core deposit intangibles are amortized on straight-line basis over a 10-year period because that is managements' conservative estimate of the period Patriot will benefit from Prime Bank's stable deposit base comprised of funds associated with long term customer relationships.

The Company will evaluate goodwill for impairment on an annual basis, or more often if events or circumstances indicate there *may* be impairment. The annual impairment test will be conducted as of *November* annually. The implied fair value of a reporting unit's goodwill is compared to its carrying amount and the impairment loss is measured by the excess of the carrying value over fair value. The fair value of each reporting unit is compared to the carrying amount of such reporting unit in order to determine if impairment is indicated.

Contingent Consideration

Contingent consideration represents an estimate of the additional amount of purchase price consideration and is measured based on the probability that certain loans are restructured in accordance with the agreement. Resolution of the contingent consideration will result in a cash payment and will be reflected in the financial statements as a measurement period adjustment as they are finalized. Changes will be recognized as an increase or decrease to goodwill, the valuation of the related loans and the contingent consideration/purchase price.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

New Accounting Standards

Accounting Standards Adopted During 2018

Effective *January 1, 2018*, the following new Accounting Standards Updates (ASUs) were adopted by the Company:

ASU 2014-09

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) including subsequent ASUs issued to clarify this Topic. The ASU, and subsequent related updates, establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most previous revenue recognition guidance, including industry-specific guidance. The ASUs are intended to increase comparability across industries. The core principle of the revenue model is that a company will recognize revenue when it transfers control of goods or services to customers, at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services.

The Company adopted the ASU on *January 1, 2018* on a modified retrospective transition approach. The adoption of this guidance did *not* have a material impact on the Company's Consolidated Financial Statements, and there was *no* cumulative effect adjustment to opening retained earnings as *no* material changes were identified in the timing of revenue recognition.

ASU 2016-01 and ASU 2018-03

ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10). The ASUs included targeted amendments in connection with the recognition, measurement, presentation, and disclosure of financial instruments. The main provisions require investments in equity securities to be measured at fair value through net income, unless they qualify for a practical expedient, and require fair value changes arising from changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option to be recognized in other comprehensive income. The provisions also emphasized the existing requirement to use exit prices to measure fair value for disclosure purposes. The Company adopted the ASUs on *January 1, 2018* on a modified retrospective basis. In connection with the adoption of ASU 2016-01 on *January 1,*

2018, we refined our methodology to estimate the fair value of our loan portfolio using an exit price notion resulting in prior-periods *no* longer being comparable.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

ASU 2016-15

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 addresses the classification of certain specific transactions presented on the Statement of Cash Flows, in order to improve consistency across entities. Debt prepayment or extinguishment, debt-instrument settlement, contingent consideration payments post-business combination, and beneficial interests in securitization transactions are specific items addressed by this ASU that may affect the Bank. Additionally, the ASU codifies the predominance principle for classifying separately identifiable cash flows. ASU 2016-15 is effective for fiscal years beginning after *December 15, 2017*, including interim periods within those fiscal years, with early adoption permitted. As of *June 30, 2018*, Patriot did *not* have any debt prepayment or extinguishment, debt-instrument settlement, contingent consideration payments post-business combination, and beneficial interests in securitization transactions. In the future, if Patriot's such transactions warrant present, management does *not* envision any difficulties implementing the requirements of ASU 2016-15, as applicable.

ASU 2016-18

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*. The purpose of the standard is to improve consistency and comparability among companies with respect to the reporting of changes in restricted cash and cash equivalents on the Statement of Cash Flows. The ASU requires the Statement of Cash Flows to include all changes in total cash and cash equivalents, including restricted amounts, and to the extent restricted cash and cash equivalents are presented in separate line items on the Balance Sheet, disclosure reconciling the change in total cash and cash equivalents to the amounts shown on the Balance Sheet are required. ASU 2016-18 is effective for fiscal years beginning after *December 15, 2017*, including interim periods within those fiscal years, with early adoption permitted. As of *June 30, 2018* and *December 31, 2017*, Patriot did *not* have restricted cash and cash equivalents separately disclosed on its Balance Sheet. In the future, if Patriot's activities warrant presenting separate line items on its Balance Sheet for restricted cash and cash equivalents, management does *not* envision any difficulties implementing the requirements of ASU 2016-18, as applicable.

