

PATRIOT NATIONAL BANCORP INC
Form 10-K
March 15, 2010

U. S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 – K

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

For the Fiscal Year Ended December 31, 2009

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

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.
(Exact name of registrant as specified in its charter)

Connecticut (State or other jurisdiction of incorporation or organization)	06-1559137 (IRS Employer Identification Number)
900 Bedford Street Stamford, Connecticut (Address of principal executive offices)	06901 (Zip Code)

Registrant's telephone number, including area code: (203) 324-7500

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

Securities registered under Section 12(g) of the Exchange Act: Common Stock, par value \$2.00 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Check whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer in Rule 12(b) of the Exchange Act.

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Large accelerated filer Accelerated
filer Non-accelerated filer

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

Aggregate market value of the voting stock held by nonaffiliates of the registrant as of June 30, 2009 based on the last sale price as reported on the NASDAQ Global Market: \$ 10,773,105.

Number of shares of the registrant's Common Stock, par value \$2.00 per share, outstanding as of February 28, 2010: 4,762,727.

Documents Incorporated by Reference

Proxy Statement for 2010 Annual Meeting of Shareholders. (A definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Form 10-K.)

Incorporated into Part III of this Form 10-K.

Patriot National Bancorp, Inc.
2009 Form 10-K Annual Report

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“Safe Harbor” Statement Under Private Securities Litigation Reform Act of 1995

Certain statements contained in Bancorp’s public reports, including this report, and in particular in “Management’s Discussion and Analysis of Financial Condition and Results of Operation,” may be forward looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on Bancorp’s interest earning assets and the interest paid on its interest bearing liabilities, (2) the timing of repricing of Bancorp’s interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the effect of changes in regulations applicable to Bancorp and the Bank and the conduct of its business, (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks, (6) the ability of competitors that are larger than Bancorp to provide products and services which it is impracticable for Bancorp to provide, (7) the state of the economy and real estate values in Bancorp’s market areas, and the consequent affect on the quality of Bancorp’s loans, (8) recent governmental initiatives are expected to have a profound effect on the financial services industry and could dramatically change the competitive environment of the Company; (9) other legislative or regulatory changes, including those related to residential mortgages, changes in accounting standards, and Federal Deposit Insurance Corporation (“FDIC”) premiums may adversely affect the Company; (10) the state of the economy in the greater New York metropolitan area and its particular effect on the Company’s customers, vendors and communities and (11) Bancorp’s ability to procure additional capital either through its December 17, 2009 Stock Purchase Agreement with PNBK Holdings, LLC or, should that purchase not be consummated, through other means. Other such factors may be described in Bancorp’s other filings with the SEC.

Although Bancorp believes that it offers the loan and deposit products and has the resources needed for continued success, future revenues and interest spreads and yields cannot be reliably predicted. These trends may cause Bancorp to adjust its operations in the future. Because of the foregoing and other factors, recent trends should not be considered reliable indicators of future financial results or stock prices.

PART I

Item 1. Business

General

Patriot National Bancorp, Inc. (“Bancorp”), a Connecticut corporation, was organized in 1999 for the purpose of becoming a one-bank holding company (the “Reorganization”) for Patriot National Bank, a national banking association headquartered in Stamford, Fairfield County, Connecticut (the “Bank”). Following receipt of regulatory and shareholder approvals, the Reorganization became effective as of the opening of business on December 1, 1999. Upon consummation of the Reorganization, each outstanding share of Common Stock, par value \$2.00 per share, of the Bank (“Bank Common Stock”), was converted into the right to receive one share of Common Stock, par value \$2.00 per share, of Bancorp (“Bancorp Common Stock”), and each outstanding option or warrant to purchase Bank Common Stock became an option or warrant to purchase an equal number of shares of Bancorp Common Stock.

The Bank was granted preliminary approval by the Comptroller of the Currency (the “OCC”) on March 5, 1993. It received its charter and commenced operations as a national bank on August 31, 1994. Since then, the Bank has opened fifteen branch offices in Connecticut. The Bank also expanded into New York State through the purchase of a small branch office in New York City and the opening of branch offices in Bedford and Scarsdale, both located in Westchester County, New York.

On June 30, 1999, the Bank through its wholly-owned subsidiary, PinPat Acquisition Corporation, acquired all of the outstanding capital stock of Pinnacle Financial Corp., a Connecticut corporation, Pinnacle Financial Corp., a New Jersey corporation, and Pinnacle Financial Corp., a New York corporation (collectively, “Pinnacle”), a residential mortgage broker. Pinnacle surrendered its mortgage licenses and the mortgage brokerage business of Pinnacle is now conducted through the lending function of Patriot National Bank.

On March 11, 2003, Bancorp formed Patriot National Statutory Trust I (the “Trust”) for the sole purpose of issuing trust preferred securities and investing the proceeds in subordinated debentures issued by Bancorp. Bancorp primarily invested the funds from the issuance of the debt in the Bank, which in turn used the proceeds to fund general operations of the Bank.

On November 17, 2006 the Bank acquired a small branch office and related deposits at 45 West End Avenue, New York, New York, from Millennium bcpbank, a national bank headquartered in Newark, New Jersey. The Bank assumed the existing lease and operates from the branch at 45 West End Avenue. The acquisition permitted the Bank to establish two additional branches in New York State.

On April 1, 2008, the Bank acquired a 20% interest in a de novo insurance agency. The impact on the Bank’s operations in 2008 and 2009 was insignificant.

As of the date hereof, the only business of Bancorp is its ownership of all of the issued and outstanding capital stock of the Bank and the Trust. Except as specifically noted otherwise herein, the balance of the description of Bancorp's business is a description of the Bank's business.

Commercial Banking

The Bank conducts business at its main office located at 900 Bedford Street in Stamford, Connecticut and at other Connecticut branch offices located at:

838 High Ridge Road, Stamford
100 Mason Street, Greenwich
184 Sound Beach Avenue, Old Greenwich
16 River Street, Norwalk
365 Westport Avenue, Norwalk
One Danbury Road, Wilton
5 River Road, Wilton
800 Post Road, Darien
3695 Post Road, Southport
771 Boston Post Road, Milford
1127 Post Road, Fairfield
1755 Black Rock Turnpike, Fairfield
945 White Plains Road, Trumbull
370 Post Road East, Westport
3552 Main Street, Stratford

In New York State, the Bank also conducts business at branch offices located at: 45 West End Avenue in New York City, 432 Old Post Road in Bedford and 495 Central Park Avenue in Scarsdale. The Bank also operates a loan origination office at 1177 Summer Street in Stamford, Connecticut.

The Bank offers a broad range of consumer and commercial banking services with an emphasis on serving the needs of individuals, small and medium-sized businesses and professionals. The Bank offers consumer and commercial deposit accounts that include: checking accounts, interest-bearing "NOW" accounts, insured money market accounts, time certificates of deposit, savings accounts, IRAs (Individual Retirement Accounts) and HSAs (Health Savings Accounts). Other services include internet banking, bill paying, remote deposit capture, debit cards, money orders, traveler's checks and ATMs (automated teller machines). The Bank is a member of CDARS (Certificates of Deposit Account Registry Service) whereby customers can obtain complete FDIC insurance coverage by placing large deposits into smaller-denomination CDs in multiple institutions. The single bank FDIC limits have temporarily been increased to \$250,000 per eligible account until December 31, 2013. In addition, the Bank may in the future offer other financial services.

The Bank offers commercial real estate and construction loans to area businesses and developers. Real estate loans made to individuals include home mortgages, home improvement loans, bridge

loans and home equity loans and lines of credit. Other personal loans include lines of credit, installment loans, overdraft protection and credit cards. Commercial loans offered to small and medium-sized businesses include secured and unsecured loans to service companies, real estate developers, manufacturers, restaurants, wholesalers, retailers and professionals doing business in the region. In addition to offering residential real estate mortgage loans for its own portfolio, the Bank also solicits and processes mortgage loan applications from consumers on behalf of permanent investors and originates loans for sale to generate fee income.

Competition

The Bank competes with a variety of financial institutions in its market area. Many have greater financial resources and capitalization, which gives them higher legal lending limits as well as the ability to conduct larger advertising campaigns to attract business. Generally the larger institutions offer additional services such as trust and international banking which the Bank is not equipped to offer directly. When the need arises, arrangements are made with correspondent institutions to provide such services. In the future, if the Bank desires to offer trust services, prior approval of the OCC will be required. To attract business in this competitive environment, the Bank relies on local promotional activities and personal contact by officers, directors and shareholders and on its ability to distinguish itself by offering personalized services.

The customer base of the Bank generally is diversified so that there is not a concentration of either loans or deposits within a single industry, a group of industries, a single person or groups of people. The Bank in recent years has developed a concentration in single family residential construction lending, a portfolio the Bank is reducing in size. The Bank is not dependent on one or a few major customers for either its deposit or lending activities, the loss of any one of which would have a material adverse effect on the business of the Bank.

Residents and businesses in Stamford, Greenwich, Norwalk, Wilton, Darien, Southport, Fairfield, Trumbull, Westport, Milford and Stratford, Connecticut provide the majority of the Bank's deposits. The Bank has expanded its footprint by establishing branch offices in the Westchester County, New York towns of Bedford and Scarsdale, as well as a branch in New York City. The Bank has focused its attention on serving the segments of its market area historically served by community banks. The Bank competes in its market by providing a high level of personalized and responsive banking service for which the Bank believes there is a need.

The Bank's loan customers extend beyond the towns and cities in which the Bank has branch offices that include nearby towns in Fairfield and New Haven Counties in Connecticut, and Westchester County, New York City and Long Island in New York, although the Bank's loan business is not necessarily limited to these areas. The concentration of the loan portfolio in construction lending is indicative of the specialty the Bank developed since its founding in 1994. The Bank's plans for future lending contemplate the diversification of the portfolio away from its historical emphasis on construction lending. While the Bank does not currently hold or intend to attract significant deposit or loan business from major corporations with headquarters in the Fairfield County area, the Bank believes that the service, professional and related businesses which have been attracted to this area, as well as the individuals that reside in this area, represent current and potential customers of the Bank.

In the normal course of business and subject to applicable government regulations, the Bank invests a portion of its assets in investment securities, which may include certain debt and equity securities, including government securities. An objective of the Bank's investment policy is to seek to optimize its return on assets while limiting its exposure to interest rate movements and credit risk as well as maintaining adequate levels of liquidity. The Bank's investment portfolio is comprised primarily of government agency issues.

The Bank's employees perform most routine day-to-day banking transactions at the Bank. The Bank has entered into a number of arrangements with third parties for banking services such as correspondent banking, check clearing, data processing services, credit card processing and armored car carrier service.

The cities of Stamford and Norwalk and the towns of Greenwich, Wilton, Darien, Southport, Milford, Fairfield, Trumbull, Westport and Stratford are presently served by over 278 branches of commercial and savings banks along with 21 in the New York towns of Bedford and Scarsdale. Most of these branches are offices of banks, which have headquarters outside of the states or areas served by the Bank or are subsidiaries of bank or financial holding companies whose headquarters are outside of the areas served by the Bank. In addition to banks with branches in the same areas as the Bank, there are numerous banks and financial institutions serving the communities surrounding these areas, which also draw customers from the cities and towns mentioned above and pose significant competition to the Bank for deposits and loans. Many of those banks and financial institutions are well established and well capitalized.

In recent years, intense market demands, economic pressures and significant legislative and regulatory actions have eroded banking industry classifications which were once clearly defined and have increased competition among banks, as well as other financial institutions including non-bank competitors. This increase in competition has caused banks and other financial service institutions to diversify their services and become more cost effective. The impact on Bancorp of federal legislation authorizing increased services by financial holding companies and interstate branching of banks has also resulted in increased competition. These events have resulted in increasing homogeneity in the financial services offered by banks and other financial institutions. The impact on banks and other financial institutions of these market dynamics and legislative and regulatory changes has been increased customer awareness of product and service differences among competitors and increased merger activity.

Supervision and Regulation

As a bank holding company, Bancorp's operations are subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve Board (the "Federal Reserve Board"). The Federal Reserve Board has established capital adequacy guidelines for bank holding companies that are similar to the OCC's capital guidelines applicable to the Bank. The Bank Holding Company Act of 1956, as amended (the "BHC Act"), limits the types of companies that a bank holding company may acquire or organize and the activities in which it or they may engage. In general, bank holding companies and their subsidiaries are only permitted to engage in, or acquire direct control of, any company engaged in banking or in a business so closely related to banking as to be a proper incident thereto. Federal legislation enacted in 1999

authorizes certain entities to register as financial holding companies. Registered financial holding companies are permitted to engage in businesses, including securities and investment banking businesses, which are prohibited to bank holding companies. The creation of financial holding companies to date has had no significant impact on Bancorp.

Under the BHC Act, Bancorp is required to file annually with the Federal Reserve Board a report of its operations. Bancorp, the Bank and any other subsidiaries are subject to examination by the Federal Reserve Board. In addition, Bancorp will be required to obtain the prior approval of the Federal Reserve Board to acquire, with certain exceptions, more than 5% of the outstanding voting stock of any bank or bank holding company, to acquire all or substantially all of the assets of a bank or to merge or consolidate with another bank holding company. Moreover, Bancorp, the Bank and any other subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit or provision of any property or services. The Bank is also subject to certain restrictions imposed by the Federal Reserve Act on issuing any extension of credit to Bancorp or any of its subsidiaries or making any investments in the stock or other securities thereof and on the taking of such stock or securities as collateral for loans to any borrower. If Bancorp wants to engage in businesses permitted to financial holding companies but not to bank holding companies, it would need to register with the Federal Reserve Board as a financial holding company.

The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses its view that a bank holding company should pay cash dividends only to the extent that the bank holding company's net income for the past year is sufficient to cover both the cash dividend and a rate of earnings retention that is consistent with the bank holding company's capital needs, asset quality and overall financial condition. The Federal Reserve Board has also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the Federal Reserve Board pursuant to applicable law, the Federal Reserve Board may prohibit a bank holding company from paying any dividends if its bank subsidiary is classified as "undercapitalized."

A bank holding company is required to give the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of its consolidated retained earnings. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve Board order, or any condition imposed by, or written agreement with, the Federal Reserve Board.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, ("Riegle-Neal Act") was enacted to ease restrictions on interstate banking. Effective September 29, 1995, the Riegle-Neal Act allows the Federal Reserve Board to approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's state, without regard to whether the transaction is prohibited by the laws of any state. The Federal Reserve Board may not approve the acquisition of a bank that has not been in existence

for the minimum time period (not exceeding five years) specified by the statutory law of the host state. The Riegle-Neal Act also prohibits the Federal Reserve Board from approving an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. The Riegle-Neal Act does not affect the authority of states to limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent that such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% statewide concentration limits contained in the Riegle-Neal Act. The Riegle-Neal Act also allows banks to establish branch offices in other than the bank's home state if the target state has "opted in" to interstate branching.

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

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

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

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

The earnings and growth of Bancorp, the Bank and the banking industry are affected by the

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

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

On October 26, 2001, the United and Strengthening America by Providing Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA Patriot Act, was enacted to further strengthen domestic security following the September 11, 2001 attacks. This Act amends various federal banking laws, particularly the Bank Secrecy Act, with the intent to curtail money laundering and other activities that might be undertaken to finance terrorist actions. The Act also requires that financial institutions in the United States enhance already established anti-money laundering policies, procedures and audit functions and ensure that controls are reasonably designed to detect instances of money laundering through certain correspondent or private banking accounts. Verification of customer identification, maintenance of said verification records and cross checking names of new customers against government lists of known or suspected terrorists is also required. The Patriot Act was reauthorized and modified with the enactment of The USA Patriot Act Improvement and Reauthorization Act of 2005.

On July 20, 2002, the Sarbanes-Oxley Act of 2002 was enacted, the primary purpose of which is to protect investors through improved corporate governance and responsibilities of, and disclosures by, public companies. The Act contains provisions for the limitations of services that

external auditors may provide as well as requirements for the credentials of Audit Committee members. In addition, the principal executive and principal financial officers are required to certify in quarterly and annual reports that they have reviewed the report; and based on the officers' knowledge, the reports accurately present the financial condition and results of operations of the company and contain no untrue statement or omission of material fact. The officers also certify their responsibility for establishing and maintaining a system of internal controls, which insure that all material information is made known to the officers; this certification also includes the evaluation of the effectiveness of disclosure controls and procedures and their impact upon financial reporting. Section 404 of the Act entitled Management Assessment of Internal Controls, requires that each annual report include an internal control report which states that it is the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting, as well as an assessment by management of the effectiveness of the internal control structure and procedures for financial reporting. This section further requires that the external auditors attest to, and report on, the Company's internal controls over financial reporting.

