PATRIOT NATIONAL BANCORP INC
Form 10-Q
May 09, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended March 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	**(I.R.S. Employer**

incorporation)	**Identification Number)**

900 Bedford Street, Stamford, Connecticut 06901

(Address of principal executive offices)

(203) 324-7500

(Registrant s telephone number)

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

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

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

Common stock, $0.01 par value per share, 39,160,627 shares outstanding as of the close of business April 30, 2014.

Table of Contents

Table of Contents

Table of Contents

PART I FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements
PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

	(in thousands, except shares) March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	$ 1,503	$ 1,570
Interest bearing deposits	58,254	33,296
Total cash and cash equivalents	59,757	34,866
Securities:		
Available for sale securities, at fair value (Note 2)	36,815	37,701
Other Investments	4,450	4,450
Federal Reserve Bank stock, at cost	1,444	1,444
Federal Home Loan Bank stock, at cost	4,143	4,143
Total securities	46,852	47,738
Loans receivable (net of allowance for loan losses: 2014: $ 5,480 2013: $5,681) (Note 3)	415,123	418,148
Accrued interest and dividends receivable	1,578	1,566
Premises and equipment, net	14,866	15,061
Cash surrender value of life insurance	22,146	22,025
Other real estate owned	264	
Deferred tax asset (Note 6)		
Other assets	1,902	1,844
Total assets	$ 562,488	$ 541,248
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits (Note 4):		
Noninterest bearing deposits	$ 57,967	$ 55,358
Interest bearing deposits	370,002	374,846
Total deposits	427,969	430,204
Federal Home Loan Bank borrowings	80,000	57,000
Junior subordinated debt owed to unconsolidated trust	8,248	8,248
Accrued expenses and other liabilities	3,659	3,955
Total liabilities	519,876	499,407
Commitments and Contingencies (Note 9)		
Shareholders equity (Notes 5 and 10)		
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 39,134,164 shares issued; 39,122,459 shares outstanding. 2013 :38,786,680 shares issued; 38,774,975 shares outstanding	391	388
Additional paid-in capital	105,540	105,484
Accumulated deficit	(62,365)	(62,684)

Less: Treasury stock, at cost: 2013 and 2012, 11,705 shares		(160)		(160)
Accumulated other comprehensive income		(794)		(1,187)
Total shareholders equity		42,612		41,841
Total liabilities and shareholders equity	$	562,488	$	541,248

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	(in thousands, except per share amounts) Three Months Ended March 31, 2014	2013
Interest and Dividend Income		
Interest and fees on loans	4,691	5,196
Interest on investment securities	135	248
Dividends on investment securities	41	29
Other interest income	12	28
Total interest and dividend income	**4,879**	**5,501**
Interest Expense		
Interest on deposits	637	1,129
Interest on Federal Home Loan Bank borrowings	33	351
Interest on subordinated debt	200	71
Interest on other borrowings		76
Total interest expense	**870**	**1,627**
Net interest income	**4,009**	**3,874**
Provision for Loan Losses (Note 3)		(30)
Net interest income after provision for loan losses	**4,009**	**3,904**
Non-Interest Income		
Mortgage banking activity		46
Loan application, inspection & processing fees	66	38
Fees and service charges	219	171
Earnings on cash surrender value of life insurance	121	127
Other income	187	105
Total non-interest income	**593**	**487**
Non-Interest Expense		
Salaries and benefits (Note 5)	1,971	3,005
Occupancy and equipment expense	922	1,039
Data processing expense	250	371
Advertising and promotional expenses	51	42
Professional services and other outside services	471	889
Loan administration and processing expenses	17	77
Regulatory assessments	230	374
Insurance expense	97	79
Other real estate operations	16	2
Material and communications	93	106
Other operating expenses	165	385

Total non-interest expense	**4,283**	**6,369**
Income (loss) before income taxes	**319**	**(1,978)**
Benefit for Income Taxes		(21)
Net income (loss)	**319**	**(1,957)**
Basic and diluted income (loss) per share (Note 7)	**0.01**	**(0.05)**

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	(in thousands) Three Months Ended March 31,	
	2014	2013
Net income (loss)	$ 319	$ (1,957)
Other comprehensive income:		
Unrealized holding gains arising during the period	393	55
Total	393	55
Comprehensive income (loss)	**$ 712**	**$ (1,902)**