ASU 2017-09

In May 2017, the FASB issued ASU 2017-09, *Scope of Modification Accounting*, which provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718 Stock compensation. The ASU is effective to all entities for annual periods, including interim periods within those annual periods, beginning after *December 15, 2017*. Early adoption is permitted, including adoption in any interim period. The Company does *not* anticipate this ASU will have a material impact on its Consolidated Financial Statements.

ASU 2018-04

ASU 2018-04 - Investments - Debt Securities (Topic 320) and Regulated Operations (Topic 980): The amendment in this ASU adds, amends and supersedes various paragraphs that contain SEC guidance in ASC 320, Investments-Debt Securities and ASC 980, Regulated Operations. The amendments in this ASU are effective when a registrant adopts ASU 2016-01, which for Patriot, was *January 1, 2018*. This amendment did *not* have an impact on the Company's Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Accounting Standards Issued But Not Yet Adopted

ASU 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This ASU was issued to improve the financial reporting of leasing activities and provide a faithful representation of leasing transactions and improve understanding and comparability of a lessee's financial statements. Under the new accounting guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. This ASU will require both finance and operating leases to be recognized on the balance sheet. This ASU will affect all companies and organizations that lease real estate. The FASB issued an update in January 2018 (ASU 2018-01) providing an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842. This ASU will become effective for interim and annual reporting periods beginning after December 15, 2018. The Company will adopt this new accounting guidance as required. Management is currently evaluating the impact of the new standard on its Consolidated Financial Statements.

ASU 2016-13

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU changes the methodology for measuring credit losses on financial instruments measured at amortized cost to a current expected loss ("CECL") model. Under the CECL model, entities will estimate credit losses over the entire contractual term of a financial instrument from the date of initial recognition of the instrument. The ASU also changes the existing impairment model for available-for-sale debt securities. In cases where there is neither the intent nor a more-likely-than-not requirement to sell the debt security, an entity will record credit losses as an allowance rather than a direct write-down of the amortized cost basis. Additionally, ASU 2016-13 notes that credit losses related to available-for-sale debt securities and purchased credit impaired loans should be recorded through an allowance for credit losses. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact that the standard will have on its Consolidated Financial Statements.

ASU 2017-04

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The objective of this guidance is to simplify an entity's required test for impairment of goodwill by eliminating Step 2 from the goodwill impairment test. In Step 2 an entity measured a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that

goodwill. In computing the implied fair value of goodwill, an entity had to determine the fair value at the impairment date of its assets and liabilities, including any unrecognized assets and liabilities, following a procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under this Update, an entity should perform its annual or quarterly goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount and record an impairment charge for the excess of the carrying amount over the reporting unit's fair value. The loss recognized should *not* exceed the total amount of goodwill allocated to the reporting unit and the entity must consider the income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. This guidance is effective for a public business entity that is an SEC filer for its annual or any interim goodwill impairment tests in fiscal years beginning after *December 15, 2019*. The adoption of this standard is *not* expected to have a material impact on the Company's Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

ASU 2017-08

In *March 2017*, the FASB issued ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities*, which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. The ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after *December 15, 2018*. For all other entities, the ASU is effective for fiscal years beginning after *December 15, 2019*, and interim periods within fiscal years beginning after *December 15, 2020*. Earlier application is permitted for all entities, including adoption in an interim period. If an entity early adopts the ASU in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. Management is currently evaluating the impact the adoption of ASU 2017-08 will have on its Consolidated Financial Statements.

ASU 2018-02

In *February 2018*, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminated the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. The amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is *not* effected. The amendments in this update also require certain disclosures about stranded tax effects. The guidance in this ASU will become effective for reporting periods beginning after *December 15, 2018*, with early adoption permitted, and will be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. Management is currently evaluating the impact that the standard will have on its Consolidated Financial Statements.

ASU 2018-05

ASU 2018-05 - *Income Taxes (Topic 740)*: Amendment to clarify situations where a registrant does *not* have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting under ASC 740 for certain income tax effects of the Tax Cuts and Jobs Act for the reporting period. As of *December 31, 2017*, the Company partially completed the accounting for the tax effects of enactment of the Tax Cuts and Jobs Act, and management made reasonable estimates of the effects of a reduced federal corporate income tax rate on its existing deferred tax balances. The Company will continue to make and refine its calculations during the *one-year* re-measurement period as additional analysis is completed. In addition, these estimates *may* be affected as management gains a more thorough understanding of the new tax reform legislation.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 3: Business Combinations

Generally, acquisitions are accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. Both the purchased assets and liabilities assumed are recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities, especially the loan portfolio, is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to *one* year after the closing date of the acquisition as additional information regarding fair values becomes available.