Emergency Economic Stabilization Act of 2008

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act ("EESA") which includes the Troubled Asset Relief Program ("TARP"). The legislation was in response to the financial crises affecting the banking system and financial markets. The TARP gave the United States Department of the Treasury (the "Treasury") authority to deploy up to \$700 billion into the financial system with an objective of improving liquidity in the capital markets. This was initially done by infusing billions of dollars into financial and insurance institutions as well as U.S. automakers. Since 2008, the U.S. Department of the Treasury has established several programs under the TARP, including the Financial Stability Program, to further stabilize the financial system, restore the flow of credit to consumers and businesses and tackle the foreclosure crisis to keep millions of Americans in their homes. Since this program began, many banks, large and small have accessed the program. However, due to constraints attendant to participation, many banks have repaid or indicated the intention to repay capital received from the government. The Bank did not participate in the TARP program, which is now closed to new entrants.

Temporary Liquidity Guarantee Program

On November 21, 2008, the FDIC adopted the Final Rule implementing the Temporary Liquidity Guarantee Program ("TLGP") inaugurated October 14, 2008. The TLGP consists of two basic components: (1) the Debt Guarantee Program which guarantees newly issued senior unsecured debt of banks, thrifts, and certain holding companies and (2) the Transaction Account Guarantee Program which guarantees certain non-interest bearing deposit transaction accounts, such as business payroll accounts, regardless of dollar amount. The purpose of the TLGP was to provide an initiative to counter the system-wide crisis in the nation's financial sector by promoting financial stability by preserving confidence in the banking system and encourages liquidity in order to ease lending to creditworthy businesses and consumers.

The Bank is participating in the Transaction Account Guarantee portion of the TLGP and as a result, its non-interest bearing transaction deposit accounts and interest bearing transaction

accounts paying 50 basis points or less will be fully insured through June 30, 2010. Bancorp did not participate in the Debt Guarantee portion of the TLGP.

Helping Families Save Their Homes Act of 2009

The Helping Families Save Their Homes Act of 2009 became effective May 20, 2009. This act was a step towards stabilizing and reforming the United States financial and housing markets by helping American homeowners and increasing the flow of credit. It expands the reach of the Making Home Affordable Program (a TARP initiative) with an emphasis on reducing foreclosures. The act also contains provisions to help restore and support the flow of credit by increasing the borrowing authority of the FDIC and the National Credit Union Administration as well as extending the temporary increase in deposit insurance. The increase in deposit insurance may add confidence in depositors and allow depository institutions to better maintain this source of funding.

Real Estate Settlement Procedures Act

The U.S. Department of Housing and Urban Development (“HUD”) issued a final rule effective January 1, 2010 that implements significant changes to the Real Estate Settlement Procedures Act (“RESPA”). The new rules require a standard form of Good Faith Estimate to disclose key terms and closing costs, including items such as the loan term, fixed or adjustable interest rate, prepayment penalty, total closing cost and cost of homeowners insurance. Additionally, changes to the settlement statement are also required and will allow borrowers to compare their final closing costs and loan terms against their good faith estimate. There are also limitations on third-party costs and a 30 day window from the date of closing to correct any errors or violations and reimburse the borrower for any overcharges.

Regulation E, Electronic Fund Transfers

The Board of Governors of the FRB amended Regulation E, Electronic Fund Transfers. The final rules, announced November 12, 2009, prohibit affected financial institutions from charging consumers fees for paying overdrafts on automated teller machine (“ATM”) and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. The mandatory compliance date is July 1, 2010.

Bancorp does not anticipate that compliance with applicable federal and state banking laws will have a material adverse effect on its business or the business of the Bank. Neither Bancorp nor the Bank has any material patents, trademarks, licenses, franchises, concessions and royalty agreements or labor contracts, other than the charter granted to the Bank by the OCC.

Available Information

Our website address is <http://www.pnbdirectonline.com>; however, information found on, or that can be accessed through, our website is not incorporated by reference into this Form 10-K. Bancorp makes available free of charge on our website (under the links entitled “For Investors”, then “SEC filings” and then “Documents”), our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as practicable after we electronically file such reports with or furnish it to the SEC. Because Bancorp is an electronic filer, such reports are filed with the SEC and are also available on their website (<http://www.sec.gov>). The public may also read and copy any materials filed with the SEC at the SEC’s Public Reference Room, 100 F Street, NE, Washington, DC 20549. Information about the Public Reference Room can be obtained by calling 1-800-SEC-0330.

Employees

As of December 31, 2009, Bancorp had 146 full-time employees and 9 part-time employees. None of the employees of Bancorp is covered by a collective bargaining agreement.

Item 1A. Risk Factors

The risks involved in Bancorp's construction and commercial real estate loan portfolios are material.

Although Bancorp's commercial real estate and construction loan portfolios have been, by design, significantly reduced in the past year, they still constitute material portions of the Bank's assets and generally have more risk than residential mortgage loans. Both commercial real estate and construction loans often involve larger loan balances concentrated with single borrowers or groups of related borrowers as compared to single-family residential loans. Construction loans are secured by the property under construction, the value of which is uncertain prior to completion. Thus, it is more difficult to evaluate accurately the total loan funds required to complete a project and the related loan-to-value ratios. Speculative construction loans involve additional risk because the builder does not have a contract for the sale of the property at the time of construction.

Because the repayment of commercial real estate and construction loans depends on the successful management and operation of the borrower's properties or related businesses, repayments of such loans can be affected by adverse conditions in the real estate market or local economy as have been experienced in Bancorp's market area. The downturn in the real estate market within Bancorp's market area has, and may continue to, adversely impact the value of properties securing these loans and the ability to sell foreclosed properties efficiently.

Real estate lending in Bancorp's core Fairfield County, Connecticut market involves risks related to a decline in value of commercial and residential real estate.

The market value of real estate can fluctuate significantly in a relatively short period of time as a result of market conditions in the geographic area in which the real estate is located. A significant portion of Bancorp's total loan portfolio is secured by real estate located in Fairfield County, Connecticut and Westchester, County New York, areas historically of high affluence that have been materially impacted by the financial troubles experienced by large financial service companies on Wall Street in recent years. Credit markets have become tight and underwriting standards more stringent, and the inability of purchasers of real estate to obtain financing may further weaken the real estate market. Therefore, these loans may be subject to changes in grade, classification, accrual status, foreclosure, or loss which could have an effect on the adequacy of the allowance for loan losses.

Bancorp's business is subject to various lending and other economic risks that could adversely impact Bancorp's results of operations and financial condition.

Changes in economic conditions, particularly a continued economic slowdown in Fairfield County, Connecticut and the New York metropolitan area, could hurt Bancorp's financial performance. A further deterioration in economic conditions, in particular an economic slowdown within Fairfield County, Connecticut and/or the New York metropolitan area, could result in the following consequences, any of which may hurt the business of Bancorp materially: loan delinquencies may increase; problem assets and foreclosures may increase; demand for the Bank's products and services may decline; and assets and collateral associated with the Bank's

loans, especially real estate, may decline in value, thereby reducing a customer's borrowing power. Beginning in 2007 and worsening through 2008 and 2009, the general economic conditions and specific business conditions in the United States including Fairfield County, Connecticut have deteriorated resulting in increases in loan delinquencies, problem assets and foreclosures and declines in the value and collateral associated with the Bank's loans. A prolonged period of economic recession or worsening of these adverse economic conditions may have a materially adverse effect on our results of operations and financial condition.

Bancorp is Subject to a Formal Agreement with the OCC

The Bank is subject to a formal agreement with the OCC entered into in February 2009. The agreement provides for, among other things, the enhancement and implementation of certain programs to reduce the Bank's credit risk, commercial real estate loan concentration and the level of criticized assets, along with the augmentation of a profit plan and three-year capital program. Additionally, the agreement provides for certain asset growth restrictions for a limited period of time. The Bank does not anticipate that these restrictions will impair its current business plan. However, failure to comply with the provisions of the Agreement could result in more severe enforcement actions and further restrictions.

Bancorp's allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, the Bank maintains an allowance for loan losses to provide for loan defaults and non-performance. The allowance for loan losses is based on an evaluation of the risks associated with the Bank's loans receivable as well as the Bank's prior loss experience. Deterioration in general economic conditions and unforeseen risks affecting customers will have an adverse effect on borrowers' capacity to repay timely their obligations before risk grades could reflect those changing conditions.

The recent adverse changes in economic and market conditions in the Bank's market areas increase the risk that the allowance will become inadequate if borrowers continue to experience economic and other conditions adverse to their incomes and businesses. Maintaining the adequacy of the Bank's allowance for loan losses may require that the Bank make significant and unanticipated increases in our provision for loan losses, which would materially affect our results of operations and capital adequacy. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond the Bank's control and these losses may exceed current estimates. The current economic environment is uncertain and may result in additional risk of loan losses.

Federal regulatory agencies, as an integral part of their examination process, review the Bank's loans and assess the adequacy of the allowance for loan losses. The regulatory agencies may require us to change classifications or grades on loans, increase the allowance for loan losses with additional provisions for loan losses and to recognize further loan charge-offs based upon their judgments, which may differ from ours. Any increase in the allowance for loan losses required by these regulatory agencies could have a negative effect on our results of operations and financial condition. During 2008 and 2009, the Bank significantly increased its allowance for loan losses based on management's evaluation of the current economic crisis and its impact

on the real estate market in the Bank's market area. While management believes that the allowance for loan losses is currently adequate to cover inherent losses, further loan deterioration could occur and therefore management cannot assure shareholders that there will not be a need to increase the allowance for loan losses or that the regulators will not require management to increase this allowance. Either of these occurrences could materially and adversely affect Bancorp's earnings and profitability.

Bancorp's business is subject to interest rate risk and variations in interest rates may negatively affect Bancorp's financial performance.

Bancorp is unable to predict fluctuations of market interest rates, which are affected by many factors including: inflation, recession, a rise in unemployment, a tightening money supply, domestic and international disorder and instability in domestic and foreign financial markets. Changes in the interest rate environment may reduce Bancorp's profits. Bancorp realizes income from the differential or "spread" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. Bancorp is vulnerable to a decrease in interest rates because its interest-earning assets generally have shorter durations than its interest-bearing liabilities. As a result, material and prolonged decreases in interest rates would decrease Bancorp's net interest income. In contrast, an increase in the general level of interest rates may adversely affect the ability of some borrowers to pay the interest on and principal of their obligations. Like most financial institutions, Bancorp is affected by changes in interest rates, which are currently at record low levels, and by other economic factors beyond Bancorp's control. Although Bancorp has implemented strategies which are designed to reduce the potential effects of changes in interest rates on operations, these strategies may not always be successful. Accordingly, changes in levels of market interest rates could materially and adversely affect Bancorp's net interest spread, asset quality, levels of prepayments and cash flow as well as the market value of its securities portfolio and overall profitability.

Mortgage brokerage activity is also affected by interest rate fluctuations. Generally, increases in interest rates often lead to decreases in home refinancing activity, thus reducing the number of mortgage loans that Bancorp originates.

Bancorp's investment portfolio includes securities which are sensitive to interest rates and variations in interest rates may adversely impact Bancorp's profitability.

Bancorp's security portfolio is classified as available-for-sale, and is comprised of debt and mortgage-backed securities which are insured or guaranteed by U.S. government agencies and auction rate preferred equity securities. These securities are sensitive to interest rate fluctuations. Unrealized gains or losses in the available-for-sale portfolio for securities, other than those for which other-than-temporary impairment charges have been recorded, are reported as a separate component of shareholders' equity. As a result, future interest rate fluctuations may impact shareholders' equity, causing material fluctuations from quarter to quarter. The inability to hold its securities until maturity, or until payments are received on mortgage-backed securities, or until market conditions are favorable for a sale, could adversely affect Bancorp's earnings and profitability.

Bancorp is dependent on its management team, and the loss of its senior executive officers or other key employees could impair its relationship with its customers and adversely affect its business and financial results.

Bancorp's success is dependent upon the continued services and skills of its management team. The unexpected loss of services of one or more of these key personnel, without experienced and suitable replacements could have an adverse impact on Bancorp's business because of their skills, knowledge of Bancorp's market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

Bancorp's success also depends, in part, on its continued ability to attract and retain experienced commercial lenders and residential mortgage originators, as well as other management personnel. The loss of the services of several of such key personnel could adversely affect Bancorp's growth and prospects to the extent it is unable to quickly replace such personnel. Competition for commercial lenders and residential mortgage originators is strong within the commercial banking and mortgage banking industries, and Bancorp may not be successful in retaining or attracting personnel.

A breach of information security could negatively affect Bancorp's earnings.

Bancorp increasingly depends upon data processing, communications and information exchange on a variety of computing platforms and networks, and over the internet to conduct its business. Bancorp cannot be certain that all of its systems are entirely free from vulnerability to attack, despite safeguards it has instituted. In addition, Bancorp relies on the services of a variety of vendors to meet its data processing and communication needs. If information security is breached, information can be lost or misappropriated; this could result in financial loss or costs to Bancorp or damages to others. These costs or losses could materially exceed the amount of insurance coverage, if any, which would have an adverse effect on Bancorp's results of operations and financial condition. In addition, the Bank's reputation could be harmed, which also could materially adversely affect Bancorp's financial condition and results of operation.

Risks Related to Bancorp's Industry

Difficult market conditions have adversely affected Bancorp's industry.

Bancorp is exposed to downturns in the U.S. economy, and particularly the local markets in which it operates in Connecticut and New York. Declines in the housing market over the past two years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored enterprises as well as major commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors have reduced or ceased providing funding to borrowers, including other financial institutions. This market turmoil and the tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and generally widespread reductions in business activity. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected Bancorp's business, financial condition and results of operations. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and other financial institutions. In particular:

- We expect to face increased regulation of our industry, including several proposals that would dramatically change how the Bank is regulated. Compliance with such regulations may increase our costs and limit our ability to pursue business opportunities. We cannot predict how large these costs will be or how expansive any such limitations will be.
- Economic conditions may continue to affect market confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies, which could affect our charge-offs and provision for loan losses.
- The ability to assess the creditworthiness of the Bank's customers or to estimate the values of collateral for loans may be impaired if the models and approaches we use become less predictive of future behaviors, valuations, assumptions or estimates due to the unpredictable economic climate.
 - Increasing consolidation of financial services companies as a result of current market conditions could have unexpected adverse effects upon our ability to compete effectively.
 - We have been required, and may continue to be required to pay significantly higher FDIC premiums.

Strong competition within Bancorp's market area may limit the growth and profitability of the Company.

Competition in the banking and financial services industry is intense. The Fairfield County, Connecticut and the New York City metropolitan areas have a high concentration of financial institutions including large money center and regional banks, community banks and credit unions. Some of Bancorp's competitors offer products and services that the Bank currently does not offer, such as private banking and trust services. Many of these competitors have substantially greater resources and lending limits than Bancorp and may offer certain services that Bancorp does not or cannot provide. Price competition for loans and deposits might result in the Bank earning less on its loans and paying more for deposits, which reduces net interest income. Bancorp expects competition to increase in the future as a result of legislative, regulatory and technological changes. Bancorp's profitability depends upon its continued ability to successfully compete in its market area.

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

Bancorp is subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency as the Bank's chartering authority, by the FDIC, as insurer of its deposits, and by the Federal Reserve Board as regulator of Bancorp. Changes in state and federal banking laws and regulations or in federal monetary policies could adversely affect the Bank's ability to maintain profitability and continue to grow and, in light of recent economic conditions, such changes are expected but cannot be predicted. For example, new legislation or regulation could limit the manner in which Bancorp may conduct its business, including the Bank's ability to obtain financing, attract deposits, make loans and achieve satisfactory interest spreads. One proposal would implement a new federal agency devoted to the rights of consumers that would regulate banks on a parallel track with banking regulatory authorities. The laws, regulations, interpretations and enforcement policies that apply to Bancorp have been subject to significant, and sometimes retroactively applied, changes in recent years, and are likely to change significantly in the future. Future legislation or government policy may also adversely affect the banking industry or Bancorp's operations.

Changing regulation of corporate governance and public disclosure.

Laws, regulations and standards relating to corporate governance and public disclosure, SEC regulations and NASDAQ rules, have added to the responsibilities that companies, such as Bancorp, have. These laws, regulations and standards are subject to varying interpretations, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could make compliance more difficult and result in higher costs. Bancorp is committed to maintaining high standards of corporate governance and public disclosure. As a result, Bancorp's efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. Bancorp's reputation may be harmed if it does not continue to comply with these laws, regulations and standards.