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

(in thousands, except shares)	Number of Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Three months ended March 31, 2013							
Balance at December 31, 2012	38,480,114	$ 385	$ 105,356	$ (55,395)	$ (160)	$ (618)	$ 49,568
Comprehensive loss							
Net loss				(1,957)			(1,957)
Unrealized holding gain on available for sale securities, net of taxes						55	55
Total comprehensive loss							(1,902)
Share-based compensation expense			7				7
Balance, March 31, 2013	38,480,114	$ 385	$ 105,363	$ (57,352)	$ (160)	$ (563)	$ 47,673
Three months ended March 31, 2014							
Balance at December 31, 2013	38,774,975	$ 388	$ 105,484	$ (62,684)	$ (160)	$ (1,187)	$ 41,841
Comprehensive income							
Net income				319			319
Unrealized holding gain on available for sale securities, net of taxes						393	393

Total comprehensive income							712
Share-based compensation expense			59				59
Issuance of restricted stock	347,484	3	(3)				
Balance, March 31, 2014	39,122,459	$ 391	$ 105,540	$ (62,365)	$ (160)	$ (794)	$ 42,612

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	(in thousands) Three Months Ended March 31, 2014	2013
Cash Flows from Operating Activities:		
Net income (loss):	$ 319	$ (1,957)
Adjustments to reconcile net income (loss) to net cash		
provided by (used in) operating activities:		
Amortization of investment premiums, net	66	38
Amortization and accretion of purchase loan premiums and discounts, net	18	2
Provision for loan losses		(30)
Gain on sale of mortgage loans		(42)
Originations of mortgage loans held for sale		(7,154)
Proceeds from sales of mortgage loans held for sale		2,171
Earnings on cash surrender value of life insurance	(121)	(127)
Depreciation and amortization	293	289
Gain on sale of other real estate owned		(200)
Share-based compensation	59	7
Changes in assets and liabilities:		
(Increase) in net deferred loan costs	(13)	(58)
(Increase) decrease in accrued interest and dividends receivable	(12)	8
(Increase) decrease in other assets	(58)	42
Decrease in accrued expenses and other liabilities	(296)	(1,521)
Net cash provided by (used in) operating activities	**255**	**(8,532)**
Cash Flows from Investing Activities:		
Principal repayments on available for sale securities	1,213	632
Proceeds from repurchase of excess stock by Federal Reserve Bank		37
Proceeds from repurchase of excess stock by Federal Home Loan Bank		201
Net decrease in loans	3,020	2,938
Purchase of other real estate owned	(264)	
Proceeds from sale of other real estate owned		1,310
Purchase of bank premises and equipment, net	(98)	(239)
Net cash provided by investing activities	**3,871**	**4,879**
Cash Flows from Financing Activities:		
Net increase in demand, savings and money market deposits	5,073	7,245
Net decrease in time certificates of deposits	(7,308)	(12,842)
Increase in FHLB borrowings	23,000	
Net cash provided by (used in) financing activities	**20,765**	**(5,597)**
Net increase (decrease) in cash and cash equivalents	**24,891**	**(9,250)**
Cash and Cash Equivalents:		
Beginning	34,866	71,014

Ending	$	59,757	$	61,764

Table of Contents

PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued

(Unaudited)

	(in thousands) Three Months Ended March 31, 2014	2013
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 669	$ 1,561
Income taxes paid	$	$
Supplemental disclosures of noncash operating, investing and financing activities:		
Unrealized holding gain on available for sale securities arising during the period	$ 393	$ 55
Transfer of loans to other real estate owned	$ 264	$
Reduction in deposits held for sale	$	$ 3,777
Reduction in branch assets held for sale	$	$ 8

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

PATRIOT NATIONAL BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1: Basis of Financial Statement Presentation

The Consolidated Balance Sheet at December 31, 2013 has been derived from the audited financial statements of Patriot National Bancorp, Inc. (Bancorp or the Company) at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The accompanying unaudited financial statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements and related notes should be read in conjunction with the audited financial statements of Bancorp and notes thereto for the year ended December 31, 2013.

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 March 31, 2014 are not necessarily indicative of the results of operations that may be expected for the remainder of 2014.

Table of Contents

Note 2: Investment Securities

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

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2014:				
U. S. Government agency bonds	$ 7,500	$	$ (255)	$ 7,245
U. S. Government agency mortgage-backed securities	21,109		(477)	20,632
Corporate bonds	9,000		(62)	8,938
	$ 37,609	$	$ (794)	$ 36,815
December 31, 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

Table of Contents

The following table presents the gross unrealized loss and fair value of Bancorp s available-for-sale securities, aggregated by the length of time the individual securities have been in a continuous loss position, at March 31, 2014 and December 31, 2013:

	Less Than 12 Months		12 Months or More		Total	
(in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
March 31, 2014:						
U. S. Government agency bonds	$ 7,245	$ (255)	$	$	$ 7,245	$ (255)
U. S. Government agency mortgage - backed securities	8,402	(233)	12,204	(244)	20,606	(477)
Corporate bonds			8,938	(62)	8,938	(62)
Totals	$ 15,647	$ (488)	$ 21,142	$ (306)	$ 36,789	$ (794)
December 31, 2013:						
U. S. Government agency bonds						
U. S. Government agency mortgage - backed securities	$ 7,079	$ (421)	$	$	$ 7,079	$ (421)
Corporate bonds	8,871	(291)	12,856	(345)	21,727	(636)
Totals			8,870	(130)	8,870	(130)
	$ 15,950	$ (712)	$ 21,726	$ (475)	$ 37,676	$ (1,187)

At March 31, 2014, eleven securities had unrealized holding losses with aggregate depreciation of 2.1% from the amortized cost. At December 31, 2013, eleven securities had unrealized losses with aggregate depreciation of 3.2% from the amortized cost.

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

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

Table of Contents

The amortized cost and fair value of available-for-sale debt securities at March 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 prepaid 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 summary:

(in thousands)	Amortized Cost	Fair Value
Maturity:		
Corporate bonds 5 to 10 years	$ 9,000	$ 8,938
U.S. Government agency bonds < 5 years	2,500	2,458
U.S. Government agency bonds 5 to 10 years	5,000	4,787
U.S. Government agency mortgage-backed securities	21,109	20,632
Total	$ 37,609	$ 36,815

Note 3: Loans Receivable and Allowance for Loan Losses

A summary of the Company s loan portfolio at March 31, 2014 and December 31, 2013 is as follows:

(in thousands)	March 31, 2014	December 31, 2013
Real Estate		
Commercial	$ 218,051	$ 223,165
Residential	103,019	106,198
Construction	260	260
Construction to permanent	12,650	11,303
Commercial	38,752	35,061
Consumer home equity	43,717	44,081
Consumer installment	3,389	2,990
Total Loans	419,838	423,058
Premiums on purchased loans	182	200
Net deferred costs	583	571
Allowance for loan losses	(5,480)	(5,681)
Loans receivable, net	$ 415,123	$ 418,148

Table of Contents

The changes in the allowance for loan losses for the periods shown are as follows:

(in thousands)	Three months ended March 31, 2014	2013
Balance, beginning of period	$ 5,681	$ 6,016
Provision for loan losses		(30)
Loans charged-off	(217)	(306)
Recoveries of loans previously charged-off	16	37
Balance, end of period	$ 5,480	$ 5,717

Loans past due ninety days or more, and still accruing interest were $834,000 and $866,000 at March 31, 2014, and December 31, 2013 respectively, and consisted of one loan at March 31, 2014 and two loans at December 31, 2013. The subject loan at March 31, 2014 was current as to interest payments but was past the loan s maturity date and in the process of being renewed. It was approved for renewal in April, 2014. At December 31, 2013, the previously noted loan had a balance of $841,000 and was current and a second loan for $25,000 was current within 60 days as to interest payments. Both were past their maturity date and in the process of being renewed at December 31, 2013.

The unpaid principal balances of loans on nonaccrual status and considered impaired were $10.2 million at March 31, 2014 and $12.3 million at December 31, 2013. If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded approximately $33,000 of additional income during the quarter ended March 31, 2014 and $306,000 during the quarter ended March 31, 2013.

For the three months ended March 31, 2014 and 2013, the interest collected and recognized as income on impaired loans, which includes non-accrual loans, TDRs and loans that were previously classified as TDRs that have been upgraded, was approximately $113,000 and $125,000 respectively. The average recorded investment in impaired loans for the three months ended March 31, 2014 was $21.5 million.

At March 31, 2014, there were 3 loans totaling $3.4 million that were considered troubled debt restructurings, as compared to December 31, 2013 when there were 2 loans totaling $2.2 million, all of which were included in impaired loans. At March 31, 2014, 2 of the 3 loans aggregating $2.1 million were accruing loans and 1 loan of $1.3 million was a non-accruing loan. The non-accruing loan was an existing TDR at December 31, 2013 which was restructured again in the quarter ended March 31, 2014.

The Company s lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County and New York City in New York. The Company originates commercial real estate loans, commercial business loans, and a variety of other consumer loans. In addition, the Company previously had originated loans for residential real estate, the construction of residential homes, residential developments and for land development projects. A moratorium on all new speculative construction loans was instituted by management in July 2008. 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.

Table of Contents

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 residential 1-4 family real estate. In the case of construction loans, the maximum loan-to-value was 65% of the as completed market value. The market value of collateral is monitored on an ongoing basis and additional collateral is obtained 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. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrower s ability to generate continuing cash flows on all loans not related to construction.