Acquisition of Prime Bank

On *May 10, 2018* the Company completed its acquisition of Prime Bank, a Connecticut bank headquartered in Orange, CT. The closing of the transaction added a new Patriot branch located in the Town of Orange, New Haven County, Connecticut. On the acquisition date, Prime Bank had assets with a carrying value of approximately \$65 million, including investment securities with a carrying value of \$36 million, loans outstanding with a carrying value of approximately \$23 million, as well as deposits with a carrying value of approximately \$46 million. The results of Prime Bank's operations were included in the Company's Consolidated Statement of Income from the date of acquisition.

The acquisition will enable Patriot to expand its consumer and small business relationships, lending operations, and community presence, all of which will improve key operating metrics. The goodwill recognized results from the expected synergies and potential earnings from this combination, including some future cost savings related to the operations of Prime Bank. Patriot incurred \$383,000 acquisition costs, charged to operations in the *first* half of 2018.

The assets acquired and liabilities assumed from Prime Bank were recorded at their fair value as of the closing date of the merger. Goodwill of \$2.1 million was recorded at the time of the acquisition. The goodwill is all deductible for income taxes over 15 years.

Patriot engaged independent consultants recognized as experts in the field of valuations and fair value measurements for acquisition and merger transactions. Fair values were defined as "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."

Loans were evaluated on an individual basis, considering the loan's underlying characteristics, types, remaining terms, annual interest rates, current market rates, loan to value ratios (LTV), loss exposure and remaining balances. The independent consultants utilized a discounted cash flow model to estimate the fair value of the loans using assumptions for probability of defaults, loss given defaults / recovery rates and foreclosure / recovery lags. ASC 310-30 Purchase Credit Impaired Loans were separately addressed with specific discount rates adjusted for an illiquidity premium.

To estimate the core deposit customer relationships intangible the consultants *first* identified the core deposits and utilized assumptions regarding the account retention rate, growth rate and float and reserve percentages. Retention rates were based on historical attrition rates based on previous transactions, the growth rate assumed *no* new accounts, and 3% increase in existing account balances, while the floats and reserve percentage assumed the market participant would most likely be subject to a reserve requirement given the current level of core deposits.

The fair value of time deposits included segmenting into certificate of deposits (“CDs”) and IRA CDs and CDs less than \$100,000 and those \$100,000 and above. The methodology entailed discounting the contractual cash flows of the instruments over their remaining contractual lives at prevailing market rates.

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

The following table summarizes the consideration paid by the Company in the merger with Prime Bank and the estimated fair values of the assets acquired and liabilities assumed recognized at the acquisition date:

<i>(In thousands)</i>	Prime Bank
Consideration Paid	
Cash consideration	\$5,596
Contingent consideration	1,761
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	\$ 1,152
Securities	35,532
Loans, net of allowance	21,605
Premises and equipment, net	6
Other real estate owned	991
Core deposit intangibles	552
Other assets	1,514
Total assets acquired	\$61,352
Deposits	46,184
Borrowings	9,800
Other liabilities	111
Total liabilities assumed	\$56,095
Identifiable net assets acquired	\$5,257
Goodwill resulting from acquisition	\$2,100

All securities acquired in the transaction with Prime Bank were sold at the fair value at acquisition date with *no* recorded gain or loss. Fair value adjustments to assets acquired and liabilities assumed will be amortized on a straight-line basis over periods consistent with the average life, useful life/ or contractual term of related assets and liabilities. The core deposit intangible will be amortized over a 10-year period using the straight-line method.

Under the terms of the agreement, the transaction is accounted for as an asset sale. As a result, tax basis to Prime Bank is *not* carried over to Patriot and deferred tax assets on Prime Bank's books have been written off as part of the purchase accounting adjustments.

The cash consideration is based on the initial calculation of Prime Bank tangible book value in accordance with the agreement. The initial cash payment made totaled \$5.89 million and \$1.0 million of this amount remains with the escrow agent pending resolution of the final closing tangible book value calculation.