The earnings of financial institutions are significantly affected by general business and economic conditions.

As a financial institution, Bancorp's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes and the strength of the U.S. economy and the local economies in which we operate, all of which are beyond Bancorp's control. In recent years, the banking world has experienced unprecedented upheaval, including the failure of some of the leading financial institutions in the world. Further deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the Bank's products and services, among other things, any of which could have a material adverse impact on Bancorp's results of operations and financial condition and for which Bancorp cannot currently predict or implement plans to combat.

Item 1B. Unresolved Staff Comments

Bancorp has no unresolved comments from the SEC staff.

Item 2. Properties

Patriot National Bancorp Inc.'s corporate headquarters and main branch banking office is located at 900 Bedford Street in Stamford, Connecticut. The building is leased by the Bank, as are its eighteen other branch banking offices, one loan origination office and additional administrative and operational office space. The Bank also leases space at its main office for additional parking. Lease commencement dates for office locations range from April 2003 to May 2008 and lease expiration dates fall between April 2010 and January 2022. Most of the leases contain rent escalation provisions, as well as renewal options for one or more periods.

The Bank has sublet and licensed excess space in two of its locations to an attorney. See also "Item 12. Certain Relationships and Related Transactions." For additional information regarding the Bank's lease obligations, see Note 9 to the Consolidated Financial Statements.

All leased properties are in good condition.

Item 3. Legal Proceedings

Except as noted below, neither Bancorp nor the Bank has any pending legal proceedings, other than ordinary routine litigation incidental to its business, to which Bancorp or the Bank is a party or any of its property is subject.

On October 9, 2009, a complaint captioned PNBK Holdings LLC v. Patriot National Bancorp, Inc. and Patriot National Bank was filed in the United States District Court, Southern District of New York (the "Federal Litigation"). PNBK Holdings LLC is a newly formed Delaware entity created to be an investment vehicle for an investor group led by Michael A. Carrazza (collectively, "Carrazza"). Carrazza also filed a complaint with the State of Connecticut Superior Court – Stamford Judicial District on October 9, 2009 captioned PNBK Holdings LLC and Michael A. Carrazza v. Patriot National Bancorp, Inc. and Patriot National Bank (the "Connecticut Litigation").

Earlier in 2009, Carrazza expressed interest in acquiring a controlling interest in Bancorp. In late July 2009, Bancorp entered into a preliminary Letter of Intent with Carrazza which would result in additional capital of up to \$50 million representing a substantial, controlling interest in Bancorp. The parties and Carrazza entered into extensive negotiations to memorialize the investment in the form of a definitive Securities Purchase Agreement ("SPA"). On the evening of September 30, 2009 and before executing a SPA with Carrazza, Bancorp received an unsolicited written offer from another investment group to acquire a controlling interest in Bancorp. This unsolicited offer was at a higher price than the Carrazza offer, again for up to \$50 million of additional capital in return for a significant, controlling interest. The next day, October 1, 2009, the Board of Directors held a special meeting and consulted with its outside counsel and advisors to consider the unsolicited offer and to discuss the Carrazza proposal. The Board of Directors determined in its fiduciary capacity that it should further analyze and evaluate

the unsolicited offer.

Following these events, Carrazza commenced the Federal Litigation and the Connecticut Litigation. Bancorp vigorously defended against these actions and through settlement discussions with Carrazza, Carrazza again expressed its interest in Bancorp. In late November 2009, Carrazza and Bancorp resumed negotiations. On December 4, 2009, Carrazza and Bancorp entered into a Standstill Agreement pursuant to which the parties agreed to stop, temporarily and subject to the terms of the Standstill Agreement, the Connecticut Litigation. On December 16, 2009, Bancorp and Carrazza executed the SPA. Pursuant to the Standstill Agreement, upon execution of the SPA, the Company agreed to wire \$400,000 (the "Escrowed Funds") into an escrow account governed by the terms of a certain Escrow Agreement between Carrazza, the Company and a third party financial institution. The Escrowed Funds will be released to Carrazza or the Company pursuant to the Escrow Agreement and the SPA, under which the Escrowed Funds will be released upon a non-appealable order or judgment from the Connecticut Superior Court, the Connecticut Appellate Court, or the Connecticut Supreme Court directing the release of the Escrowed Funds; the joint written agreement by Carrazza and the Company or as the result of the termination of the SPA. As part of the execution of the SPA, the Federal Litigation was withdrawn with prejudice and the Connecticut Litigation is being held in abeyance.

The complaint filed by Carrazza in the Connecticut Litigation alleges, among other things, breach of the Letter of Intent, including a breach by Bancorp of the Letter of Intent's exclusivity provision. The Carrazza complaint seeks (a) compensatory damages; (b) the break-up fee payable under certain circumstances under the Letter of Intent (an amount equal to \$100,000 plus certain out-of-pocket due diligence expenses of Carrazza (estimated by Carrazza as set forth in the Carrazza complaint to be in excess of \$700,000)); (c) attorneys' fees and costs of the action brought by the Carrazza complaint; and (d) a pre-judgment attachment securing the eventual judgment in Carrazza's favor. In connection with this action, Carrazza has filed an application for a pre-judgment attachment order in the amount of at least \$990,000 against the Company's property.

PART II

Item 5. Market for Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information

Bancorp Common Stock is traded on the NASDAQ Global Market under the Symbol "PNBK." On December 31, 2009, the last sale price for Bancorp Common Stock on the NASDAQ Global Market was \$1.55.

The following table sets forth the high and low sales price and dividends per share of Bancorp Common Stock for the last two fiscal years for each quarter as reported on the NASDAQ Global Market.

Quarter Ended	2009			2008		
	Sales Price High	Low	Cash Dividends Declared	Sales Price High	Low	Cash Dividends Declared
March 31	\$ 7.74	\$ 2.13	\$ -	\$ 16.55	\$ 14.01	\$ 0.045
June 30	5.04	2.04	-	16.16	13.75	0.045
September 30	4.50	1.85	-	15.50	11.50	0.045
December 31	2.45	1.40	-	13.50	6.80	0.045

Holders

There were approximately 601 shareholders of record of Bancorp Common Stock as of December 31, 2009. This number does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms or other nominees.

Dividends

Bancorp's ability to pay dividends is dependent on the Bank's ability to pay dividends to Bancorp. Pursuant to the February 9, 2009 Agreement between the Bank and the Office of the Comptroller of the Currency, the Bank can pay dividends to Bancorp only pursuant to a dividend policy requiring compliance with the Bank's OCC-approved capital program, in compliance with applicable law and with the prior written determination of no supervisory objection by the Assistant Deputy Comptroller. In addition to the Agreement, certain other restrictions exist regarding the ability of the Bank to transfer funds to Bancorp in the form of cash dividends, loans or advances. The approval of the Comptroller of the Currency is required to pay dividends in excess of the Bank's earnings retained in the current year plus retained net earnings for the preceding two years. As of December 31, 2009, the Bank had no retained earnings available for distribution to Bancorp as dividends. The Bank is also prohibited from paying dividends that

would reduce its capital ratios below minimum regulatory requirements. The Federal Reserve Bank may also impose further dividend restrictions on the Bancorp.

Recent Sales of Unregistered Securities

During the fourth quarter of 2009, Bancorp did not have any sales of unregistered securities.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the fourth quarter of 2009 there were no shares of Bancorp stock repurchased through the Stock Repurchase Program. For additional information regarding the Company's stock repurchase program, see Note 13 to the Consolidated Financial Statements.

Securities Authorized for Issuance under Equity Compensation Plans

As of December 31, 2009, Bancorp did not have any securities authorized for issuance under equity compensation plans.

Performance Graph

The performance graph compares the yearly percentage change in Bancorp's cumulative total shareholder return on its common stock over the last five fiscal years to the cumulative total return of the S&P 500 Index and the NASDAQ Bank Index. Total shareholder return is measured by dividing the sum of the cumulative amount of dividends for the measurement period (assuming dividend reinvestment) and the difference between Bancorp's share price at the end and the beginning of the measurement period, by the share price at the beginning of the measurement period.

Comparison of Five Year Cumulative Total Return Among
Patriot National Bancorp, Inc., S & P 500 Index and NASDAQ Bank Index

Index	Period Ending					
	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Patriot National Bancorp, Inc.	100.00	113.59	143.75	86.79	37.23	8.42
S & P 500	100.00	103.00	117.03	121.16	74.53	92.01
NASDAQ Bank Index	100.00	95.67	106.20	82.76	62.96	51.31

Item 6. Selected Financial Data

	2009	At or for the year ended December 31,			2005
		2008	2007	2006	
Operating Data:					
Interest and dividend income	\$ 42,968,080	\$ 55,750,246	\$ 51,862,157	\$ 38,009,526	\$ 25,148,701
Interest expense	24,359,828	28,539,067	27,767,310	18,069,648	10,269,625
Net interest income	18,608,252	27,211,179	24,094,847	19,939,878	14,879,076
Provision for loan losses	13,089,000	11,289,772	75,000	1,040,000	1,110,000
Noninterest income (loss)	2,946,480	(149,108)	2,233,915	2,359,149	3,229,037
Noninterest expense	30,131,588	25,947,905	22,038,836	17,576,872	14,634,487
Provision (benefit) for income taxes	2,213,750	(3,064,000)	1,537,000	1,267,000	957,000
Net (loss) income	(23,879,606)	(7,111,606)	2,677,926	2,415,155	1,406,626

Per Share Data:

Basic (loss) income per share	(5.02)	(1.50)	0.56	0.67	0.52
Diluted (loss) income per share	(5.02)	(1.50)	0.56	0.66	0.51
Dividends per share	-	0.180	0.180	0.175	0.155

Balance Sheet Data:

Cash and due from banks	97,535,593	4,286,233	2,760,246	3,868,670	7,220,577
Federal funds sold	10,000,000	20,000,000	11,000,000	27,000,000	6,500,000
Short-term investments	263,839	316,518	251,668	24,605,869	2,247,028
Investment securities	55,177,931	58,401,177	71,857,840	70,222,035	80,991,068
Loans, net	645,205,943	788,568,687	685,885,990	506,884,155	364,243,777
Total assets	866,416,921	913,358,978	807,530,254	645,982,795	470,641,162
Total deposits	761,334,292	784,821,351	672,399,409	561,451,664	419,075,288
Total borrowings	65,248,000	65,248,000	62,748,000	16,248,000	17,248,000
Total shareholders' equity	35,861,310	58,774,144	66,835,367	64,283,345	31,374,615

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

Critical Accounting Policies

Bancorp's significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in this 2009 Annual Report on Form 10-K. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates. Management has identified accounting for the allowance for loan losses, the analysis of other-than-temporary-impairment for, and the valuation of, its investment securities, and the valuation of deferred tax assets, as Bancorp's most critical accounting policies and estimates in that they are important to the portrayal of Bancorp's financial condition and results. They require management's most subjective and complex judgment as a result of the need to make estimates about the effect of matters that are inherently uncertain. These accounting policies, including the nature of the estimates and types of assumptions used, are described throughout this Management's Discussion and Analysis.

Recent Economic Developments

There have been significant and historical disruptions in the financial system during the past two years and many lenders and financial institutions have reduced or ceased to provide funding to borrowers, including other lending institutions. The availability of credit, confidence in the entire financial sector, and volatility in financial markets has been adversely affected. The Federal Reserve Bank has been providing vast amounts of liquidity into the banking system to compensate for weaknesses in short-term borrowing markets and other capital markets.

In response to the financial crises affecting the overall banking system and financial markets, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA), was enacted. Under the EESA, the United States Treasury Department (the Treasury) has the authority to, among other things, purchase mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

The Federal Deposit Insurance Corporation (FDIC) insures deposits at FDIC-insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. Based on the Bank's current capital classification, a higher level of FDIC insurance premiums is assessed. In addition, the Bank paid a special assessment of \$453,500 in the second quarter of 2009. Special assessments were levied on all financial institutions.

The EESA included a provision for an increase in the amount of deposits insured by the FDIC to \$250,000 until December 2013. On November 21, 2008, the FDIC adopted the Final Rule implementing the Temporary Liquidity Guarantee Program ("TLGP") inaugurated October 14, 2008. The TLGP consists of two basic components: (1) the Debt Guarantee Program which

guarantees newly issued senior unsecured debt of banks, thrifts, and certain holding companies and (2) the Transaction Account Guarantee Program which guarantees certain non-interest bearing deposit transaction accounts, such as business payroll accounts, regardless of dollar amount. The purpose of the TLGP was to provide an initiative to counter the system wide crisis in the nation's financial sector by promoting financial stability by preserving confidence in the banking system and encourages liquidity in order to ease lending to creditworthy business and consumers. The Bank is participating in the Transaction Account Guarantee portion of the TLGP and as a result, its non-interest bearing transaction deposit accounts and interest bearing transaction accounts paying 50 basis points or less will be fully insured through June 30, 2010. Bancorp did not participate in the Debt Guarantee portion of the TLGP.

Summary

In a year of ongoing economic slowdown, financial disruption and market volatility, Bancorp reported a net loss of \$23.9 million (\$5.02 basic and diluted loss per share) for 2009 compared to a net loss of \$7.1 million (\$1.50 basic and diluted loss per share) for 2008. This is the result of an increase of \$11.4 million in the deferred tax asset valuation allowance and loan loss provision of \$13.0 million. Total assets ended the year at \$866.4 million, which represents a decrease of \$47.0 million from a record high of \$913.4 million at December 31, 2008. Management planned to reduce assets in 2009 to reduce exposures in certain loan concentrations and to maintain regulatory capital.

Net interest income for the year ended December 31, 2009 decreased \$8.6 million, or 32%, to \$18.6 million as compared to \$27.2 million for the year ended December 31, 2008. This is primarily reflective of the increased level of non-accrual loans and reduced interest margin.

Total assets decreased by 5% during the year as total loans decreased \$143.4 million from \$788.6 million at December 31, 2008 to \$645.2 million at December 31, 2009. The available-for-sale securities portfolio decreased by \$3.2 million, or 6%, to \$48.8 million at December 31, 2009 as compared to \$52.0 million at December 31, 2008. Total deposits decreased \$23.5 million to \$761.3 million at December 31, 2009. This is a result of management intentionally letting higher rate certificates of deposit mature. FHLB advances are unchanged from December 31, 2008. Shareholders' equity decreased \$22.9 million from \$58.8 million at December 31, 2008 as compared to \$35.9 million at December 31, 2009. This is primarily the result of the 2009 net loss described above. It is also reflective of an increase of \$11.4 million in the deferred tax asset valuation allowance recorded in the third quarter.

FINANCIAL CONDITION

Assets

Bancorp's total assets decreased \$47.0 million, or 5%, from \$913.4 million at December 31, 2008 to \$866.4 million at December 31, 2009. The reduction in total assets was primarily due to the \$143.4 million decline in the loan portfolio, as Bancorp reduced the concentration in construction and commercial real estate loans. Cash and due from banks increased \$93.2 million and federal funds sold decreased \$10.0 million, resulting in a net increase in cash and cash equivalents of \$83.2 million when compared to December 31, 2008.

This increase is the result of management's strategy to strengthen the Company's liquidity position.

Investments

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

	2009	2008	2007
U. S. Government Agency obligations	\$ 5,108,500	\$ 10,102,248	\$ 16,924,648
U. S. Government Agency mortgage-backed securities	40,503,458	37,998,569	41,325,870
Money market preferred equity securities	3,218,023	3,878,860	9,039,522
Federal Reserve Bank stock	1,839,650	1,913,200	1,911,700
Federal Home Loan Bank stock	4,508,300	4,508,300	2,656,100
Total Investments	\$ 55,177,931	\$ 58,401,177	\$ 71,857,840

Total investments decreased \$3.1 million, or 6%, primarily as a result of the \$12.0 million in proceeds from calls of government agency bonds and redemptions of auction rate preferred equity securities, \$19.9 million from proceeds from sales of mortgage-back securities and \$7.3 million in principal payments on mortgage-backed securities, which were offset by \$34.2 million in purchases of government agency bonds and mortgage-backed securities.

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

Management has made the determination that none of the Bank's investment securities are other-than-temporarily impaired at December 31, 2009, and no impairment charges were recorded during the year ended December 31, 2009.

The following table presents the maturity distribution of available-for-sale investment securities at December 31, 2009 and the weighted average yield of the amortized cost of such securities. The weighted average yields were calculated on the amortized cost and effective yields to maturity of each security. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or repaid without any penalties. As mortgage-backed securities are not due at a single maturity date, they are included in the "No maturity" category in the following maturity summary.