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 a decline in the general economic conditions. Where the owner occupies the property, the Company also evaluates the business s 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.

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 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 market for the borrower s products or services.

Residential Real Estate Loans Various loans secured by residential real estate properties are offered by the Company, including 1-4 family residential loans and a variety of home equity line of credit products. Repayment of such loans may be negatively impacted should the borrower default, 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 Loans The Company also offers installments loans 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 an 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.

Table of Contents

The following table sets forth activity in our allowance for loan losses, by loan type, for the three months ended March 31, 2014. The following table also details 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)

Three months ended March 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	(9)				(178)	(30)		(217)
Recoveries					15	1		16
Provision	95	(265)		9	72	34	55	
Ending Balance	$ 2,371	$ 1,320	$ 260	$ 34	$ 704	$ 539	$ 252	$ 5,480
Ending balance: individually evaluated for impairment	$ 1,500	$ 17	$ 260	$	$ 21	$ 2	$	$ 1,800
Ending balance: collectively evaluated for impairment	871	1,303		34	683	537	252	3,680
Total Allowance for Loan Losses	$ 2,371	$ 1,320	$ 260	$ 34	$ 704	$ 539	$ 252	$ 5,480
Total Loans ending balance	$ 38,752	$ 218,051	$ 260	$ 12,650	$ 103,019	$ 47,106	$	$ 419,838
Ending balance: individually evaluated for impairment	$ 6,052	$ 8,855	$ 260	$	$ 5,179	$ 587	$	$ 20,933
Ending balance : collectively evaluated for impairment	$ 32,700	$ 209,196	$	$ 12,650	$ 97,840	$ 46,519	$	$ 398,905

Table of Contents

The following table sets forth activity in our allowance for loan losses, by loan type, for the year ended December 31, 2013. The following table also details 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)

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	$ 35,061	$ 223,165	$ 260	$ 11,303	$ 106,198	$ 47,071	$	$ 423,058
Ending balance: individually evaluated for impairment	6,152	7,767	260	1,197	6,024	593		21,993
Ending balance : collectively evaluated for impairment	$ 28,909	$ 215,398	$	$ 10,106	$ 100,174	$ 46,478	$	$ 401,065

17

Table of Contents

The Company monitors the credit quality of its loans receivable on an ongoing manner. Credit quality is monitored by reviewing certain credit quality indicators. Management has determined that internally assigned risk ratings and loan-to-value ratios (LTVs), at period end, are the key credit quality indicators that best help management monitor the credit quality of the Company s loans receivable. Loan-to-value ratios used by management in monitoring credit quality are based on current period loan balances and original values at time of origination (unless a current appraisal has been obtained as a result of the loan being deemed impaired or the loan is a maturing construction loan).

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, e.g. property taxes).

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.

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. The risk ratings play an important role in the establishment of the loan loss provision and to confirm the adequacy of the allowance for loan losses. Any upgrades to classified loans must be approved by the Board 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 of 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. This amount is recognized as a recovery once 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.

Table of Contents

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

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%**	**Other**	**Total**
Internal Risk Rating														
Pass	$ 27,343	$ 3,760	$ 195,649	$ 7,178	$	$	$ 8,050	$ 4,600	$ 81,304	$ 19,640	$ 42,661	$ 3,756	$ 654	$ 394,595
Special Mention	159		5,774	2,477										8,410
Substandard	7,490		3,664	3,309	60	200			1,576	499	35			16,833
	$ 34,992	$ 3,760	$ 205,087	$ 12,964	$ 60	$ 200	$ 8,050	$ 4,600	$ 82,880	$ 20,139	$ 42,696	$ 3,756	$ 654	$ 419,838

CREDIT RISK PROFILE

(in thousands)	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential Real Estate**	**Consumer**	**Totals**
Performing	$ 32,700	$ 216,302	$	$ 12,650	$ 100,944	$ 47,076	$ 409,672
Non Performing	6,052	1,749	260		2,075	30	10,166
Total	$ 38,752	$ 218,051	$ 260	$ 12,650	$ 103,019	$ 47,106	$ 419,838

Table of Contents

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 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%**	**Other**	**Total**
Internal Risk Rating														
Pass	$ 23,493	$ 3,898	$ 199,118	$ 7,951	$	$	$ 10,106	$	$ 82,704	$ 20,592	$ 42,542	$ 3,839	$ 650	$ 394,893
Special Mention	167		6,573	2,502										9,242
Substandard	7,503		3,690	3,331	60	200	1,197		1,976	926	9	31		18,923
	$ 31,163	$ 3,898	$ 209,381	$ 13,784	$ 60	$ 200	$ 11,303	$	$ 84,680	$ 21,518	$ 42,551	$ 3,870	$ 650	$ 423,058