Pursuant to a letter agreement, Patriot will make an additional payment (contingent consideration) with the amount to be determined based on the curing of certain loan deficiencies. The maximum amount payable under the letter agreement is \$2.858 million and the liability under the agreement is currently estimated to be \$1.761 million. This estimate has been measured based on Patriot's assessment of the probability that certain loans are cured in accordance with the agreement.

The initial accounting for the business combination includes certain provisional amounts associated with the resolution of the purchase price consideration noted above. In addition, certain other provisional amounts have been included in the determination of the fair value of the acquired assets and liabilities and changes to those underlying estimates will be reflected as measurement period adjustments within the *one*-year measurement period. Those provisional amounts relate to the valuation of loans, other real estate owned, deposits, tax and other accrued liabilities of the acquired company.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Pending Acquisition

Definitive Purchase Agreement

On *February 6, 2018*, the Company, Hana Small Business Lending, Inc. (“Hana SBL”), a wholly-owned subsidiary of Hana Financial, Inc. (“Hana Financial”), and *three* wholly-owned subsidiaries of Hana SBL entered into a definitive purchase agreement (“Purchase Agreement”) pursuant to which Patriot will acquire Hana SBL's small business administration (“SBA”) lending business.

Hana SBL is a fully integrated national SBA origination and servicing platform. It has originated nearly \$1 billion of SBA 7(a) loans since its inception in *2006*.

The transaction includes the purchase of approximately \$120 million of SBA 7(a) loans and servicing rights relating to a pool of \$370 million in loans, and the assumption of *two* loan securitization vehicles, currently rated “AA+” (Hana SBL Loan Trust *2014*) and “A-” (Hana SBL Loan Trust *2016*) by Standard and Poor’s. Total cash consideration is approximately \$83 million with the assumption of approximately \$41 million of liabilities. The transaction is subject to the satisfactory completion of certain due diligence requirements, purchase price adjustments at closing and the receipt of required governmental and regulatory approvals.

On *August 2, 2018*, the Company, Hana SBL and *three* wholly-owned subsidiaries of Hana SBL, entered into an amendment (the “Amendment”) to the Purchase Agreement. Pursuant to the Amendment, the closing date of the above referenced transaction has been extended from *August 2, 2018* to *August 1, 2019*.

As a result of the proximity of the definitive purchase to the date these consolidated financial statements are being issued, Patriot is still evaluating the estimated fair values of the assets to be acquired and the liabilities to be assumed. Accordingly, the amount of any goodwill and other intangible assets to be recognized in the connection with this transaction, as well as acquisition costs incurred and expected to be incurred, are also yet to be determined. The Company incurred \$313,000 of merger and acquisition expenses related to the Hana SBL acquisition for the *three* months ended *June 30, 2018*. Due to the proximity of the announced amendment the Company is now in process of determining the costs to be incurred under the amended agreement.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 4: Available-for Sale Securities

The amortized cost, gross unrealized gains and losses and approximate fair values of available-for-sale securities at *June 30, 2018* and *December 31, 2017* are as follows:

<i>(In thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
<u>June 30, 2018:</u>				
U. S. Government agency mortgage-backed securities	\$ 6,446	-	(217)	6,229
Corporate bonds	14,000	-	(799)	13,201
Subordinated notes	4,500	52	-	4,552
	\$ 24,946	52	(1,016)	23,982
<u>December 31, 2017:</u>				
U. S. Government agency mortgage-backed securities	\$ 7,330	-	(106)	7,224
Corporate bonds	14,000	-	(196)	13,804
Subordinated notes	4,500	48	-	4,548
	\$ 25,830	48	(302)	25,576

The following table presents the available-for-sale securities' gross unrealized losses and fair value, aggregated by the length of time the individual securities have been in a continuous loss position as of *June 30, 2018* and *December 31, 2017*:

<i>(In thousands)</i>	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
<u>June 30, 2018:</u>						
U. S. Government agency mortgage-backed securities	\$3,513	(69)	2,716	(148)	6,229	(217)
Corporate bonds	7,489	(511)	5,712	(288)	13,201	(799)

\$11,002 (580) 8,428 (436) 19,430 (1,016)

December 31, 2017:

U. S. Government agency mortgage-backed securities	\$4,118	(13	)	3,106	(93	)	7,224	(106)
Corporate bonds	13,804	(196	)	-	-		13,804	(196)
	\$17,922	(209	)	3,106	(93	)	21,028	(302)

At *June 30, 2018* and *December 31, 2017*, *ten* out of *twelve* and *nine* out of *eleven* available-for-sale securities had unrealized losses with an aggregate decline of *5.0%* and *1.4%* from the amortized cost of those securities, respectively.