	One year or less	Over one through five years	Over five through ten years	Over ten years	No maturity	Total	Weighted Average Yield
U. S. Government Agency obligations	\$ -	\$ -	\$ -	\$ 5,176,712	\$ -	\$ 5,176,712	6.07%
U. S. Government Agency mortgage-backed securities	-	-	-	-	40,428,810	40,428,810	3.88%
Money market preferred equity securities	-	-	-	-	1,899,720	1,899,720	4.68%
Total \$	\$ -	\$ -	\$ -	\$ 5,176,712	\$ 42,328,530	\$ 47,505,242	4.15%
Weighted average yield	-	-	-	6.07%	3.92%	4.15%	

The following table presents a summary of investments for any issuer that exceeds 10% of shareholders' equity at December 31, 2009:

	Amortized Cost	Fair Value
Available for sale securities:		
U. S. Government Agency obligations	\$ 5,176,712	\$ 5,108,500
U. S. Government Agency mortgage-backed securities	40,428,810	40,503,458

Loans

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

	2009	2008	2007	2006	2005
Real Estate					
Commercial	\$ 230,225,306	\$ 262,570,339	\$ 233,121,685	\$ 166,799,341	\$ 129,178,889
Residential	195,571,225	170,449,780	110,154,838	91,077,687	77,391,833
Construction	154,457,082	257,117,081	254,296,326	173,840,322	107,232,587
Construction to permanent	15,989,976	35,625,992	37,701,509	29,988,131	-
Commercial	19,298,505	33,860,527	27,494,531	23,997,640	15,591,818
Consumer installment	1,155,059	993,707	1,270,360	1,251,300	1,106,648
Consumer home equity	44,309,265	45,022,128	29,154,498	26,933,277	39,097,450
Total loans	661,006,418	805,639,554	693,193,747	513,887,698	369,599,225
Premiums on purchased loans	131,993	158,072	195,805	292,543	367,491
Net deferred fees	(138,350)	(981,869)	(1,830,942)	(1,665,654)	(1,134,604)
Allowance for loan losses	(15,794,118)	(16,247,070)	(5,672,620)	(5,630,432)	(4,588,335)
Loans, net	\$ 645,205,943	\$ 788,568,687	\$ 685,885,990	\$ 506,884,155	\$ 364,243,777

Note: As financing for construction to permanent projects became a more significant line of business for Bancorp, the presentation of loan information throughout this document reflects the breakout of construction to permanent loans from construction loans. Loan information prior to 2006 has not been reclassified as construction to permanent financing was not as significant in earlier periods.

Bancorp's net loan portfolio decreased \$143.4 million, or 18%, to \$645.2 million at December 31, 2009 from \$788.6 million at December 31, 2008. The decline in the loan portfolio was primarily as a result of a moratorium on new construction and commercial real estate loans. Significant decreases in the portfolio include a \$102.7 million decrease in construction loans, a \$32.3 million decrease in commercial real estate loans, a \$19.6 million decrease in construction to permanent loans and a \$14.6 million decrease in commercial loans. These decreases were partially offset by an increase of \$25.1 million in residential real estate loans. The decline in the loan portfolio in 2009 reflects the implementation of management's strategic decision to reduce its concentration in speculative construction and commercial real estate lending. During 2009, \$98.4 million of construction loans paid off. A component of this diversification included planned increases in owner-occupied residential real estate loans. The decline in the portfolio is also reflective of the weakened demand for real estate based financing in Fairfield and New Haven Counties in Connecticut and the metropolitan New York area where the Bank primarily conducts its lending business.

At December 31, 2009, the net loan to deposit ratio was 85% and the net loan to asset ratio was 74%. At December 31, 2008, the net loan to deposit ratio was 100%, and the net loan to asset ratio was 86%.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents the maturities of loans in Bancorp's portfolio at December 31, 2009, by type of loan:

(thousands of dollars)	Due in one year or less	Due after one year through five years	Due after five years	Total
Commercial real estate	\$ 31,578	\$ 47,701	\$ 150,946	\$ 230,225
Residential real estate	6,073	5,738	183,760	195,572
Construction loans	97,863	3,985	52,609	154,457
Construction to permanent loans	-	-	15,990	15,990
Commercial loans	9,715	4,187	5,397	19,298
Consumer installment	1,057	98	-	1,155
Consumer home equity	2,394	84	41,831	44,309
Total	\$ 148,680	\$ 61,793	\$ 450,533	\$ 661,006
Fixed rate loans	\$ 19,112	\$ 29,984	\$ 15,093	\$ 64,189
Variable rate loans	129,568	31,809	435,440	596,817
Total	\$ 148,680	\$ 61,793	\$ 450,533	\$ 661,006

Loan Concentrations

The Bank has no concentrations of loans other than those disclosed in the above summary loan portfolio table.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses decreased slightly by \$453,000 from December 31, 2008 to December 31, 2009 due to net charge-offs of \$13.6 million after provisions of \$13.1 million.

The allowance consists of allocated and general components. The allocated component relates to loans that are considered impaired. For such impaired loans, an allowance is established when the discounted cash flows (or observable market price or collateral value if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan. The Bank obtains current appraisals on all real estate and construction loans maturing in the coming four months, as well as for loans added to special mention. When a loan is placed on non-accrual status the loan is considered impaired. For collateral dependent loans, the appraised value is then reduced by estimated liquidation expenses and any senior liens and the result is compared to the principal loan balance to determine the impairment amount, if any. For loans that are not collateral dependent and for which a restructure is in place, the impairment is determined by using the discounted cash flow method which takes into account the difference between the original interest rate and the restructured rate.

The general component covers all other loans, segregated generally by loan type, and is based on historical loss experience with adjustments for qualitative factors which are made after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss data. In addition, a risk rating system is utilized to evaluate the general component of the allowance for loan losses. Management assigns risk ratings to commercial and industrial loans, construction loans and commercial real estate loans assigning ratings between one and nine, with a rating of one being the least risk, and a rating of nine reflecting the most risk or a complete loss. Risk ratings are assigned based upon the recommendations of the credit analyst and the originating loan officer and confirmed by the loan committee at the initiation of the transactions and are reviewed and changed, when necessary, during the life of the loan. Loans assigned a risk rating of six or above are monitored more closely by the credit administration officers and loan committee.

The allowance for loan losses reflects management's estimate of probable but unconfirmed losses inherent in the portfolio; such estimates are influenced by uncertainties in economic conditions, unfavorable information about a borrower's financial condition, delays in obtaining information, difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. Loan quality control is continually monitored by management, subject to oversight by the board of directors through its members who serve on the Loan Committee. Loan quality control is also reviewed by the full board of directors on a monthly basis. In 2008, the Bank created an internal loan review position in addition to the semi-annual loan reviews performed by an external independent firm. In 2009 the loan review position was expanded to a department of two employees. Loan review reports on a quarterly basis to the Audit Committee.

The methodology for determining the adequacy of the allowance for loan losses has been consistently applied; however, in the future, revisions may be made to the methodology and assumptions based on historical information related to charge-off and recovery experience and management's evaluation of the current loan portfolio, and prevailing internal and external factors including but not limited to current economic conditions and local real estate markets.

Based on management's most recent evaluation of the adequacy of the allowance for loan losses, the provision for loan losses charged to operations for the year ended December 31, 2009 of \$13.1 million represents an increase of \$1.8 million when compared to the provision of

\$11.3 million for the year ended December 31, 2008.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the loan is well-secured and in process of collection. Consumer installment loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Management considers all non-accrual loans and certain restructured loans to be impaired. In most cases, loan payments that are past due less than 90 days, based on contractual terms, are considered collection delays and the related loans are not considered to be impaired. The Bank considers consumer installment loans to be pools of smaller balance homogeneous loans, which are collectively evaluated for impairment.

Analysis of Allowance for Loan Losses

	2009	2008	2007	2006	2005
	(thousands of dollars)				
Balance at beginning of period	\$ 16,247	\$ 5,673	\$ 5,630	\$ 4,588	\$ 3,481
Charge-offs:					
Commercial real estate	(2,380)	(708)	(32)	(1)	(3)
Residential real estate	(356)	-	-	-	-
Construction	(9,097)	-	-	-	-
Commercial	(468)	-	-	-	-
Consumer home equity	(1,378)	-	-	-	-
Consumer	(51)	(8)	-	-	-
Total charge-offs	(13,730)	(716)	(32)	(1)	(3)
Recoveries	188	1	-	3	-
Net (charge-offs) recoveries	(13,542)	(715)	(32)	2	(3)
Additions charged to operations	13,089	11,289	75	1,040	1,110
Balance at end of period	\$ 15,794	\$ 16,247	\$ 5,673	\$ 5,630	\$ 4,588
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(1.81%)	(0.09%)	(0.00%)	0.00%	(0.00%)
Ratio of ALLL / Gross Loans	2.39%	2.02%	0.82%	1.10%	1.24%

Allocation of the Allowance for Loan Losses

Balance at end of each period applicable to:	Amounts (thousands of dollars)					Percent of loans in each category to total loans				
	2009	2008	2007	2006	2005	2009	2008	2007	2006	2005
Real Estate:										
Commercial	\$ 5,752	\$ 4,843	\$ 1,963	\$ 1,943	\$ 1,607	34.83%	32.59%	33.63%	32.46%	34.95%
Residential	1,575	1,417	296	245	511	29.59%	21.16%	15.89%	17.72%	20.94%
Construction	6,557	8,654	2,644	2,557	1,963	23.37%	31.91%	36.68%	33.83%	29.01%
Construction to permanent	93	264	391	441	-	2.42%	4.42%	5.44%	5.84%	0.00%
Commercial	521	471	271	290	164	2.92%	4.20%	3.97%	4.67%	4.22%
Consumer installment	47	28	30	31	10	0.17%	0.12%	0.18%	0.24%	0.30%
Consumer home equity	703	336	77	72	260	6.70%	5.59%	4.21%	5.24%	10.58%
Unallocated	546	234	1	51	73	N/A	N/A	N/A	N/A	N/A
Total	\$ 15,794	\$ 16,247	\$ 5,673	\$ 5,630	\$ 4,588	100.00%	100.00%	100.00%	100.00%	100.00%

Non-Accrual, Past Due and Restructured Loans

The following table is a summary of non-accrual and past due loans at the end of each of the last five years.

	2009	2008	2007	2006	2005
	(thousands of dollars)				
Loans delinquent over 90 days still accruing					
	\$ 3,571	\$ 337	\$ 112	\$ 1,897	\$ 275
Non-accrual loans					
	113,537	80,156	3,832	2,904	1,935
	\$ 117,108	\$ 80,493	\$ 3,944	\$ 4,801	\$ 2,210
% of Total Loans	17.72%	10.21%	0.57%	0.93%	0.60%
% of Total Assets	13.52%	8.81%	0.49%	0.74%	0.47%

Additional income on non-accrual

loans if recognized on an accrual basis	\$ 5,312	\$ 2,854	\$ 168	\$ 141	\$ 6
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During 2009, 2008 and 2007, interest income collected and recognized on impaired loans was \$424,745, \$352,014 and \$30,179, respectively.

At December 31, 2009, there were nine loans totaling \$11.5 million that were considered as “troubled debt restructurings”, all of which are included in non-accrual and impaired loans, as compared to 11 loans totaling \$16.7 million at December 31, 2008, of which eight loans totaling \$12.4 million were included in non-accrual and impaired loans. Loan modifications, which resulted in these loans being considered troubled debt restructurings, are primarily in the form of

rate concessions. Commitments to advance additional funds under modified terms for these loans total approximately \$998,000.

Increases in non-accrual loans and troubled debt restructurings are attributable to the state of the economy, which has severely impacted the real estate market and placed unprecedented stress on credit markets. Residents of Fairfield County, many of whom are associated with the financial services industry, have been affected by the impact of the economy on employment and real estate values.

The Company's most recent impairment analysis resulted in identification of \$113.5 million of impaired loans for which specific reserves of \$3.9 million were required. The \$113.5 million of impaired loans at December 31, 2009 is comprised of exposure to fifty-eight borrowers. Loans totaling \$108.1 million that are collateral dependent are secured by residential or commercial real estate located within the Bank's market area. In all cases, the Bank has obtained current appraisal reports from independent licensed appraisal firms and reduced those values for estimated liquidation expenses to determine estimated impairment. Based on the Bank's analysis for loan impairment, specific reserves totaling \$3.8 million have been established for collateral dependent loans. Impairment related to loans totaling \$5.4 million has been measured based on discounted cash flow resulting in specific reserves of \$102,000. Such loans are also secured by real estate. Of the \$113.5 million of impaired loans at December 31, 2009, twenty borrowers with aggregate balances of \$20.9 million continue to make loan payments and these loans are under 30 days past due as to payments. Another 28 loans totaling \$36.6 million are over 30 days but under 90 days past due as to payments. In addition to the impaired loans, there are \$68.9 million of loans for which management has a concern as to the ability of the borrower to comply with the present repayment terms. These borrowers continue to make payments and these loans are less than 90 days past due at year end. This exposure is comprised of thirty-five borrowers.

Loans delinquent over 90 days and still accruing aggregating \$3.6 million are comprised of eleven loans which matured and are in the process of being renewed or awaiting payoff.

All potential problem loans are reviewed weekly by a board-level committee.

Based upon the overall assessment and evaluation of the loan portfolio, management believes the allowance for loan losses of \$15.8 million, at December 31, 2009, which represents 2.39% of gross loans outstanding, is adequate under prevailing economic conditions, to absorb existing losses in the loan portfolio. At December 31, 2008, the allowance for loan losses was \$16.2 million, or 2.02%, of gross loans outstanding.

Other Real Estate Owned

The following table is a summary of Bancorp's other real estate owned as of December 31, 2009. The Bank had no other real estate owned as of December 31, 2008.

	December 31, 2009
Residential construction	\$ 13,524,597
Commercial	4,934,896
Land	614,500
Other real estate owned	\$ 19,073,993

The balance of other real estate owned at December 31, 2009 is comprised of nine properties that were obtained through loan foreclosure proceedings during the year ended December 31, 2009.

Deferred Taxes

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. Management has reviewed the deferred tax position of Bancorp at December 31, 2009. The deferred tax position has been affected by several significant transactions in the past three years. These transactions include increased provision for loan losses, the increasing levels of non-accrual loans and other-than-temporary impairment write-offs of certain investments. As a result, the Company is in a cumulative net loss position at December 31, 2009, and under the applicable accounting guidance, has concluded that it is not more-likely-than-not that the Company will be able to realize its deferred tax assets and accordingly has established a full valuation allowance totaling \$12.2 million against its deferred tax asset at December 31, 2009. The valuation allowance is analyzed quarterly for changes affecting the deferred tax asset. If, in the future, the Company generates taxable income on a sustained basis, management's conclusion regarding the need for a deferred tax asset valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation allowance.

At December 31, 2009, the deferred tax liability was approximately \$503,000. The change in this balance as compared to the year ended December 31, 2008 was the result of a full valuation allowance of \$12.2 million being recorded in 2009. At December 31, 2008, the deferred tax asset was \$8.7 million.

Other Assets

Other assets increased by \$8.0 million from \$1.4 million at December 31, 2008 to \$9.4 million at December 31, 2009. This increase consists primarily of income taxes receivable from the \$6.4 million benefit from the carryback of the tax net operating loss incurred during 2009.

Deposits

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

	2009	2008	2007
Non-interest bearing	\$ 49,755,521	\$ 50,194,400	\$ 51,925,991
Interest bearing			
Time certificates, less than \$100,000	305,719,484	405,298,436	300,502,281
Time certificates, \$100,000 or more	202,493,307	195,502,087	231,366,788
Money markets	112,017,987	68,241,790	34,880,837
Savings	69,766,296	46,040,086	34,261,389
NOW	21,581,697	19,544,552	19,462,123
Total interest bearing	711,578,771	734,626,951	620,473,418
Total deposits	\$ 761,334,292	\$ 784,821,351	\$ 672,399,409

Total deposits decreased \$23.5 million, or 3%, to \$761.3 million at December 31, 2009. Interest bearing deposits decreased \$23.0 million, or 3%, to \$711.6 million while non-interest bearing deposits decreased \$439,000, or 1%, to \$49.8 million at December 31, 2009.

Certificates of deposit decreased by \$92.6 million, which represents a decrease of 15% when compared to last year. Much of the decline is largely attributable to the \$69.7 million, or 79%, decrease in the retail and wholesale CDARS deposits. Certificates of deposit less than \$100,000 decreased by \$99.6 million, or 25%, mainly due to the maturity of higher rate certificates of deposit, which was offset by an increase of \$7.0 million in certificates of deposit greater than \$100,000. Savings accounts increased \$23.7 million or 52% as compared to last year, which is due primarily to a more competitively priced commercial savings product. Demand deposits decreased \$439,000 while NOW accounts increased \$2.0 million. Money market fund accounts increased \$43.8 million or 64%. The increase in money market accounts and decrease in certificates of deposit is attributable to customers refraining from locking into long-term rates in the current lower rate environment. The growth in money markets is also attributable to depositors placing funds in FDIC-insured products during these uncertain economic times. As mentioned earlier, the FDIC has also extended the increased level of insurance from \$100,000 to \$250,000 until December 31, 2013.