CREDIT RISK PROFILE

(in thousands)	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential Real Estate	Consumer	Totals
Performing	$ 28,909	$ 221,401	$	$ 10,106	$ 103,296	$ 47,038	$ 410,750
Non Performing	6,152	1,764	260	1,197	2,902	33	12,308
Total	$ 35,061	$ 223,165	$ 260	$ 11,303	$ 106,198	$ 47,071	$ 423,058

Table of Contents

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

	Non-Accrual and Past Due Loans						
	Non-Accrual Loans						
(in thousands) 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							
Substandard	$	$	$ 2	$ 2	$ 6,050	$	$ 6,052
Total Commercial	$	$	$ 2	$ 2	$ 6,050	$	$ 6,052
Commercial Real Estate							
Substandard	$	$	$ 313	$ 313	$ 1,436	$ 834	$ 2,583
Total Commercial Real Estate	$	$	$ 313	$ 313	$ 1,436	$ 834	$ 2,583
Construction							
Substandard	$	$	$ 260	$ 260	$	$	$ 260
Total Construction	$	$	$ 260	$ 260	$	$	$ 260
Residential Real Estate							
Substandard	$	$	$ 2,075	$ 2,075	$	$	$ 2,075
Total Residential Real Estate	$	$	$ 2,075	$ 2,075	$	$	$ 2,075
Consumer							
Substandard	$	$	$ 2	$ 2	$ 28	$	$ 30
Total Consumer	$	$	$ 2	$ 2	$ 28	$	$ 30
Total	$	$	$ 2,652	$ 2,652	$ 7,514	$ 834	$ 11,000

21

Table of Contents

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

	Non-Accrual and Past Due Loans						
	Non-Accrual Loans						
(in thousands) 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	$	$	$ 1,764	$ 1,764	$	$ 841	$ 2,605
Total Commercial Real Estate	$	$	$ 1,764	$ 1,764	$	$ 841	$ 2,605
Construction							
Substandard	$	$	$ 260	$ 260	$	$	$ 260
Total Construction	$	$	$ 260	$ 260	$	$	$ 260
Construction to Permanent							
Substandard	$	$	$	$	$ 1,197	$	$ 1,197
Total Construction to Permanent	$	$	$	$	$ 1,197	$	$ 1,197
Residential Real Estate							
Substandard	$	$	$ 2,523	$ 2,523	$ 379	$	$ 2,902
Total Residential Real Estate	$	$	$ 2,523	$ 2,523	$ 379	$	$ 2,902
Consumer							
Substandard	$	$	$ 2	$ 2	$ 31	$	$ 33
Total Consumer	$	$	$ 2	$ 2	$ 31	$	$ 33
Total	$	$	$ 4,551	$ 4,551	$ 7,757	$ 866	$ 13,174

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 non-accrual loans was $10.2 million and $12.3 million at March 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 $834,000 and $866,000 at March 31, 2014, and December 31, 2013 respectively, and consisted of one loan at March 31, 2014 and two loans at December 31, 2013. The subject loan at March 31, 2014 was current as to interest payments but was past the loan s maturity date and in the process of being renewed. It was approved for renewal in April, 2014. At December 31, 2013, the previously noted loan had a balance of $841,000 and was current and a second loan for $25,000 was current within 60 days as to interest payments.

Table of Contents

Both were past the loan s maturity date and in the process of being renewed at December 31, 2013.

The following table sets forth the detail and delinquency status of loans receivable, by performing and non-performing loans at March 31, 2014.

(in thousands)	Performing (Accruing) Loans						
2014	**31-60 Days Past Due**	**61-90 Days Past Due**	**Total Past Due**	**Current**	**Total Performing Loans**	**Total Non-Accrual and Past Due Loans**	**Total Loans**
Commercial							
Pass	$ 120	$	$ 120	$ 30,983	$ 31,103	$	$ 31,103
Special Mention	16		16	143	159		159
Substandard				1,438	1,438	6,052	7,490
Total Commercial	$ 136	$	$ 136	$ 32,564	$ 32,700	$ 6,052	$ 38,752
Commercial Real Estate							
Pass	$ 654	$ 1,188	$ 1,842	$ 200,986	$ 202,828	$	$ 202,828
Special Mention				8,251	8,251		8,251
Substandard				4,389	4,389	2,583	6,972
Total Commercial Real Estate	$ 654	$ 1,188	$ 1,842	$ 213,626	$ 215,468	$ 2,583	$ 218,051
Construction							
Substandard	$	$	$	$	$	$ 260	$ 260
Total Construction	$	$	$	$	$	$ 260	$ 260
Construction to Permanent							
Pass	$	$	$	$ 12,650	$ 12,650	$	$ 12,650
Total Construction to Permanent	$	$	$	$ 12,650	$ 12,650	$	$ 12,650
Residential Real Estate							
Pass	$ 53	$	$ 53	$ 100,891	$ 100,944	$	$ 100,944
Substandard						2,075	2,075
Total Residential Real Estate	$ 53	$	$ 53	$ 100,891	$ 100,944	$ 2,075	$ 103,019
Consumer							