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

Based on its quarterly reviews, management believes that *none* of the losses on available-for-sale securities noted above constitute an other-than-temporary impairment (“OTTI”). The noted losses are considered temporary due to market fluctuations in available interest rates on U.S. Government agency debt, mortgage-backed securities issued by U.S. Government agencies, and corporate debt. Management considers the issuers of the securities to be financially sound, the corporate bonds are investment grade, and the collectability of all contractual principal and interest payments is reasonably expected. Since Patriot is *not* more-likely-than-*not* to be required to sell the investments before recovery of the amortized cost basis and does *not* intend to sell the securities at a loss, *none* of the available-for-sale securities noted are considered to be OTTI as of *June 30, 2018*.

At *June 30, 2018* and *December 31, 2017*, available-for-sale securities of \$6.2 million and \$6.7 million, respectively, were pledged to the Federal Reserve Bank of New York (“FRB”), primarily to secure municipal deposits.

The following summarizes, by class and contractual maturity, the amortized cost and estimated fair value of available-for-sale debt securities held at *June 30, 2018* and *December 31, 2017*. The mortgages underlying the mortgage-backed securities are *not* due at a single maturity date. Additionally, these mortgages often are and generally *may* be pre-paid without penalty, creating a degree of uncertainty that such investments can be held until maturity. For convenience, mortgage-backed securities have been included in the summary as a separate line item.

(In thousands)

	Amortized Cost			Total	Fair Value			
	Due Within 5 years	Due After 5 years through 10 years	Due After 10 years		Due Within 5 years	Due After 5 years through 10 years	Due After 10 years	Total
June 30, 2018:								
Corporate bonds	\$-	9,000	5,000	14,000	-	8,587	4,614	13,201
Subordinated notes	-	4,500	-	4,500	-	4,552	-	4,552
Available-for-sale securities with single maturity dates	-	13,500	5,000	18,500	-	13,139	4,614	17,753
U. S. Government agency mortgage-backed securities	-	2,864	3,582	6,446	-	2,716	3,513	6,229
	\$-	16,364	8,582	24,946	-	15,855	8,127	23,982
December 31, 2017:								
Corporate bonds	\$-	9,000	5,000	14,000	-	8,928	4,876	13,804
Subordinated notes	-	4,500	-	4,500	-	4,548	-	4,548

Available-for-sale securities with single maturity dates	-	13,500	5,000	18,500	-	13,476	4,876	18,352
U. S. Government agency mortgage-backed securities	-	3,200	4,130	7,330	-	3,107	4,117	7,224
	\$-	16,700	9,130	25,830	-	16,583	8,993	25,576

During the year to date period ended *June 30, 2018*, the Company sold \$35.5 million securities acquired in the transaction with Prime Bank, which were sold at the fair value at acquisition date with *no* recorded gain or loss. Other than that, there were *no* sales and purchases of the Bank's available-for-sale securities in the *six*-month period ended *June 30, 2018*. During the year to date period ended *June 30, 2017*, there were \$13.8 million sales and \$15.6 million purchases of available-for-sale securities. A loss on the sale of available-for-sale securities of \$78,000 was recorded during the *six* months ended *June 30, 2017*.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 5: Loans Receivable and Allowance for Loan Losses

Loans acquired in connection with the Prime Bank merger in *May 2018* are referred to as “acquired” loans as a result of the manner in which they are accounted for. All other loans are referred to as “business activities” loans. Accordingly, selected credit quality disclosures that follow are presented separately for the originated loan portfolio and the acquired loan portfolio.