As of December 31, 2009, the Bank's maturities of time deposits were:

	Less than \$100,000	\$100,000 or greater (thousands of dollars)	Totals
Three months or less	\$ 88,485	\$ 56,841	\$ 145,326
Four to six months	39,507	22,941	62,448
Seven months to one year	79,889	49,284	129,173
Over one year	97,839	73,427	171,266
Total	\$ 305,720	\$ 202,493	\$ 508,213

Borrowings

Borrowings remain unchanged at \$65.2 million at December 31, 2009 as compared to December 31, 2008. Borrowings are comprised of \$50 million in Federal Home Loan Bank Advances, \$8.2 million in junior subordinated debentures and \$7 million in securities sold under repurchase agreements. The securities sold under repurchase agreements were utilized as an interest rate leveraging strategy.

The Bank had no short-term borrowings from the Federal Home Loan Bank outstanding at December 31, 2009 and 2008. In addition, at December 31, 2009, the Bank has advances of \$50.0 million from the Federal Home Loan Bank with maturities greater than one year.

Other

The aggregate cash surrender value of the bank-owned life insurance increased to \$19.9 million at December 31, 2009 due to income earned of \$725,000 for the year ended December 31, 2009.

The decrease in accrued interest receivable is due to decline in the investment securities and loan portfolios.

The decrease in premises and equipment is due to amortization associated with leasehold improvements, furniture and fixtures, and equipment.

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

	Distribution of Assets, Liabilities and Shareholder's Equity Interest Rates and Interest Differential and Rate Volume Variance (thousands of dollars)										
	Average Balance	2009 Interest Income/ Expense	Average Rate	Average Balance	2008 Interest Income/ Expense	Average Rate	Average Balance	2007 Interest Income/ Expense	Average Rate	2009 vs. 2008 Interest In Due Volume	
Interest earning assets:											
Loans (2)	\$ 750,127	\$ 41,121	5.48%	\$ 771,174	\$ 52,484	6.81%	\$ 598,525	\$ 46,949	7.84%	\$ (1,393)	
Federal funds sold and other cash equivalents											
	104,668	218	0.21%	12,435	325	2.61%	40,000	2,058	5.15%	435	
Investments (4)											
	44,070	1,629	3.70%	63,199	2,941	4.65%	67,420	2,855	4.23%	(783)	
Total interest earning assets	\$ 898,865	\$ 42,968	4.78%	\$ 846,808	\$ 55,750	6.58%	\$ 705,945	\$ 51,862	7.35%	(1,741)	
Cash and due from banks											
	22,639			5,993			4,155				
Allowance for loan losses											
	(16,689)			(7,575)			(5,613)				
Other assets											
	43,447			37,209			19,813				
Total Assets	\$ 948,262			\$ 882,435			\$ 724,300				
Interest bearing liabilities:											
Time certificates											
	\$ 592,724	\$ 18,828	3.18%	\$ 568,717	\$ 23,561	4.14%	\$ 483,918	\$ 24,811	5.13%	\$ 953	
Savings accounts											
	59,103	1,120	1.89%	40,252	992	2.46%	30,657	747	2.44%	392	
Money market accounts											
	106,091	1,917	1.81%	54,321	1,229	2.26%	38,526	699	1.81%	973	
NOW accounts											
	21,582	156	0.72%	21,044	186	0.88%	26,612	267	1.00%	5	
FHLB advances											
	50,003	1,699	3.40%	57,716	1,726	2.99%	11,174	511	4.57%	(215)	
Subordinated debt											
	8,248	331	4.01%	8,248	536	6.50%	8,248	691	8.38%	-	
Other borrowings											
	7,000	309	4.41%	7,005	309	4.41%	927	41	4.42%	-	
Total interest bearing	\$ 844,751	\$ 24,360	2.88%	\$ 757,304	\$ 28,539	3.77%	\$ 600,062	\$ 27,767	4.63%	2,108	

liabilities

Demand deposits	47,810	53,380	52,992
Accrued expenses and other liabilities	3,810	4,502	5,441
Shareholder's equity	51,891	67,250	65,805
Total liabilities and equity \$	948,262	\$ 882,435	\$ 724,300

Net interest income	\$ 18,608	\$ 27,211	\$ 24,095	\$ (3,849)
Interest margin	2.07%	3.21%	3.41%	
Interest spread	1.90%	2.81%	2.72%	

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

(2) Includes non-accruing loans

(3) Favorable/(unfavorable) fluctuations.

(4) Yields are calculated at historical cost and excludes the effects of unrealized gains or losses on available-for-sale securities.

RESULTS OF OPERATIONS

Comparison of Results of Operations for the years 2009 and 2008

For the year ended December 31, 2009, Bancorp recorded a loss of \$23.9 million (\$5.02 basic and diluted loss per share), as compared to 2008 when Bancorp reported a net loss of \$7.1 million (\$1.50 basic and diluted loss per share). For the year ended December 31, 2009, Bancorp had a pre-tax loss of \$21.7 million with a tax provision of \$2.2 million as compared to a pre-tax loss of \$10.2 million with a tax benefit of \$3.1 million for the year ended December 31, 2008.

Interest and dividend income decreased \$12.8 million, or 23%, to \$43.0 million in 2009 as compared to 2008 when interest and dividend income was \$55.8 million. The decline in interest income on loans is primarily the result of a significant increase in the level of non-accrual loans and lower rates on loans. Interest income on investments decreased due to decreases in rates and a decline in the average balance of investments outstanding.

Interest expense decreased \$4.2 million, or 15%, to \$24.4 million in 2009 compared to \$28.5 million in 2008. The decrease in interest expense is primarily a result of the decrease in interest rates paid partially offset by an increase in the average balance of interest bearing liabilities. The decrease in interest rates was driven primarily by the planned reduction in higher rate certificates of deposit.

Noninterest income was \$2.9 million in 2009 as compared to a loss of \$149,000 in 2008. The change is due largely to the impairment charges in 2008 of \$1.1 million that were recorded for a FHLMC auction rate preferred equity security and \$2.1 million relating to other auction rate preferred equity securities.

Noninterest expenses for 2009 totaled \$30.1 million, which represents an increase of \$4.2 million, or 16%, over the prior year. The increase in noninterest expenses is a result of a \$2.4 million increase in expenditures relating to professional fees and other outside services, which largely pertain to the significant increase in non-performing assets, regulatory matters and capital raising efforts. In addition to these expenses was a \$2.4 million increase in FDIC and OCC regulatory assessments.

The following are measurements relating to Bancorp's earnings:

	2009	2008	2007
(Loss) return on average assets	(2.52%)	(0.81%)	0.37%
(Loss) return on average equity	(46.02%)	(10.62%)	4.07%
Dividend payout ratio	N / A	N / A	32.14%
Average equity to average assets	5.47%	7.59%	9.09%
Basic and diluted (loss) income per \$ share	(5.02)	(1.50)	0.56

Interest income and expense

Bancorp's net interest income decreased \$8.6 million, or 32%, to \$18.6 million in 2009 from \$27.2 million in 2008. Despite an increase in average earning assets of \$52.1 million, or 6%, Bancorp's interest income decreased by \$12.8 million, or 23%, from \$55.8 million in 2008 to \$43.0 million in 2009. Average loans outstanding decreased \$21.0 million, or 3%, and there was a decline in the yield on loans of 133 basis points due to increased non-accrual loans and a lower rate environment. The income on investments decreased due to lower volume and lower yields during 2009. This resulted in a decrease in interest income of \$1.3 million. The average balances of federal funds sold and short-term investments increased \$92.2 million to \$104.7 million for 2009 as compared to \$12.4 million for 2008 due to short-term liquidity receiving a higher yield than what was being paid in federal funds sold.

Total average interest bearing liabilities increased by \$87.4 million, or 12%. Average balances of certificates of deposit increased \$24.0 million, or 4%. Average balances in savings accounts increased \$18.9 million, or 47%, which is reflective of Bancorp providing a competitively priced commercial statement savings product. Average money market accounts increased \$51.8 million, or 95%, which is a result of the significant growth in consumer money market accounts. The increase in money market accounts is attributable to customers refraining from locking into long-term rates in the current lower rate environment. The growth is also attributable to depositors placing funds in FDIC-insured products during these uncertain economic times. The FDIC has also extended the increased level of insurance from \$100,000 to \$250,000 until December 31, 2013. Average FHLB advances decreased \$7.7 million, or 13%. Total interest expense decreased \$4.2 million, or 15%, from \$28.5 million in 2008 to \$24.4 million in 2009. Interest expense on certificates of deposit decreased \$4.7 million and the cost of funds for this portfolio decreased from 4.14% in 2008 to 3.18% in 2009. This is primarily the result of the maturity of higher rate certificates of deposit. Decreases in the average balances outstanding of FHLB advances resulted in a corresponding decrease in interest expense of \$27,000. The cost of funds for the FHLB advances increased from 2.99% in 2008 to 3.40% in 2009 due to lower rate advances paying off. The decrease in the index to which the junior subordinated debt interest rate is tied resulted in a decline in interest expense of \$205,000, or 38%.

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

Provision for loan losses

The increased provision for the current year was based on the higher level of non-accrual and past due loans, and management's assessment of the impact of changes in the national, regional and local economic and business conditions have had on the Bank's loan portfolio. There continues to be major displacement in the national and global credit markets. The secondary mortgage market continues to be impacted by economic events. These macro issues have impacted local real estate markets. It appears the local real estate prices have stabilized and

market activity has increased. The Bank continues to maintain conservative underwriting standards including low loan to value ratio guidelines.

An analysis of the changes in the allowance for loan losses is presented under the discussion entitled "Allowance for Loan Losses."

Non-interest income

Non-interest income improved \$3.1 million from a loss of \$149,000 in 2008 to \$2.9 million of income in 2009. The increase is due primarily to the fact that impairment charges of \$1.1 million were recorded in 2008 for a FHLMC auction rate preferred equity security and \$2.1 million relating to other auction rate preferred equity securities. During 2009, there were increases in gains/redemption of investment securities of \$451,000 and activity based deposit fees and service charges of \$34,000. These were partially offset by lower revenue from the Bank-owned life insurance of \$217,000, other income of \$148,000, loan origination and processing fees of \$123,000 and a reduction in mortgage brokerage referral fee income of \$70,000.

Non-interest expenses

Non-interest expenses increased \$4.2 million, or 16%, from \$25.9 million in 2008 to \$30.1 million in 2009. Salaries and benefits decreased \$213,000, or 2%, in 2009 compared to 2008, due primarily to lower performance-based compensation. Occupancy and equipment expenses increased \$131,000, or 2%, from \$5.5 million in 2008 to \$5.6 million in 2009. This increase is due primarily to additional administrative and operational offices. For the year ended December 31, 2009, data processing increased \$87,000, or 7%, to \$1.4 million from \$1.3 million for the year ended December 31, 2008. Regulatory assessments increased \$2.4 million from \$726,000 for the year ended December 31, 2008 to \$3.2 million for the year ended December 31, 2009; most of this increase is due to the increase in the assessment rates for the FDIC and OCC deposit insurance premiums. Professional and other outside services increased \$2.2 million from \$1.8 million for the year ended December 31, 2008 to \$4.0 million for the year ended December 31, 2009. This is due primarily to an increase in external and internal audit fees and legal fees relating to the significant increase in non-performing assets. In addition, the increase relates to an increased amount of expenditures relating to consulting fees, which largely pertain to the significant increase in non-performing assets, regulatory matters and capital raising efforts. Other real estate operations expenses increased \$794,000 for the year ended December 31, 2009 from \$0 for the year ended December 31, 2008. This increase is due to expenses incurred by the Bank relating to nine properties obtained through loan foreclosure proceedings during the year ended December 31, 2009.

Income Taxes

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those

temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

During the year ended December 31, 2009, Bancorp established a full valuation allowance against the net deferred tax asset, which resulted in an increase to the valuation allowance of \$11.4 million. The possibility of further loan losses and higher cost levels associated with carrying nonperforming assets, coupled with Bancorp's losses beginning in the third quarter of 2008, creates sufficient uncertainty regarding the Company's ability to realize these deferred tax assets. In future periods, if it becomes more likely that these assets can be utilized, Bancorp may reverse some or all of the valuation allowance. Evidence to substantiate reversing the allowance would include sustained profitability.

Comparison of Results of Operations for the years 2008 and 2007

For the year ended December 31, 2008, Bancorp recorded a loss \$7.1 million (\$1.50 basic and diluted loss per share), as compared to 2007 when Bancorp reported net income of \$2.7 million (\$0.56 basic and diluted income per share).

Interest and dividend income increased \$3.9 million or 7% to \$55.8 million in 2008 as compared to 2007 when interest and dividend income was \$51.9 million. The growth in the loan portfolio is the key reason for this increase.

Interest expense increased \$772,000, or 3%, to \$28.5 million in 2008 compared to \$27.8 million in 2007. The increase in interest expense is reflective of the increases in total interest-bearing liabilities offset by lower rates paid during the year.

Non-interest income decreased \$2.4 million to (\$149,000) in 2008 as compared to \$2.2 million in 2007. The decrease is due largely to other-than-temporary impairment charges on auction rate preferred securities. Non-interest expenses for 2008 totaled \$25.9 million, which represents an increase of \$3.9 million or 18% over the prior year. The increase in non-interest expenses is a result of higher operating costs primarily associated with occupancy and equipment expenses reflective of the full year's impact of the branches that were opened in 2007, the opening of the new Stratford, Connecticut branch office and expanded administrative and operational offices. In addition to these increases was growth in expenditures relating to professional services, employee expenses and FDIC regulatory assessments.

The following are measurements relating to Bancorp's earnings:

	2008	2007	2006
(Loss) return on average assets	(0.81)	0.37%	0.44%
(Loss) return on average equity	(10.62)	4.07%	5.97%
Dividend payout ratio	N / A	32.14%	26.12%
Average equity to average assets	7.59%	9.09%	7.41%
Basic income per share	\$ (1.50)	\$ 0.56	\$ 0.67
Diluted income per share	\$ (1.50)	\$ 0.56	\$ 0.66

Interest income and expense

Bancorp's net interest income increased \$3.1 million, or 13%, to \$27.2 million in 2008 from \$24.1 million in 2007. An increase in average earning assets of \$140.9 million, or 20%, increased Bancorp's interest income by \$3.9 million, or 7%, from \$51.9 million in 2007 to \$55.8 million in 2008. Average loans outstanding increased \$172.6 million, or 29%. However, growth in the loan portfolio was partially offset by a decline in yield on loans of 103 basis points. The yield on investments increased 42 basis points and was partially offset by the decrease in the volume of investments. The average balances of federal funds sold and short-term investments decreased \$27.6 million to \$12.4 million at December 31, 2008 as compared to \$40.0 million at December 31, 2007. This resulted in a decrease in interest income of \$1.7 million.

Total average interest bearing liabilities increased by \$157.2 million or 26%. Average balances of certificates of deposit increased \$84.8 million or 18%. Average balances in savings accounts increased \$9.6 million or 31%, which is reflective of Bancorp providing a competitively priced commercial statement savings product. Average money market accounts increased \$15.8 million or 41%, which is a result of the significant growth in consumer money market premium accounts. Average FHLB advances increased \$46.5 million, which was due primarily to Bancorp utilizing these to extend liabilities and better manage the balance sheet. Interest expense increased \$772,000 or 3% from \$27.8 million in 2007 to \$28.5 million in 2008. Interest expense on certificates of deposit increased \$4.0 million as a result of an increase in average outstanding balances while the decrease in the cost of funds for that portfolio from 5.13% in 2007 to 4.14% in 2008 resulted in a decrease in interest expense of \$5.2 million. Increases in the average balances outstanding of FHLB advances resulted in an increase in interest expense of \$1.4 million and a decrease in the interest rates paid on FHLB advances resulted in a decrease in interest expense of \$233,000; this resulted in an aggregate increase in interest expense of \$1.2 million in 2008 as compared to 2007.

During the year the Company availed itself of funds available through the CDARS network as an alternative and less expensive funding source.

Management regularly reviews loan and deposit rates and attempts to price Bancorp's products competitively. Bancorp tracks its mix of asset/liability maturities and strives to maintain a

reasonable match. Performance ratios are reviewed monthly by management and the Board and are used to set strategies.