Pass	$	4	$		$	4	$	47,067	$	47,071	$		$	47,071
Substandard								5		5		30		35
Total Consumer	$	4	$		$	4	$	47,072	$	47,076	$	30	$	47,106
Total	$	847	$	1,188	$	2,035	$	406,803	$	408,838	$	11,000	$	419,838

Table of Contents

The following table sets forth the detail and delinquency status of loans receivable by performing and non-performing loans at December 31, 2013.

(in thousands)	Performing (Accruing) Loans						
2013	**31-60 Days Past Due**	**61-89 Days Past Due**	**Total Past Due**	**Current**	**Total Loan Balances**	**Total Non-Accrual and Past Due Loans**	**Total Loans Receivable**
Commercial							
Pass	$ 725	$	$ 725	$ 26,641	$ 27,366	$ 25	$ 27,391
Special Mention				167	167		167
Substandard				1,351	1,351	6,152	7,503
Total Commercial	$ 725	$	$ 725	$ 28,159	$ 28,884	$ 6,177	$ 35,061
Commercial Real Estate							
Pass	$ 1,858	$ 266	$ 2,124	$ 204,944	$ 207,068	$	$ 207,068
Special Mention				9,075	9,075		9,075
Substandard				4,417	4,417	2,605	7,022
Total Commercial Real Estate	$ 1,858	$ 266	$ 2,124	$ 218,436	$ 220,560	$ 2,605	$ 223,165
Construction							
Substandard	$	$	$	$	$	$ 260	$ 260
Total Construction	$	$	$	$	$	$ 260	$ 260
Construction to Permanent							
Pass	$	$	$	$ 10,106	$ 10,106	$	$ 10,106
Substandard						1,197	1,197
Total Construction to Permanent	$	$	$	$ 10,106	$ 10,106	$ 1,197	$ 11,303
Residential Real Estate							
Pass	$ 32	$	$ 32	$ 103,264	$ 103,296	$	$ 103,296
Substandard						2,902	2,902
Total Residential Real Estate	$ 32	$	$ 32	$ 103,264	$ 103,296	$ 2,902	$ 106,198
Consumer							
Pass	$ 350	$ 560	$ 910	$ 46,121	$ 47,031	$	$ 47,031

Substandard	7		7		7	33	40
Total Consumer	$ 357	$ 560	$ 917	$ 46,121	$ 47,038	$ 33	$ 47,071
Total	$ 2,972	$ 826	$ 3,798	$ 406,085	$ 409,884	$ 13,174	$ 423,058

Table of Contents

The following table summarizes impaired loans as of March 31, 2014:

(in thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	$ 2	$ 160	$
Commercial Real Estate	8,699	9,537	
Construction			
Construction to Permanent			
Residential	4,680	7,203	
Consumer	585	664	
Total:	$ 13,966	$ 17,564	$
With an allowance recorded:			
Commercial	$ 6,050	$ 6,050	$ 1,500
Commercial Real Estate	156	210	17
Construction	260	487	260
Construction to Permanent			
Residential	499	545	21
Consumer	2	2	2
Total:	$ 6,967	$ 7,294	$ 1,800
Commercial	$ 6,052	$ 6,210	$ 1,500
Commercial Real Estate	8,855	9,747	17
Construction	260	487	260
Construction to Permanent			
Residential	5,179	7,748	21
Consumer	587	666	2
Total:	$ 20,933	$ 24,858	$ 1,800

Impaired loans consist of non-accrual loans, TDRs and loans that were previously classified as TDRs that have been upgraded.

Table of Contents

The following table summarizes impaired loans as of December 31, 2013:

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	$ 2	$ 151	$
Commercial Real Estate	7,597	8,316	
Construction			
Construction to Permanent	1,197	1,425	
Residential	5,098	7,632	
Consumer	591	670	
Total:	$ 14,485	$ 18,194	$
With an allowance recorded:			
Commercial	$ 6,150	$ 6,150	$ 1,500
Commercial Real Estate	170	215	31
Construction	260	487	260
Construction to Permanent			
Residential	926	1,066	98
Consumer	2	2	2
Total:	$ 7,508	$ 7,920	$ 1,891
Commercial	$ 6,152	$ 6,301	$ 1,500
Commercial Real Estate	7,767	8,531	31
Construction	260	487	260
Construction to Permanent	1,197	1,425	
Residential	6,024	8,698	98
Consumer	593	672	2
Total:	$ 21,993	$ 26,114	$ 1,891

The recorded investment of impaired loans at March 31, 2014 and December 31, 2013 was $20.9 million and $22.0 million, with related allowances of $1.8 million and $1.9 million, respectively.