As of *June 30, 2018* and *December 31, 2017*, loans receivable, net, consists of the following:

<i>(In thousands)</i>	June 30, 2018			December 31, 2017
	Business			Business
<u>Loan portfolio segment:</u>	Activities	Acquired Loans	Total	Activities
	Loans			Loans
Commercial Real Estate	\$292,508	12,918	305,426	299,925
Residential Real Estate	146,754	-	146,754	146,377
Commercial and Industrial	162,568	8,108	170,676	131,161
Consumer and Other	78,382	882	79,264	87,707
Construction	46,593	-	46,593	47,619
Construction to Permanent - CRE	8,616	-	8,616	6,858
Loans receivable, gross	735,421	21,908	757,329	719,647
Allowance for loan losses	(6,525)	-	(6,525)	(6,297)
Loans receivable, net	\$728,896	21,908	750,804	713,350

Patriot's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County in New York, and the *five* Boroughs of New York City. Patriot originates commercial real estate loans, commercial business loans, a variety of consumer loans, and construction loans, and has purchased residential loans since *2016*. All commercial and residential real estate 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.

Patriot has established credit policies applicable to each type of lending activity in which it engages and evaluates the creditworthiness of each borrower. Unless extenuating circumstances exist, Patriot limits the extension of credit on commercial real estate loans to 75% of the market value of the underlying collateral. Patriot's loan origination policy for multi-family residential real estate is limited to 80% of the market value of the underlying collateral. In the case of construction loans, the maximum loan-to-value is 75% of the "as completed" appraised value of the real estate project. Management monitors the appraised value of collateral on an on-going basis and additional collateral is requested when warranted. Real estate is the primary form of collateral, although other forms of collateral do exist and *may* include such assets as accounts receivable, inventory, marketable securities, time deposits, and other business assets.

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

The carrying amount of the acquired loans at *May 10, 2018* total \$21.6 million. A subset of these loans was determined to have evidence of credit deterioration at the acquisition date, which was accounted for in accordance with ASC 310-30. The purchased credit impaired loans presently maintain a carrying value of \$2.4 million. The loans were evaluated for impairment through the periodic reforecasting of expected cash flows. Loans considered *not* impaired at acquisition date had a carrying amount of \$19.2 million.

Information about the acquired loan portfolio subject to purchased credit impaired accounting guidance (ASC 310-30):

<i>(In thousands)</i>	May 10, 2018
Contractually required principal and interest at acquisition	\$5,816
Contractual cash flows not expected to be collected (nonaccretable discount)	(2,951)
Expected cash flows at acquisition	2,865
Interest component of expected cash flows (accretable discount)	(429)
Fair value of acquired loans	\$2,436

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

Commercial Real Estate Loans

In underwriting commercial real estate loans, Patriot 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, the value of the property collateralizing the loan substantially decline, or there are declines in general economic conditions. Where the owner occupies the property, Patriot also evaluates the business' ability to repay the loan on a timely basis and *may* require personal guarantees, lease assignments, and/or the guarantee of the operating company.

Residential Real Estate Loans

In 2013, Patriot discontinued offering primary mortgages on personal residences. 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 declines in general economic conditions.

In *March 2017*, Patriot purchased \$73 million of residential real estate loans, including a premium of \$985,000 over the book value of the loans. *No* residential real estate loans were purchased in the *first* half of 2018.

Commercial and Industrial Loans

Patriot's commercial and industrial loan portfolio consists primarily of commercial business loans and lines of credit to businesses and professionals. These loans are generally for the financing of accounts receivable, purchases of inventory, purchases of new or used equipment, or 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 these types of loans, Patriot considers the borrower's cash flow as the primary source of repayment, supported by the value of collateral, if any, and personal guarantees, as applicable. Repayment of commercial and industrial loans *may* be negatively impacted by adverse changes in economic conditions, ineffective management, claims on the borrower's assets by others that are superior to Patriot's claims, a loss of demand for the borrower's products or services, or the death or disability of the borrower or other key management personnel.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Consumer and Other Loans

Patriot offers individual consumers various forms of credit including installment loans, credit cards, overdraft protection, and reserve lines of credit. Repayments of such loans are generally 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 that are typically characterized by payment delinquencies, previous charge-offs, judgments against the consumer, a history of bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burdened ratios.

Construction Loans

Construction loans are of a short-term nature, generally of *eighteen*-months or less, that are secured by land intended for commercial, residential, or mixed-use development. Loan proceeds *may* be used for the acquisition of or improvements to the land under development and funds are generally 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 financial strength of the builder, the type and location of the property, and other factors. Construction loans tend to be personally guaranteed by the principal(s). Repayment of such loans *may* be negatively impacted by an inability to complete construction, a downturn in the market for new construction, by a significant increase in interest rates, or by decline in general economic conditions.