Provision for loan losses

The increased provision for the current year was based upon management's assessment of the impact changes in the national, regional and local economic and business conditions have had on the Bank's loan portfolio. There continues to be major displacement in the national and global credit markets. The secondary mortgage market continues to be impacted by economic events. These macro issues have now impacted local real estate markets. While the marketing time of local real estate has expanded and prices have declined, the Bank continues to maintain conservative underwriting standards including low loan to value ratio guidelines.

An analysis of the changes in the allowance for loan losses is presented under the discussion entitled "Allowance for Loan Losses."

Non-interest income

Non-interest income decreased \$2.4 million from \$2.2 million in 2007 to (\$149,000) in 2008. The decrease is due to impairment charges of \$2.1 million relating to the auction rate preferred equity security portfolio and \$1.05 million recorded for a FHLMC auction rate preferred equity security in the third quarter, along with a reduction in mortgage brokerage referral fee income of \$498,000. These were partially offset by increases in loan origination and processing fees of \$143,000, activity based deposit fees and service charges of \$152,000, earnings on Bank-owned life insurance of \$748,000, in addition to increases in debit card transaction fees of \$31,000 and other income of \$214,000.

Non-interest expenses

Non-interest expenses increased \$3.9 million, or 18%, in 2008 from \$22.0 million in 2007 to \$25.9 million in 2008. A significant portion of the increase in noninterest expense was due to a \$1.4 goodwill impairment charge recorded in the fourth quarter. Salaries and benefits increased \$241,000, or 2%, in 2008 compared to 2007, due primarily to higher costs relating to branch openings in 2007 offset by lower performance-based compensation. Occupancy and equipment expenses increased \$1.1 million or 24% from \$4.5 million in 2007 to \$5.5 million in 2008. This increase is due primarily to the opening of one new branch location in 2008 along with the full year impact of the six branches opened during 2007, as well as additional administrative and operational offices. For the year ended December 31, 2008 data processing increased \$173,000 or 15% to \$1.3 million from \$1.1 million for the year ended December 31, 2007; this increase is due primarily to increases in bank service charges and item processing and correspondent banking charges. Regulatory assessments increased \$143,000, or 24%, from \$583,000 for the twelve months ended December 31, 2007 to \$726,000 for the twelve months ended December 31, 2008; most of this increase is due to the increase in the assessment rates for the FDIC deposit insurance premiums. Professional and other outside services increased \$355,000 from \$1.4 million for the twelve months ended December 31, 2007 to \$1.8 million for the twelve months ended December 31, 2008. This is due primarily to an increase in legal fees of \$185,000 and audit and accounting fees of \$266,000.

Income Taxes

The provision (benefit) for income taxes represents the tax expense (benefit) recognized for both federal and state income taxes. Bancorp recorded an income tax benefit of \$3.1 million for the year ended December 31, 2008 as compared to income tax expense of \$1.5 million for the year ended December 31, 2007. The effective tax rates for the years ended December 31, 2008 and December 31, 2007 were 30.1% and 36.5%, respectively. The change in effective tax rates from 2007 to 2008 is due primarily to the valuation allowance related to the Company's deferred tax assets, the exclusion for income tax purposes of the earnings on the Bank-owned life insurance and permanent differences relating to the write down of goodwill.

LIQUIDITY

Bancorp's liquidity position was 18% and 8% at December 31, 2009 and 2008, respectively. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets as described in the accompanying balance sheets are considered liquid assets: cash and due from banks, federal funds sold, short-term investments and available-for-sale securities. Liquidity is a measure of Bancorp's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover increases in its loan portfolio and downward fluctuations in deposit accounts. Management believes Bancorp's short-term assets have sufficient liquidity to satisfy loan demand, cover potential fluctuations in deposit accounts and to meet other anticipated cash requirements.

At December 31, 2009, cash and cash equivalents and securities classified as available-for-sale were \$107.8 million and \$48.8 million, respectively. In addition to Federal Home Loan Bank advances outstanding at December 31, 2009, the Bank had the ability to borrow an additional \$160.0 million from the Federal Home Loan Bank of Boston, which included a \$2.0 million overnight line of credit. At December 31, 2009 the Bank had \$50.0 million in Federal Home Loan Bank advances, none of which were under the overnight line of credit.

The following table presents Bancorp's contractual obligations as of December 31, 2009:

	Total	Less than one year	One to three years	Three to five years	Over five years
Certificates of deposit	\$ 508,212,791	\$ 336,946,484	\$ 107,218,035	\$ 64,048,272	\$ -
Junior subordinated debt owed to					
unconsolidated trust	8,248,000	-	-	-	8,248,000
FHLB Advances	50,000,000	-	10,000,000	20,000,000	20,000,000
Securities sold under agreements					
to repurchase	7,000,000	-	-	-	7,000,000
Operating lease obligations	16,812,581	2,843,498	5,513,546	4,362,620	4,092,917
Total contractual obligations	\$ 590,273,372	\$ 339,789,982	\$ 122,731,581	\$ 88,410,892	\$ 39,340,917

OFF-BALANCE SHEET ARRANGEMENTS

The following table presents Bancorp's off-balance sheet commitments as of December 31, 2009. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon or are contingent upon the customer adhering to the terms of the agreements, the total commitment amounts do not necessarily represent future cash requirements.

Future loan commitments	\$ 3,378,751
Unused lines of credit	34,569,144
Undisbursed construction loans	17,682,552
Financial standby letters of credit	1,112,600
Total commitments	\$ 56,743,047

CAPITAL

The following table illustrates Bancorp's regulatory capital ratios for each of the years shown:

	2009	December 31, 2008	2007
Total Risk-Based Capital	8.58%	10.27%	12.17%
Tier 1 Risk- Based Capital	7.22%	9.01%	11.30%
Leverage Capital	4.72%	7.23%	9.42%

The following table illustrates the Bank's regulatory capital ratios for each of the years shown:

	2009	December 31, 2008	2007
Total Risk-Based Capital	8.58%	10.22%	12.03%
Tier 1 Risk- Based Capital	7.22%	8.96%	11.15%
Leverage Capital	4.72%	7.19%	9.30%

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. Based on the above ratios, the Bank is considered to be "adequately capitalized" at December 31, 2009 under applicable regulations. To be considered "adequately capitalized," an institution must generally have a leverage capital ratio of at least 4%, a Tier 1 risk-based capital ratio of at least 4% and a total risk-based capital ratio of at least 8%. However, the OCC has the discretion to require increased capital levels.

Management continuously assesses the adequacy of the Bank's capital. Management's strategic and capital plans contemplate various alternatives to raise additional capital to support and strengthen the Bank's capital levels. Bancorp has engaged various financial advisors to assist the Bank in this process. As described previously, on December 16, 2009, Bancorp and Carrazza executed the SPA whereby Carrazza is expected to invest up to \$50 million in Bancorp in 2010.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

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

Qualitative Aspects of Market Risk

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

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

Quantitative Aspects of Market Risk

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

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

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

Management has established interest rate risk guidelines measured by behavioral GAP analysis calculated at the one year cumulative GAP level and a net interest income and economic value of portfolio equity simulation model measured by a 200 basis point interest rate shock.

The table below sets forth an approximation of Bancorp's exposure to changing interest rates using management's behavioral GAP analysis and as a percentage of estimated net interest income and estimated net portfolio value using interest income simulation. The calculations use projected repricings of assets and liabilities at December 31, 2009 and 2008 on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments.

	Basis Points	Interest Rate Risk Guidelines	December 31, 2009	December 31, 2008
Gap percentage total		+/- 10%	3.98%	2.51%
Net interest income	200	+/- 10%	4.67%	-1.32%
	-200	+/- 10%	5.12%	-0.54%
Net portfolio value	200	+/- 20%	-8.93%	-12.48%
	-200	+/- 20%	-7.42%	5.40%

When comparing 2009 to 2008, Bancorp experienced a 6% increase in average interest-earning assets while net interest income decreased by 32%, which is primarily reflective of the significant increase in non-performing assets. The reduction in the interest margin of 114 basis points between 2008 and 2009 is a result of the increase in non-accrual loans which negatively impacted interest income by \$5.3 million, higher levels of liquidity and a much lower rate environment.

Bancorp's interest rate risk position was within guidelines in all categories at December 31, 2009. The interest rate risk position is monitored on an ongoing basis and management reviews strategies to maintain all categories within guidelines.

The table below sets forth examples of changes in estimated net interest income and the estimated net portfolio value based on projected scenarios of interest rate increases and decreases. The analyses indicate the rate risk embedded in Bancorp's portfolio at the dates indicated should all interest rates instantaneously rise or fall. The results are derived by adding to or subtracting from all current rates; however there are certain limitations to these types of analyses. Rate changes are rarely instantaneous and these analyses may also overstate the impact of short-term repricings.

Net Interest Income and Economic Value
Summary Performance

December 31, 2009							
Projected Interest Rate Scenario	Estimated Value	Net Interest Income		Net Portfolio Value			
		\$ Change from Base	% Change from Base	Estimated Value	\$ Change from Base	% Change from Base	
+ 200	20,750	925	4.67%	49,704	(4,872)	-8.93%	
+ 100	20,113	288	1.45%	51,762	(2,814)	-5.16%	
BASE	19,825	-	-	54,576	-	-	
- 100	20,557	732	3.69%	54,945	369	0.68%	
- 200	20,841	1,016	5.12%	50,525	(4,051)	-7.42%	

December 31, 2008							
Projected Interest Rate Scenario	Estimated Value	Net Interest Income		Net Portfolio Value			
		\$ Change from Base	% Change from Base	Estimated Value	\$ Change from Base	% Change from Base	
+ 200	22,609	(302)	-1.32%	67,804	(9,668)	-12.48%	
+ 100	22,745	(166)	-0.73%	72,462	(5,010)	-6.47%	
BASE	22,911			77,472			
- 100	22,927	16	0.07%	80,422	2,950	3.81%	
- 200	22,788	(123)	-0.54%	81,658	4,186	5.40%	

Impact of Inflation and Changing Prices

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

Item 8. Financial Statements and Supplementary Data

The consolidated balance sheets of Bancorp as of December 31, 2009 and December 31, 2008 and the related consolidated statements of operations, shareholders' equity and cash flows for the years ended December 31, 2009, December 31, 2008 and December 31, 2007, together with the report thereon of McGladrey & Pullen, LLP dated March 15, 2010, are included as part of this Form 10-K in the "Financial Report" following page 61 hereof.

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009:				
Interest income	\$ 12,359,234	\$ 10,998,963	\$ 9,983,932	\$ 9,625,951
Interest expense	6,830,950	6,595,455	5,983,941	4,949,482
Net interest income	5,528,284	4,403,508	3,999,991	4,676,469
Provision for loan losses	1,600,000	5,956,000	1,453,000	4,080,000
Noninterest income	1,022,654	666,597	617,707	639,522
Noninterest expenses	6,305,899	7,446,962	7,535,346	8,843,381
(Loss) before income taxes	(1,354,961)	(8,332,857)	(4,370,648)	(7,607,390)
Provision (benefit) for income taxes	(258,000)	(3,696,000)	9,565,000	(3,397,250)
Net loss	\$ (1,096,961)	\$ (4,636,857)	\$ (13,935,648)	\$ (4,210,140)

Net income (loss) per common share:

Basic and diluted	\$ (0.23)	\$ (0.98)	\$ (2.93)	\$ (0.88)
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2008:

Interest income	\$ 14,298,676	\$ 14,524,245	\$ 13,473,165	\$ 13,454,160
Interest expense	8,150,666	7,397,678	6,370,263	6,620,460
Net interest income	6,148,010	7,126,567	7,102,902	6,833,700
Provision for loan losses	477,000	1,068,000	3,000,000	6,744,772
Noninterest income	753,739	761,014	(303,564)	(1,360,297)
Noninterest expenses	6,222,082	6,370,342	5,996,420	7,359,061
Income (loss) before income taxes	202,667	449,239	(2,197,082)	(8,630,430)
Provision (benefit) for income taxes	52,000	53,000	(288,000)	(2,881,000)
Net income (loss)	\$ 150,667	\$ 396,239	\$ (1,909,082)	\$ (5,749,430)

Net income (loss) per common share:

Basic and diluted	\$ 0.03	\$ 0.08	\$ (0.40)	\$ (1.21)
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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

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

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

There were no changes in Bancorp's internal control over financial reporting identified in connection with the evaluation described in the preceding paragraph that occurred during Bancorp's fiscal year ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, Bancorp's internal control over financial reporting.

Item 9B. Other Information

Management's Report on Internal Control Over Financial Reporting

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

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. Based on that assessment, management concluded that as of December 31, 2009, the Company's internal control over financial reporting is effective based on the criteria established in Internal Control – Integrated Framework.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2009, has been audited by McGladrey & Pullen, LLP, an independent registered public accounting firm, as stated in their report appearing on page 53, which expresses an unqualified opinion of the Company's internal control over financial reporting as of December 31, 2009.

McGladrey & Pullen
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM

To the Shareholders and Board of Directors
Patriot National Bancorp, Inc. and Subsidiary

We have audited Patriot National Bancorp, Inc. and Subsidiary's (the "Company") internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Patriot National Bancorp and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Patriot National Bancorp, Inc. and Subsidiary as of December 31, 2009 and 2008 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009, and our report dated March 15, 2010 expressed an unqualified opinion, and included an emphasis paragraph relating to an uncertainty as to the Company's ability to continue as a going concern.

/S/ McGladrey & Pullen, LLP

New Haven, Connecticut
March 15, 2010

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Items 401, 405, 406 and 407 (c)(3); (d)(4) and (d)(5) of Regulation S-K is incorporated into this Form 10-K by reference to Bancorp's definitive proxy statement (the "Definitive Proxy Statement") for its 2010 Annual Meeting of Shareholders, to be filed within 120 days following December 31, 2009.

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

Item 11. Executive Compensation

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

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by Item 201(d) and Item 403 of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement.

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

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

Item 14. Principal Accountant Fees and Services

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

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Exhibits

Exhibit No. Description

- 2 Agreement and Plan of Reorganization dated as of June 28, 1999 between Bancorp and the Bank (incorporated by reference to Exhibit 2 to Bancorp's Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
- 2.1 Securities Purchase Agreement by and among Patriot National Bancorp, Inc., Patriot National Bank and PNBK Holdings LLC dated as of December 16, 2009 (incorporated by reference to Exhibit 10.1 to Bancorp's Current Report on Form 8-K dated December 17, 2009).
- 3(i) Certificate of Incorporation of Bancorp, (incorporated by reference to Exhibit 3(i) to Bancorp's Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
- 3(i)(A) Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated July 16, 2004 (incorporated by reference to Exhibit 3(i)(A) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2004 (Commission File No. 000-29599)).
- 3(i)(B) Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated June 15, 2006 (incorporated by reference to Exhibit 3(i)(B) to Bancorp's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (Commission File No. 000-29599)).
- 3(ii) Amended and Restated By-laws of Bancorp (incorporated by reference to Exhibit 3.2 to Bancorp's Current Report on Form 8-K dated December 26, 2007 (Commission File No. 1-32007)).
- 4 Intentionally deleted
- 10(a)(1) 2001 Stock Appreciation Rights Plan of Bancorp (incorporated by reference to Exhibit 10(a)(1) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2001 (Commission File No. 000-29599)).

Exhibit No. Description

- 10(a)(3) Intentionally deleted.
- 10(a)(4) Change of Control Agreement, dated as of January 1, 2007 among Angelo De Caro, and Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(4) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
- 10(a)(5) Employment Agreement dated as of January 1, 2008 among Patriot National Bank, Bancorp and Robert F. O'Connell (incorporated by reference to Exhibit 10(a)(5) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2007 (Commission File No. 000-29599)).
- 10(a)(6) Change of Control Agreement, dated as of January 1, 2007 among Robert F. O'Connell and Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(6) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
- 10(a)(9) License agreement dated July 1, 2003 between Patriot National Bank and L. Morris Glucksman (incorporated by reference to Exhibit 10(a)(9) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2003 (Commission File No. 000-29599)).
- 10(a)(10) Employment Agreement dated as of January 1, 2007 among Patriot National Bank, Bancorp and Charles F. Howell (incorporated by reference to Exhibit 10(a)(10) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
- 10(a)(11) Change of Control Agreement, dated as of January 1, 2007 among Charles F. Howell, Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(11) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).