Included in the tables above at March 31, 2014 and December 31, 2013 are loans with carrying balances of $14.0 million and $14.5 million that required no specific reserves in our allowance for loan losses. Loans that did not require specific reserves have sufficient collateral values, less costs to sell, supporting the carrying balances of the loans. In some cases, there may be no specific reserves because the Company already charged-off the specific impairment. Once a borrower is in default, the Company is under no obligation to advance additional funds on unused commitments.

Table of Contents

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

The following table presents the total troubled debt restructured loans as of March 31, 2014:

	Accrual		Non-accrual		Total	
(Dollars in thousands)	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount
Commercial Real Estate	2	$ 2,128	1	$ 1,280	3	$ 3,408
Total Troubled Debt Restructurings	2	$ 2,128	1	$ 1,280	3	$ 3,408

The following table presents the total troubled debt restructured loans as of December 31, 2013:

	Accrual		Non-accrual		Total	
(Dollars in thousands)	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount
Construction to permanent	1	$ 991	1	$ 1,197	2	$ 2,188
Total Troubled Debt Restructurings	1	$ 991	1	$ 1,197	2	$ 2,188

Two loans, including a loan which had been modified in a prior year, were modified in a troubled debt restructuring during the three months ended March 31, 2014. The following table summarizes loans that were modified in a troubled debt restructuring during the three months ended March 31, 2014.

	Three months ended March 31, 2014			
(Dollars in thousands)	Number of Relationships	Pre-Modification Outstanding Recorded Investment	Number of Relationships	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings				
Commercial Real Estate	2	$ 2,439	2	$ 2,430
Total Troubled Debt Restructurings	2	$ 2,439	2	$ 2,430

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

Table of Contents

All troubled debt restructurings are impaired loans, which are individually evaluated for impairment.

Note 4: Deposits

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

(in thousands)	March 31, 2014	December 31, 2013
Non-interest bearing	$ 57,967	$ 55,358
Interest bearing		
NOW	25,464	28,618
Savings	86,409	80,983
Money market	29,502	29,310
Time certificates, less than $100,000	121,955	129,548
Time certificates, $100,000 or more	106,672	106,387
Total interest bearing	370,002	374,846
Total Deposits	$ 427,969	$ 430,204

Note 5: Share-Based Compensation

The Company maintains the Patriot National Bancorp, Inc. 2012 Stock Plan to provide an incentive to directors and employees of the Company by the grant of options, restricted stock awards or phantom stock units. The Plan provides for the issuance of up to 3,000,000 shares of the Company s common stock subject to certain Plan limitations. 2,240,268 shares of stock remain available for issuance under the Plan as of March 31, 2014. The vesting of restricted stock awards and options may be accelerated in accordance with terms of the plan. The Compensation Committee shall make terms and conditions applicable to the vesting of restricted stock awards and stock options. Restricted stock grants are available to directors and employees and vest in quarterly or annual installments over a three, four or five year period from the date of grant. The Compensation Committee accelerated the vesting of the initial grant of restricted stock in 2012, whereby the first year of the tranche vested immediately. The Company is expensing the grant date fair value of all share-based compensation over the requisite vesting periods on a straight-line basis.

During the three months ended March 31, 2014 and March 31, 2013, the Company recorded $59,000 and $7,000 of total stock-based compensation, respectively. During the quarter ended March 31, 2014, there were 347,484 awards granted under the 2012 Stock Plan.

Table of Contents

The following is a summary of the status of the Company s restricted shares as of March 31, 2014, and changes therein during the period then ended.

	Number of Shares Awarded	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2013	281,835	$ 1.26
Granted	347,484	1.01
Vested	4,435	1.73
Non-vested at March 31, 2014	624,884	$ 1.12

Expected future stock award expense related to the non-vested restricted awards as of March 31, 2014, is $648,000 over an average period of 2.8 years.

The company had no outstanding stock options at March 31, 2014.

Note 6: Income Taxes

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. The deferred tax position has been affected by several significant transactions in prior years. These transactions include provision for loan losses, the levels of non-accrual loans and other-than-temporary impairment write-offs of certain investments, as well as a loss on the bulk sale of loans in 2011. As a result, the Company was in a cumulative net loss position in 2011 and under the applicable accounting guidance, had concluded that it was not more-likely-than-not that the Company would be able to realize its deferred tax assets and, accordingly, had established a full valuation allowance totaling $14.4 million against the deferred tax asset balance remaining after the IRC 382 write-down (see below).