Construction to Permanent – Commercial Real Estate (“CRE”)

One time close of a construction facility with simultaneous conversion to an amortizing mortgage loan. Construction to Permanent loans combine a short term period similar to a construction loan, generally with a variable rate, and a longer term CRE loan typically 20-25 years, resetting every *five* years to the Federal Home Loan Bank (“FHLB”) rate.

Close of the construction facility typically occurs when events dictate, such as receipt of a certificate of occupancy and property stabilization, which is defined as cash flow sufficient to support a pre-defined minimum debt coverage ratio and other conditions and covenants particular to the loan. Construction facilities are typically variable rate instruments that, upon conversion to an amortizing mortgage loan, reset to a fixed rate instrument that is the greater of the in-force variable rate plus a predetermined spread over a reference rate (e.g., prime) or a minimum interest rate.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Allowance for Loan Losses

The following tables summarize the activity in the allowance for loan losses, allocated to segments of the loan portfolio, for the *three* months ended *June 30, 2018* and *2017*:

<i>(In thousands)</i>	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer and Other	Construction	Construction to Permanent - CRE	Unallocated	Total
Three months ended June 30, 2018								
Allowance for loan losses:								
March 31, 2018	\$ 2,480	1,073	1,759	546	488	61	78	6,485
Charge-offs	-	-	-	(13)	-	-	-	(13)
Recoveries	3	-	-	-	-	-	-	3
Provisions (credits)	(178)	23	237	(10)	11	19	(52)	50
June 30, 2018	\$ 2,305	1,096	1,996	523	499	80	26	6,525
Three months ended June 30, 2017								
Allowance for loan losses:								
March 31, 2017	\$ 2,198	1,073	1,049	583	591	77	126	5,697
Charge-offs	-	-	-	(13)	-	-	-	(13)
Recoveries	-	-	-	-	-	-	-	-
Provisions (credits)	20	(32)	404	23	(101)	(4)	(50)	260
June 30, 2017	\$ 2,218	1,041	1,453	593	490	73	76	5,944

The following tables summarize the activity in the allowance for loan losses, allocated to segments of the loan portfolio, for the *six* months ended *June 30, 2018* and *2017*:

<i>(In thousands)</i>	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer and Other	Construction	Construction to Permanent	Unallocated	Total
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- CRE**Six months
ended****June 30, 2018****Allowance for loan losses:**

December 31, 2017	\$ 2,212	959	2,023	568	481	54	-	6,297
Charge-offs	-	-	-	(13)	-	-	-	(13)
Recoveries	6	-	-	-	-	-	-	6
Provisions (credits)	(87)	137	(27)	(32)	18	26	26	235
June 30, 2018	\$ 2,305	1,096	1,996	523	499	80	26	6,525

**Six months
ended****June 30, 2017****Allowance for loan losses:**

December 31, 2016	\$ 1,853	534	740	641	712	69	126	4,675
Charge-offs	-	-	-	(13)	-	-	-	(13)
Recoveries	2	-	2,769	-	-	-	-	2,771
Provisions (credits)	363	507	(2,056)	(35)	(222)	4	(50)	(1,489)
June 30, 2017	\$ 2,218	1,041	1,453	593	490	73	76	5,944

There was *no* allowance for loan losses on all acquired loans as of *June 30, 2018*.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following tables summarize the business activity loans, by loan portfolio segment, the amount of loans receivable evaluated individually and collectively for impairment as of *June 30, 2018* and *December 31, 2017*:

<i>(In thousands)</i>	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer and Other	Construction and Construction - CRE	Construction to Permanent - CRE	Unallocated	Total
June 30, 2018								
Allowance for loan losses:								
Individually evaluated for impairment	\$ -	-	45	-	-	-	-	45
Collectively evaluated for impairment	2,305	1,096	1,951	523	499	80	26	6,480
Total allowance for loan losses	\$ 2,305	1,096	1,996	523	499	80	26	6,525
Loans receivable, gross:								
Individually evaluated for impairment	\$ 4,071	3,524	1,025	770	-	-	-	9,390
Collectively evaluated for impairment	288,437	143,230	161,543	77,612	46,593	8,616	-	726,031
Total loans receivable, gross	\$ 292,508	146,754	162,568	78,382	46,593	8,616	-	735,421 ⁽¹⁾

⁽¹⁾ The total loan receivable, gross does *not* include \$21.9 million acquired loans which were all individually evaluated for impairment.