Exhibit No. Description

- 10(a)(12) 2005 Director Stock Award Plan (incorporated by reference to Exhibit 10(a)(12) to Bancorp's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (Commission File No. 000-295999)).
- 10(a)(13) Change of Control Agreement, dated as of January 1, 2007 between Martin G. Noble and Patriot National Bank (incorporated by reference to Exhibit 10(a)(13) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-295999)).
- 10(a)(14) Change of Control Agreement, dated as of January 1, 2007 among Philip W. Wolford, Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(14) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-295999)).
- 10(a)(15) Formal Written Agreement between Patriot National Bank and the Office of the Comptroller of the Currency (incorporated by reference to Exhibit 10(a)(15) to Bancorp's Current Report on Form 8-K dated February 9, 2009 (Commission File No. 000-295999)).
- 10(c) 1999 Stock Option Plan of the Bank (incorporated by reference to Exhibit 10(c) to Bancorp's Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-295999)).
- 14 Code of Conduct for Senior Financial Officers (incorporated by reference to Exhibit 14 to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2004 (Commission File No. 000-295999)).
- 21 Subsidiaries of Bancorp (Incorporated by reference to Exhibit 21 to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 1999 (Commission File No. 000-295999)).
- 23 Consent of McGladrey & Pullen, LLP.
- 31(1) Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31(2) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32 Section 1350 Certification

SIGNATURES

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

Patriot National Bancorp, Inc.
(Registrant)

By: /s/ Angelo De Caro
Name: Angelo De Caro
Title: Chairman & Chief Executive Officer

Date: March 15, 2010

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

/s/ Angelo De Caro Angelo De Caro, Chairman, Chief Executive Officer and Director	March 15, 2010 Date
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/s/ Robert F. O'Connell Robert F. O'Connell Senior Executive Vice President, Chief Financial Officer and Director	March 15, 2010 Date
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/s/ Todd C. Scaccia Todd C. Scaccia Vice President & Controller	March 15, 2010 Date
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/s/ John J. Ferguson John J. Ferguson Director	March 15, 2010 Date
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/s/ John A. Geoghegan John A. Geoghegan Director	March 15, 2010 Date
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Form 10 K – Signatures continued

/s/ L. Morris Glucksman
L. Morris Glucksman
Director

March 15, 2010
Date

/s/ Charles F. Howell
Charles F. Howell
Director

March 15, 2010
Date

/s/ Michael F. Intrieri
Michael F. Intrieri
Director

March 15, 2010
Date

/s/ Raymond B. Smyth
Raymond B. Smyth
Director

March 15, 2010
Date

/s/ Philip W. Wolford
Philip W. Wolford
Director

March 15, 2010
Date

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

FINANCIAL REPORT
DECEMBER 31, 2009 and 2008

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING
FIRM

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McGladrey & Pullen
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM

To the Shareholders and Board of Directors
Patriot National Bancorp, Inc. and Subsidiary

We have audited the consolidated balance sheets of Patriot National Bancorp, Inc. and Subsidiary as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Patriot National Bancorp, Inc. and Subsidiary as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 16 to the financial statements, the Company has incurred net losses for the years ended December 31, 2009 and 2008, and in addition, in February 2009, the Company's subsidiary, Patriot National Bank (the "Bank"), entered into a formal written agreement with its primary regulator which required the Bank to develop and maintain a capital plan. As a result of these losses, the Company and the Bank are no longer considered "well capitalized" for regulatory capital purposes. Although the Company and the Bank are considered to be "adequately capitalized" at December 31, 2009, if losses continue and the executed Stock Purchase Agreement described in Note 16 does not close, the Company and the Bank could be in noncompliance with regulatory capital requirements. The uncertainty of the Company's and the Bank's ability to maintain compliance with regulatory capital requirements raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 16. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Patriot National Bancorp, Inc. and Subsidiary's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 15, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/S/ McGladrey & Pullen, LLP

New Haven, Connecticut
March 15, 2010

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PATRIOT NATIONAL BANCORP, INC. AND
SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

	2009	2008
ASSETS		
Cash and due from banks (Note 2):		
Noninterest bearing deposits and cash	\$ 19,465,521	\$ 3,045,708
Interest bearing deposits	78,070,072	1,240,525
Federal funds sold	10,000,000	20,000,000
Short-term investments	263,839	316,518
Cash and cash equivalents	107,799,432	24,602,751
Available for sale securities (at fair value) (Note 3)	48,829,981	51,979,677
Federal Reserve Bank stock	1,839,650	1,913,200
Federal Home Loan Bank stock (Note 8)	4,508,300	4,508,300
Loans receivable (net of allowance for loan losses: 2009: \$15,794,118 2008: \$16,247,070) (Notes 4 and 17)		
	645,205,943	788,568,687
Accrued interest and dividends receivable	3,236,252	4,556,755
Premises and equipment, net (Notes 5 and 9)	6,595,727	7,948,501
Deferred tax asset, net (Note 10)	-	8,680,075
Goodwill and other intangible assets (Note 11)	69,108	85,896
Cash surrender value of life insurance (Note 12)	19,859,732	19,135,105
Other real estate owned (Note 6)	19,073,993	-
Other assets	9,398,803	1,380,031
Total assets	\$ 866,416,921	\$ 913,358,978
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Notes 7 and 17):		
Noninterest bearing deposits	\$ 49,755,521	\$ 50,194,400
Interest bearing deposits	711,578,771	734,626,951
Total deposits	761,334,292	784,821,351
Repurchase agreements (Note 8)	7,000,000	7,000,000
Federal Home Loan Bank borrowings (Note 8)	50,000,000	50,000,000
Junior subordinated debt owed to unconsolidated trust (Note 8)	8,248,000	8,248,000
Accrued expenses and other liabilities	3,973,319	4,515,483
Total liabilities	830,555,611	854,584,834
Commitments and Contingencies (Notes 8, 9 and 15)		
Shareholders' equity (Notes 13 and 16)		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued	-	-
Common stock, \$2 par value: 60,000,000 shares authorized; 2009 shares	9,548,864	9,510,228

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issued 4,774,432; outstanding 4,762,727; 2008 shares issued 4,755,114;		
outstanding 4,743,409		
Additional paid-in capital	49,651,534	49,634,337
Accumulated deficit	(24,000,400)	(119,886)
Less: Treasury stock at cost: 2009 and 2008 11,705 shares	(160,025)	(160,025)
Accumulated other comprehensive income (loss) - net unrealized gain (loss)		
on available for sale securities, net of taxes	821,337	(90,510)
Total shareholders' equity	35,861,310	58,774,144
Total liabilities and shareholders' equity	\$ 866,416,921	\$ 913,358,978

See Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND
SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2009, 2008 and 2007

	2009	2008	2007
Interest and Dividend Income			
Interest and fees on loans	\$ 41,121,342	\$ 52,484,054	\$ 46,948,772
Interest on investment securities	1,335,283	2,324,817	2,153,886
Dividends on investment securities	293,735	803,704	1,667,587
Interest on federal funds sold	37,546	129,475	1,079,233
Other interest income	180,174	8,196	12,679
Total interest and dividend income	42,968,080	55,750,246	51,862,157
Interest Expense			
Interest on deposits	22,021,255	25,968,124	26,524,400
Interest on Federal Home Loan Bank borrowings	1,698,712	1,725,699	511,027
Interest on subordinated debt	331,309	535,659	690,696
Interest on other borrowings	308,552	309,585	41,187
Total interest expense	24,359,828	28,539,067	27,767,310
Net interest income	18,608,252	27,211,179	24,094,847
Provision for Loan Losses (Note 4)	13,089,000	11,289,772	75,000
Net interest income after provision for loan losses	5,519,252	15,921,407	24,019,847
Noninterest Income (Loss)			
Mortgage brokerage referral fees	167,854	237,933	736,195
Loan application, inspection and processing fees	214,334	355,526	212,896
Fees and service charges	1,025,258	990,843	839,311
Loss on impaired investment securities	-	(3,167,285)	-
Gain on sale of investment securities	434,334	-	-
Gain on redemption of investment securities	16,880	-	5,000
Earnings on cash surrender value of life insurance	724,627	941,421	193,684
Other income	363,193	492,454	246,829
Total noninterest income (loss)	2,946,480	(149,108)	2,233,915
Noninterest Expenses			
Salaries and benefits (Notes 9 and 14)	11,879,544	12,092,917	11,851,598
Occupancy and equipment expense, net	5,657,908	5,526,910	4,457,770
Data processing	1,373,489	1,285,989	1,113,276
Advertising and promotional expenses	280,567	814,374	713,246
Professional and other outside services	4,021,330	1,755,896	1,401,290
Loan administration and processing expenses	519,412	303,338	195,408
Regulatory assessments	3,165,722	725,613	582,897
Insurance expense	762,766	144,946	126,164
Other real estate operations (Note 6)	793,781	-	(152,009)
Other operating expenses	1,677,069	1,932,431	1,749,196
Goodwill impairment (Note 11)	-	1,365,491	-

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Total noninterest expenses	30,131,588	25,947,905	22,038,836
(Loss) income before income taxes	(21,665,856)	(10,175,606)	4,214,926
(Provision) benefit for Income Taxes (Note 10)	(2,213,750)	3,064,000	(1,537,000)
Net (loss) income	\$ (23,879,606)	\$ (7,111,606)	\$ 2,677,926
Basic and diluted (loss) income per share (Note 13)	\$ (5.02)	\$ (1.50)	\$ 0.56
Dividends per share	\$ -	\$ 0.180	\$ 0.180

See Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2009, 2008
and 2007

	Number of Outstanding Shares	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2006	4,739,494	\$ 9,478,988	\$ 49,463,307	\$ 6,022,012	\$ -	\$ (680,962)	\$ 64,283,345
Comprehensive income							
Net income	-	-	-	2,677,926	-	-	2,677,926
Unrealized holding gain on available for sale securities, net of taxes (Note 18)	-	-	-	-	-	627,462	627,462
Total comprehensive income							3,305,388
Dividends (\$0.180 per share)	-	-	-	(853,878)	-	-	(853,878)
Issuance of capital stock (Note 13)	7,350	14,700	85,812	-	-	-	100,512
Balance, December 31, 2007	4,746,844	9,493,688	49,549,119	7,846,060	-	(53,500)	66,835,367
Comprehensive loss							
Net loss	-	-	-	(7,111,606)	-	-	(7,111,606)
Unrealized holding loss on available for	-	-	-	-	-	(37,010)	(37,010)

sale securities, net of taxes (Note 18)								
Total comprehensive loss								(7,148,616)
Dividends (\$0.180 per share)	-	-	-	(854,340)			-	(854,340)
Treasury Stock Stock purchased under buyback	(11,705)				(160,025)			(160,025)
Issuance of capital stock (Note 13)	8,270	16,540	83,943					100,483
Other			1,275					1,275
Balance, December 31, 2008	4,743,409	9,510,228	49,634,337	(119,886)	(160,025)	(90,510)		58,774,144
Comprehensive loss								
Net loss	-	-	-	(23,879,606)			-	(23,879,606)
Unrealized holding gain on available for sale securities, net of taxes (Note 18)	-	-	-	-			911,847	911,847
Total comprehensive loss								(22,967,759)
Issuance of capital stock (Note 13)	19,318	38,636	17,197					55,833
Other			-	(908)				(908)
Balance, December 31, 2009	4,762,727	\$ 9,548,864	\$ 49,651,534	\$ (24,000,400)	\$ (160,025)	\$ 821,337	\$	\$ 35,861,310

See Notes to
Consolidated
Financial
Statements.

4

PATRIOT NATIONAL BANCORP, INC. AND
SUBSIDIARY

CONSOLIDATED
STATEMENTS OF CASH
FLOWS

Years Ended December 31, 2009,
2008 and 2007

	2009	2008	2007
Cash Flows from Operating Activities			
Net (loss) income	\$ (23,879,606)	\$ (7,111,606)	\$ 2,677,926
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities			
Amortization and accretion of investment premiums and discounts, net	157,727	131,456	181,727
Amortization and accretion of purchase loan premiums and discounts, net	26,079	37,732	96,738
Amortization of core deposit intangible	16,788	17,688	18,576
Provision for loan losses	13,089,000	11,289,772	75,000
Gain on sale of investment securities	(434,334)	-	-
Loss on impaired investment securities	-	3,167,285	-
Impairment of goodwill	-	1,365,491	-
Gain on sale of other real estate owned	-	-	(86,473)
Gain on redemption of investment security	(16,880)	-	(5,000)
Depreciation and amortization of premises and equipment	1,660,803	1,632,985	1,211,775
Payment of fees to directors in common stock	55,833	49,932	49,961
Earnings on cash surrender value of life insurance	(724,627)	(941,421)	(193,684)
Loss on disposal of bank premises and equipment	156	46	3,035
Deferred income taxes	8,624,602	(5,869,368)	(258,035)
Change in assets and liabilities:			
(Decrease) increase in deferred loan fees	(843,519)	(849,073)	165,288
Decrease (increase) in accrued interest and dividends receivable	1,320,503	19,263	(1,033,845)
Increase in other assets	(8,018,772)	(437,887)	(9,667)
(Decrease) increase in accrued expenses and other liabilities	(832,112)	(1,031,841)	1,547,361

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Net cash (used in) provided by operating activities	(9,798,359)	1,470,454	4,440,683
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Cash Flows from Investing Activities

Purchases of available for sale securities	(34,265,081)	(18,366,036)	(14,947,542)
Proceeds from sale of available for sale securities	19,852,541	-	-
Proceeds from redemptions of available for sale securities	12,000,000	19,000,000	3,005,000
Principal repayments on available for sale securities	7,326,444	11,317,968	12,580,945
Cash received in conjunction with branch acquisition	-	-	-
Purchase of Federal Reserve Bank stock	(1,500)	(1,500)	-
Purchase of Federal Home Loan Bank stock	-	(1,852,200)	(1,438,900)
Proceeds from repurchase of excess stock by the Federal Reserve Bank	75,050	-	-
Net decrease (increase) in loans	112,017,191	(113,161,128)	(179,338,861)
Capital improvements to other real estate owned	-	-	(156,700)
Proceeds from sale of other real estate owned	-	-	1,077,515
Purchase of life insurance	-	-	(18,000,000)
Purchases of premises and equipment	(308,185)	(1,775,967)	(5,329,514)
Net cash provided by (used in) investing activities	116,696,460	(104,838,863)	(202,548,057)

Cash Flows from Financing Activities

Net increase (decrease) in demand, savings and money market deposits	69,100,673	43,490,488	(9,960,503)
Net (decrease) increase in time certificates of deposit	(92,587,732)	68,931,454	120,908,248
Net increase in FHLB borrowings	-	2,500,000	39,500,000
Increase in borrowings under repurchase agreements	-	-	7,000,000
Proceeds from issuance of common stock	-	50,551	50,551
Other	(908)	1,275	-
Payment under stock buyback program	-	(160,025)	-
Dividends paid on common stock	(213,453)	(854,497)	(853,547)
Net cash (used in) provided by financing activities	(23,701,420)	113,959,246	156,644,749

Net increase (decrease) in cash and cash equivalents	83,196,681	10,590,837	(41,462,625)
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5

PATRIOT NATIONAL BANCORP, INC. AND
SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS,
Continued
Years Ended December 31, 2009,
2008 and 2007

	2009	2008	2007
Cash and cash equivalents			
Beginning	24,602,751	14,011,914	55,474,539
Ending	\$ 107,799,432	\$ 24,602,751	\$ 14,011,914
Supplemental Disclosures of Cash Flow Information			
Cash paid for:			
Interest	\$ 24,348,048	\$ 28,340,521	\$ 27,654,868
Income taxes	\$ 1,216,134	\$ 1,816,392	\$ 1,607,055
Supplemental Disclosure of Noncash Investing and Financing Activities			
Unrealized holding gains (losses) on available for sale securities			
arising during the period	\$ 1,470,721	\$ (59,692)	\$ 1,012,035
Accrued dividends declared on common stock	\$ -	\$ 213,453	\$ 213,608
Transfer of loans to other real estate owned	\$ 19,073,993	\$ -	\$ -

See Notes to Consolidated
Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
December 31, 2009 and 2008

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

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

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

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

Significant group concentrations of credit risk

Most of the Company's activities are with customers located within Fairfield and New Haven Counties in Connecticut and Westchester County, New York City and Long Island, New York. Note 3 discusses the types of securities in which the Company invests. Note 4 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations to any one industry or customer; however, the Company's investment in life insurance is in a separate account of a single insurance carrier.

Principles of consolidation and basis of financial statement presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank, and the Bank's wholly owned subsidiary, PinPat Acquisition Corporation, and have been prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the banking industry. All significant intercompany balances and transactions have been eliminated. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the balance sheet date and reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
December 31, 2009 and 2008

allowance for loan losses, the valuation of investment securities and deferred tax assets, and the evaluation of investment securities for impairment.