As measured under the rules of the Tax Reform Act of 1986, the Company has undergone a greater than 50% change of ownership in 2010. Consequently, use of the Company s net operating loss carry forward and certain built in deductions available against future taxable income in any one year are limited. The maximum amount of carry forwards available in a given year is limited to the product of the Company s fair market value on the date of ownership change and the federal long-term tax-exempt rate, plus any limited carry forward not utilized in prior years.

The Company analyzed the impact of its ownership change in 2010 and calculated the annual limitation under IRC 382 to be $284,000. Based on the analysis, the Company had determined that the pre-change net operating losses and net unrealized built-in deductions were approximately $36.2 million. Based on a 20 year carry forward period, the Company could utilize approximately $5.6 million of the pre-change net operating losses and built-in deductions. Therefore, the Company wrote-off approximately $10.4 million of deferred tax assets in 2011. Accordingly, the write-off of the deferred tax asset did not affect the consolidated financial statements as there was a full valuation allowance against the deferred tax asset.

Management has reviewed the deferred tax position of the Company at March 31, 2014. The valuation allowance is analyzed quarterly for changes affecting the deferred tax asset. At March 31, 2014, the company reported taxable income for the second consecutive quarter. However, based on current accounting guidance the Company has not generated taxable income for a sufficient length of time in order to reverse the DTA valuation allowance and, accordingly, had an allowance totaling $17.8 million at March 31, 2014. In the future, when the Company has generated taxable income on a more sustained basis, management s conclusion regarding the need for a deferred tax asset valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation allowance.

Table of Contents

Note 7: Income (loss) per share

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

The stock options and non-vested restricted stock awards did not have an impact on the diluted earnings per share. The following is information about the computation of income (loss) per share for the three months ended March 31, 2014 and 2013:

Three months ended March 31, 2014	**Net Income**	**Weighted Average Common Shares O/S**	**Amount**
Basic and Diluted Income Per Share			
Income attributable to common shareholders	$ 319,000	38,493,189	$ 0.01

Three months ended March 31, 2013	Net Loss	Weighted Average Common Shares O/S	Amount
Basic and Diluted Loss Per Share			
Loss attributable to common shareholders	$ (1,957,000)	38,435,597	$ (0.05)

Table of Contents

Note 8: Other Comprehensive Income

Other comprehensive income, which is comprised solely of the change in unrealized gains and losses on available-for-sale securities, is as follows:

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
(in thousands)	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Unrealized holding gains arising during the period	$ 393	$	$ 393	$ 55	$	$ 55

Note 9: Financial Instruments with Off-Balance Sheet Risk

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

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

Financial instruments whose contractual amounts represent credit risk at March 31, 2014 are as follows:

	(in thousands)
Commitments to extend credit:	
Future loan commitments	$ 15,526
Home equity lines of credit	27,708
Unused lines of credit	36,871
Undisbursed construction loans	2,174
Financial standby letters of credit	1,118
	$ 83,397

Standby letters of credit are written commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Guarantees that are not derivative contracts are recorded on the Company s consolidated balance sheet at their fair value at inception.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates, or other termination clauses, and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the counterparty. Collateral held varies, but may include residential and commercial property, deposits and securities. The bank has established a reserve of $12,000 as of March 31, 2014.

Note 10: Regulatory and Operational Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company s and the Bank s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company s and the Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). In addition, due to the Bank s asset profile and current economic conditions in its markets, the Bank s capital plan pursuant to the Agreement described below does target a minimum 9% Tier 1 leverage capital ratio.

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

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

Table of Contents

The Company s and the Bank s actual capital amounts and ratios at March 31, 2014 and December 31, 2013 were:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2014						
The Company:						
Total Capital (to Risk Weighted Assets)	$ 56,405	14.12%	$ 31,952	8.00%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	51,406	12.87%	15,976	4.00%	N/A	N/A
Tier 1 Capital (to Average Assets)	51,406	9.56%	21,507	4.00%	N/A	N/A
The Bank:						
Total Capital (to Risk Weighted Assets)	$ 56,342	14.12%	$ 31,919	8.00%	$ 39,898	10.00%
Tier 1 Capital (to Risk Weighted Assets)	51,349	12.87%	15,959	4.00%	23,939	6.00%
Tier 1 Capital (to Average Assets)	51,349	9.56%	21,491	4.00%	26,864	5.00%
December 31, 2013						
The Company:						
Total Capital (to Risk Weighted Assets)	$ 56,060					