<i>(In thousands)</i>	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer and Other	Construction and Construction - CRE	Construction to Permanent - CRE	Unallocated	Total
December 31, 2017								
Allowance for loan losses:								
Individually evaluated for impairment	\$ -	-	251	2	-	-	-	253
	2,212	959	1,772	566	481	54	-	6,044

Collectively evaluated for impairment								
Total allowance for loan losses	\$ 2,212	959	2,023	568	481	54	-	6,297
Loans receivable, gross:								
Individually evaluated for impairment	\$ 1,977	3,336	748	692	-	-	-	6,753
Collectively evaluated for impairment	297,948	143,041	130,413	87,015	47,619	6,858	-	712,894
Total loans receivable, gross	\$ 299,925	146,377	131,161	87,707	47,619	6,858	-	719,647

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

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

Patriot employs a risk rating system as part of the risk assessment of its loan portfolio. At origination, lending officers are required to assign a risk rating to each loan in their portfolio, which is ratified or modified by the Loan Committee to which the loan is submitted for approval. If financial developments occur on a loan in the lending officer's portfolio of responsibility, the risk rating is reviewed and adjusted, as applicable. In carrying out its oversight responsibilities, the Loan Committee can adjust a risk rating based on available information. In addition, the risk ratings on all commercial loans over \$250,000 are reviewed annually by the Credit Department.

Additionally, Patriot retains a *third-party* objective and independent loan reviewing expert to perform a quarterly analysis of the results of its risk rating process. The quarterly review is based on a randomly selected sample of loans within established parameters (e.g., value, concentration), in order to assess and validate the risk ratings assigned to individual loans. Any changes to the assigned risk ratings, based on the quarterly review, are required to be approved by the 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:

Substandard: An asset is classified "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 noted deficiencies are *not* corrected.

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

Charge-offs, to reduce the loan to its recoverable value, generally commence after the loan is classified as "doubtful".

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

If an account is classified as “Loss”, the full balance of the loan receivable is charged off, regardless of the potential recovery from a sale of the underlying collateral. Any amount that *may* be recovered on the sale of collateral underlying a loan is recognized as a “recovery” in the period in which the collateral is sold.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Loan Portfolio Aging Analysis

The following tables summarize performing and non-performing loans receivable by portfolio segment, by aging category, by delinquency status as of *June 30, 2018*.

Business Activities Loans

<i>(In thousands)</i>		Performing (Accruing) Loans			Total	Current	Total Performing Loans	Non-accruing Loans	Loans Receivable Gross
As of June 30, 2018:	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due						
Loan portfolio segment:									
Commercial Real Estate:									
Pass	\$1,858	-	670	2,528	283,402	285,930	-	285,930	
Special mention	-	-	-	-	615	615	-	615	
Substandard	638	-	1,025	1,663	2,163	3,826	2,137	5,963	
	2,496	-	1,695	4,191	286,180	290,371	2,137	292,508	
Residential Real Estate:									
Pass	175	-	-	175	141,841	142,016	-	142,016	
Special mention	-	-	-	-	-	-	-	-	
Substandard	-	-	1,516	1,516	-	1,516	3,222	4,738	
	175	-	1,516	1,691	141,841	143,532	3,222	146,754	
Commercial and Industrial:									
Pass	2,157	1,767	-	3,924	154,144	158,068	-	158,068	
Substandard	-	-	-	-	-	-	1,025	1,025	
	2,157	4,517	-	6,674	154,869	161,543	1,025	162,568	
Consumer and Other:									
Pass	33	24	-	57	78,245	78,302	-	78,302	
Substandard	-	-	-	-	-	-	80	80	
	33	24	-	57	78,245	78,302	80	78,382	
Construction:									
Pass	-	-	-	-	37,793	37,793	-	37,793	

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Substandard	-	-	8,800	8,800	-	8,800	-	8,800
	-	-	8,800	8,800	37,793	46,593	-	46,593
Construction to Permanent - CRE:								
Pass	-	-	-	-	8,616	8,616	-	8,616
Total	\$4,861	4,541	12,011	21,413	707,544	728,957	6,464	735,421
Loans receivable, gross:								
Pass	\$4,223	1,791	670	6,684	704,041	710,725	-	