On July 1, 2009, the Accounting Standards Codification (“ASC”) became the Financial Accounting Standard Board’s (“FASB”) single source of authoritative U.S. accounting and reporting standards applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (“AICPA”), Emerging Issues Task Force (“EITF”) and related literature. The adoption of this ASC topic changed the applicable citations and naming conventions used when referencing generally accepted accounting principles.

Cash and cash equivalents

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

Investments in debt and marketable equity securities

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

Debt securities, if any, that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and are recorded at amortized cost. “Trading” securities, if any, are carried at fair value with unrealized gains and losses recognized in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of taxes. Purchase premiums and discounts are recognized in interest income using the interest method over the lives of the securities.

Effective April 1, 2009, the Company adopted new accounting guidance related to recognition and presentation of other-than-temporary impairment. This recent accounting guidance amends the recognition guidance for other-than-temporary impairments of debt securities and expands the financial statement disclosures for other-than-temporary impairment losses on debt and equity securities. The recent guidance replaced the “intent and ability” indication in prior guidance by specifying that (a) if the Company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Company does not intend to sell the security, and it is

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
December 31, 2009 and 2008

more-likely-than-not the Company will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections discounted at the applicable original yield of the security. The adoption of the other-than-temporary impairment accounting guidance had no impact on the Company's consolidated financial statements.

Prior to the adoption of the recent accounting guidance on April 1, 2009, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that were deemed to be other than temporary were reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considered (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The sale of a held to maturity security within three months of its maturity date or after collection of at least 85% of the principal outstanding at the time the security was acquired is considered a maturity for purposes of classification and disclosure.

Loans held for sale

Loans held for sale, if any, are those loans the Company has the intent to sell in the foreseeable future, and are carried at the lower of aggregate cost or market value. Gains and losses on sales of loans are recognized on the trade dates, and are determined by the difference between the sales proceeds and the carrying value of the loans. Loans are sold with servicing released.

Loans receivable

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
December 31, 2009 and 2008

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

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

All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

Allowance for loan losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are considered impaired. For such impaired loans, an allowance is established when the discounted cash flows (or collateral value if the loan is collateral dependent or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans, segregated generally by loan type, and is based on historical loss experience with adjustments for qualitative factors which are made after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss data. In addition, a risk rating system is utilized to evaluate the general component of the allowance for loan losses. Under this system, management assigns risk

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
December 31, 2009 and 2008

ratings between one and nine to commercial and industrial loans, construction loans and commercial real estate loans. Risk ratings are assigned based upon the recommendations of the credit analyst and the originating loan officer and confirmed by the loan committee at the initiation of the transactions and are reviewed and changed, when necessary, during the life of the loan. Loans assigned a risk rating of six or above are monitored more closely by the credit administration officers and the loan committee.

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

Impaired loans also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

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

Loan brokerage activities

The Company receives loan brokerage fees for soliciting and processing conventional loan applications on behalf of permanent investors. Brokerage fee income is recognized upon closing of loans for permanent investors.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
December 31, 2009 and 2008

Transfers of financial assets

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

In June 2009, the FASB issued guidance which modifies certain guidance relating to transfers and servicing of financial assets. This guidance eliminates the concept of qualifying special purpose entities, provides guidance as to when a portion of a transferred financial asset can be evaluated for sale accounting, provides additional guidance with regard to accounting for transfers of financial assets and requires additional disclosures. This guidance is effective for the Company as of January 1, 2010, with adoption applied prospectively for transfers that occur on and after the effective date. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

Other real estate owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in operations. Costs relating to the development and improvement of the property are capitalized, subject to the limit of fair value of the collateral. Gains or losses are included in noninterest expenses upon disposal.

Premises and equipment

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

Impairment of assets

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

Goodwill and other intangible assets

Goodwill and other intangible assets with indefinite lives represent the cost in excess of net assets of businesses acquired and are not subject to amortization. Other identified intangible assets with finite lives consist of a core deposit intangible recorded in connection with a branch acquisition and is amortized over its estimated useful life. The Company's goodwill and other intangible assets are tested for impairment annually, or more frequently under prescribed conditions.

Cash surrender value of life insurance

Cash surrender value of life insurance represents life insurance on certain employees who have consented to allow the Bank to be the beneficiary of those policies. Increases in the cash value of the policies, as well as insurance proceeds received, are recorded in other non-interest income and are not subject to income tax. Management reviews the financial strength of the insurance carrier on an annual basis.

Income taxes

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

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

The periods subject to examination for the Company's Federal returns are the tax years 2004 through 2008. The periods subject to examination for the Company's significant state return, which is Connecticut,

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
December 31, 2009 and 2008

are the tax years 2006 through 2008. The Company believes that its income tax filing positions and deductions will be sustained upon examination and does not anticipate any adjustments that will result in a material change in its financial statements. As a result, no reserve for uncertain income tax positions has been recorded.

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

Related party transactions

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

(Loss) Income per share

Basic (loss) income per share represents income available to common stockholders and is computed by dividing net income or loss by the weighted-average number of common shares outstanding. Diluted (loss) income per share reflects additional common shares that would have been outstanding if potential dilutive common shares had been issued, as well as any adjustment to income that would result from the assumed issuance unless such assumed issuance is antidilutive. Potential common shares that may be issued by the Company relate to any stock options and warrants that may be outstanding, and are determined using the treasury stock method.

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

Stock compensation plans

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
December 31, 2009 and 2008

Comprehensive income (loss)

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

Segment reporting

The Company's only business segment is Community Banking. During the years ended 2009, 2008 and 2007, this segment represented all the revenues and income of the consolidated group and therefore, is the only reported segment.

Fair value

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

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

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

- oLevel 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
December 31, 2009 and 2008

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

oLevel 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Prior to 2009, the fair value guidance only pertained to financial assets and liabilities. In January 2009, the provisions of the fair value accounting guidance became effective for nonfinancial assets and liabilities. The Company adopted these provisions in 2009.

In April 2009, the FASB issued guidance which addressed concerns that fair value measurements emphasized the use of an observable market transaction even when that transaction may not have been orderly or the market for that transaction may not have been active. This guidance relates to the following: (a) determining when the volume and level of activity for the asset or liability has significantly decreased; (b) identifying circumstances in which a transaction is not orderly; and (c) understanding the fair value measurement implications of both (a) and (b). The Company adopted this new guidance in 2009, and the adoption had no impact on the Company's consolidated financial statements.

In February 2010, the FASB issued guidance which amends the existing guidance related to Fair Value Measurements and Disclosures. The amendments will require the following new fair value disclosures:

- ◆ Separate disclosure of the significant transfers in and out of Level 1 and Level 2 fair value measurements, and a description of the reasons for the transfers.
- ◆ In the rollforward of activity for Level 3 fair value measurements (significant unobservable inputs), purchases, sales, issuances, and settlements should be presented separately (on a gross basis rather than as one net number).

In addition, the amendments clarify existing disclosure requirements, as follows:

- ◆ Fair value measurements and disclosures should be presented for each class of assets and liabilities within a line item in the statement of financial position.
- ◆ Reporting entities should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
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The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures included in the rollforward of activity for Level 3 fair value measurements, for which the effective date is for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

See Note 19 for additional information regarding fair value.

Subsequent events

In May 2009, the FASB issued guidance relating to accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or available to be issued. This guidance defines (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. The guidance became effective for the Company during the year ended December 31, 2009. The Company has evaluated subsequent events through the date these financial statements were issued.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
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Note 2. Restrictions on Cash and Due From Banks

The Company is required to maintain reserves against its transaction accounts and non-personal time deposits. At December 31, 2009 there was no reserve requirement as compared to December 31, 2008 when the Bank was required to have cash and liquid assets of approximately \$75,000 to meet these requirements. In addition, at December 31, 2009 and 2008, the Company was required to maintain \$25,000 in the Federal Reserve Bank for clearing purposes.

Note 3. Available-for-Sale Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available-for-sale securities at December 31, 2009 and 2008 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2009				
U.S. Government agency obligations	\$ 5,176,712	\$ -	\$ (68,212)	\$ 5,108,500
U.S. Government agency mortgage-backed securities	40,428,810	241,520	(166,872)	40,503,458
	45,605,522	241,520	(235,084)	45,611,958
Money market preferred equity securities	1,899,720	1,318,303	-	3,218,023
	\$ 47,505,242	\$ 1,559,823	\$ (235,084)	\$ 48,829,981
2008				
U.S. Government agency obligations	\$ 10,000,000	\$ 102,248	\$ -	\$ 10,102,248
U. S. Government agency mortgage-backed securities	38,246,799	231,766	(479,996)	37,998,569
	48,246,799	334,014	(479,996)	48,100,817
Money market preferred equity securities	3,878,860	-	-	3,878,860
	\$ 52,125,659	\$ 334,014	\$ (479,996)	\$ 51,979,677

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
December 31, 2009 and 2008

The following table presents the Company's 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, at December 31, 2009 and 2008:

2009	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government agency obligations	\$ 5,108,500	\$ (68,212)	\$ -	\$ -	\$ 5,108,500	\$ (68,212)
U.S. Government agency mortgage-backed securities	19,548,726	(159,918)	759,207	(6,954)	20,307,933	(166,872)
Totals	\$24,657,226	\$ (228,130)	\$ 759,207	\$ (6,954)	\$ 25,416,433	\$ (235,084)
2008	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government agency obligations						
U.S. Government agency mortgage-backed securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Totals	14,593,894	(317,703)	5,527,631	(162,293)	20,125,525	(479,996)
Totals	\$14,593,894	\$ (317,703)	\$ 5,527,631	\$ (162,293)	\$ 20,125,525	\$ (479,996)

At December 31, 2009, six securities had unrealized losses with aggregate depreciation of 0.9% from the amortized cost. There were no securities with unrealized losses greater than 5% of amortized cost.

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 changes on debt and mortgage-backed securities issued by U.S. Government agencies. Management considers the issuers of the securities to be financially sound, and the Company expects to receive all contractual principal and interest related to these investments. Because the Company does not intend to sell the investments, and it is not more-likely-than-not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2009.

During 2008, management determined that the following investments had other-than-temporary impairment for which charges were recorded:

- Federal Home Loan Mortgage Corporation (“Freddie Mac” or “FHLMC”) – \$1,050,000. As a result of actions taken on September 7, 2008 by the United States Treasury Department and the Federal Housing Finance Agency with respect to placing Freddie Mac into receivership, the Company’s investment in FHLMC preferred equity securities was deemed to be other-than-temporarily impaired and a write-down of \$1,050,000 was recorded during the third quarter of 2008.

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ΝΟΤΕΣ ΤΟ ΧΟΝΣΟΛΙΔΑΤΕΔ ΦΙΝΑΝΧΙΑΛ ΣΤΑΤΕΜΕΝΤΣ, χοντινυεδ
Δεχεμβερ 31, 2009 ανδ 2008

- Other Auction Rate Preferred Securities – \$2,100,000. The Company had investments in six auction rate preferred securities of companies primarily in the financial services sector. The illiquidity in the auction rate market during 2008 resulted in significant declines in market value for these investments. As management was unable to predict near term prospects for recovery of these securities, impairment charges totaling \$2,100,000 were recorded during the fourth quarter of 2008.

At December 31, 2009 and 2008, available-for-sale securities with a carrying value of \$1,950,000 and \$4,534,000, respectively, were pledged to secure obligations under municipal deposits. At December 31, 2009 and 2008, available-for-sale securities with a carrying value of \$9,392,000 and \$8,976,000, respectively, were pledged to secure securities sold under agreements to repurchase.

The amortized cost and fair value of available-for-sale debt securities at December 31, 2009 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 called or repaid without any penalties. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

	Amortized Cost	Fair Value
Maturity:		
Over 10 years	\$ 5,176,712	\$ 5,108,500
Mortgage-backed securities	40,428,810	40,503,458
Total	\$ 45,605,522	\$ 45,611,958

During 2009, there were six sales of available-for-sale securities, which resulted in the Company recognizing proceeds from the sales of \$19,852,541 and gains of \$434,334. During 2008 and 2007, there were no sales of available-for-sale securities.

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Note 4.

Loans Receivable and Allowance for Loan Losses

A summary of the Company's loan portfolio at December 31, 2009 and 2008 is as follows:

	2009	2008
Real estate:		
Commercial	\$ 230,225,306	\$ 262,570,339
Residential	195,571,225	170,449,780
Construction	154,457,082	257,117,081
Construction to permanent	15,989,976	35,625,992
Commercial	19,298,505	33,860,527
Consumer installment	1,155,059	993,707
Consumer home equity	44,309,265	45,022,128
Total loans	661,006,418	805,639,554
Premiums on purchased loans	131,993	158,072
Net deferred loan fees	(138,350)	(981,869)
Allowance for loan losses	(15,794,118)	(16,247,070)
Loans receivable, net	\$ 645,205,943	\$ 788,568,687

The changes in the allowance for loan losses for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Balance, beginning of year	\$ 16,247,070	\$ 5,672,620	\$ 5,630,432
Provision for loan losses	13,089,000	11,289,772	75,000
Recoveries of loans previously charged-off	187,647	904	-
Loans charged-off	(13,729,598)	(716,226)	(32,812)
Balance, end of year	\$ 15,794,118	\$ 16,247,070	\$ 5,672,620

At December 31, 2009 and 2008, the unpaid principal balances of loans delinquent 90 days or more and still accruing were approximately \$3,571,000 and \$337,000, respectively, and the unpaid principal balances of loans placed on non-accrual status and considered impaired were \$113,537,114 and \$80,155,913, respectively. Construction loans comprise approximately \$51,200,000 of the \$113,537,114 in non-accrual loans at December 31, 2009, for which specific reserves of approximately \$2,600,000 are recorded. In most cases, and based on the strength of the borrower, the Company requires construction loan borrowers to maintain interest reserve accounts which are restricted. Approved interest reserve amounts remaining on construction loans outstanding aggregated approximately \$5,700,000 at December 31, 2009, of which

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approximately \$2,300,000 are held in restricted accounts and approximately \$3,400,000 represents approved, interest reserve amounts not yet drawn against the approved loan commitment amounts. In addition, at December 31, 2009 balances in restricted interest reserve accounts related to impaired construction loans total of approximately \$491,000 with remaining amounts to be drawn against the loan commitment amounts of approximately \$63,000.

The following information relates to impaired loans as of and for the years ended December 31, 2009 and 2008:

	2009	2008
Impaired loans receivable for which there is a related allowance for credit losses	\$ 30,968,602	\$ 42,535,777
Impaired loans receivable for which there is no related allowance for credit losses	\$ 82,568,512	\$ 37,620,136
Allowance for credit losses related to impaired loans	\$ 3,942,012	\$ 4,211,954

At December 31, 2009, there were 9 loans totaling \$11.5 million that were considered as “troubled debt restructurings”, all of which are included in non-accrual and impaired loans, as compared to 11 loans totaling \$16.7 million at December 31, 2008, of which eight loans totaling \$12.4 million are included in non-accrual and impaired loans. Loan modifications, which resulted in these loans being considered troubled debt restructurings, are primarily in the form of rate concessions. Commitments to advance additional funds under troubled debt restructured loans total approximately \$998,000 at December 31, 2009.

If impaired loans had been performing in accordance with their original terms, the Company would have recorded \$5,312,327, \$2,854,253 and \$168,076, respectively, of additional income during the years ended December 31, 2009, 2008 and 2007, respectively.

During 2009, 2008 and 2007, interest income collected and recognized on impaired loans was \$424,745, \$352,014 and \$30,179, respectively. The average recorded investment in impaired loans for the years ending December 31, 2009, 2008 and 2007 were \$105,309,710, \$14,788,497 and \$3,149,223, respectively. Once a borrower is in default the Company is under no obligation to advance additional funds on unused commitments.

The Company's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County, New York City and Long Island, New York. The Company grants commercial real estate loans, commercial business loans and a variety of consumer loans. In addition, the Company had granted loans for the construction of residential homes, residential developments and for land development projects. A moratorium on all construction loans was instituted by management in July 2008. All residential and commercial mortgage loans are collateralized by first or second mortgages on

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real estate. The ability and willingness of borrowers to satisfy their loan obligations is dependent in large part upon the status of the regional economy and regional real estate market. Accordingly, the ultimate collectability of a substantial portion of the loan portfolio and the recovery of a substantial portion of any resulting real estate acquired is susceptible to changes in market conditions.

The Company has established credit policies applicable to each type of lending activity in which it engages, evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 75% of the market value of the collateral at the date of the credit extension depending on the Company's evaluation of the borrowers' creditworthiness and type of collateral. 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.

Note 5.

Premises and Equipment

At December 31, 2009 and 2008, premises and equipment consisted of the following:

	2009	2008
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