PATRIOT NATIONAL BANCORP INC
Form 10KSB
March 30, 2004

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10- KSB

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

For the Fiscal Year Ended December 31, 2003

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

For the transition period from _________ to ___________

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.
(Name of small business issuer in its charter)

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

Issuer's telephone number (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

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

Yes X No

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B 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-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenue for its most recent fiscal year: $ 20,028,442

Aggregate market value of the voting stock held by nonaffiliates of the registrant as of February 28, 2004 based on the last sale price as reported on the NASDAQ Small Cap Market: $ 21,348,833.

Number of shares of the registrant's Common Stock, par value $2.00 per share, outstanding as of February 28, 2004: 2,412,774.

Documents Incorporated by Reference

Proxy Statement for 2004 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-KSB.)	Incorporated into Part III Form 10-KSB

Transitional Small Business Disclosure Format (check one):

Yes No X

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PART I

Item 1. Description of Business

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 branch offices in Greenwich and Old Greenwich, Connecticut in 1997 and 1999, respectively, two branch offices in Norwalk, Connecticut, one in 2001 and a second in 2003, a second Stamford location in 2003 and a branch office in Wilton, Connecticut in 2003. It recently received regulatory approval to open a branch office in Darien, Connecticut.

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 a division of the 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.

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.

The Bank conducts business at its main office located at 900 Bedford Street, Stamford, Connecticut and at branch offices located at 838 High Ridge Road, Stamford, Connecticut, 100 Mason Street, Greenwich, Connecticut, 184 Sound Beach Avenue, Old Greenwich, Connecticut, 16 River Street and 365 Westport Avenue in Norwalk, Connecticut and One Danbury Road, Wilton Connecticut. The Bank also operates mortgage origination offices at 71 Lewis Street, Greenwich, Connecticut and 20 Broad Hollow Road, Melville, New York.

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 and IRA's (Individual Retirement Accounts). Other services include money orders, traveler's checks, ATM's (automated teller machines), internet banking and debit cards. In addition, the Bank may in the future offer Keogh accounts and other financial services. The Bank does not currently accept brokered deposits.

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 lines of credit. Other personal loans include lines of credit, installment loans 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. The Bank offers residential mortgages through its mortgage brokerage division Pinnacle Financial. Pinnacle solicits and processes conventional mortgage loan applications from consumers on behalf of permanent investors and originates loans for sale.

The Bank competes with all institutions in its market area. Most have greater financial resources and capitalization, which gives them higher lending limits and the ability to conduct larger advertising campaigns to attract business. Generally the larger institutions offer services such as trust and international banking which the Bank is not equipped to offer directly. When the need arises, arrangements are made with correspondent institutions to provide such services. To attract business in this competitive environment, the Bank relies on local promotional activities and personal contact by officers, directors and shareholders and on its ability to offer personalized services.

The Bank does not offer trust services. If the Bank desires in the future to offer trust services, prior approval of the OCC will be required.

The customer base of the Bank 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 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 and Wilton, Connecticut provide the majority of the Bank's deposits. The Bank has focused its attention on serving the segment 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. This area is bordered by

New York State to the west, the Town of Ridgefield to the north, the Town of Westport to the east, and Long Island Sound to the south.

The Bank's loan customers extend beyond Stamford, Greenwich, Norwalk and Wilton to include the adjacent towns in Fairfield County, Connecticut, and towns in Westchester County, New York, although the Bank's loan business is not necessarily limited to these areas. The Bank's mortgage brokerage business is concentrated in the areas surrounding its loan origination offices. 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 to maintain adequate levels of liquidity.

The Bank's employees perform most routine day-to-day banking transactions at the Bank. However, 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 carrier service.

The Cities of Stamford and Norwalk and the Towns of Greenwich and Wilton are presently served by approximately 130 branches of commercial banks and savings banks, most of which are offices of banks which have headquarters outside of the area or are subsidiaries of bank or financial holding companies whose headquarters are outside of Stamford, Greenwich, Norwalk or Wilton. 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 Stamford, Greenwich, Norwalk and Wilton, posing significant competition to the Bank for deposits and loans. Competition can also be expected from out-of-state financial institutions, which may establish or acquire offices in the Bank's service area and from other local financial institutions which may be formed in the future. Many of such 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. This increase in competition has caused banks and other financial service institutions to diversify their services and become more cost effective as a result of competition with one another and with new types of financial service companies, including non-bank competitors. The impact on Bancorp of federal legislation authorizing increased services by financial holding companies and interstate branching of banks has 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.

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. While the creation of financial holding companies is evolving, to date, there has been 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 the Federal Reserve Board's view that a bank holding company should pay cash dividends only to the extent that 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 the bank holding company's 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 or 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.

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 SEC.

The Bank's operations are subject to regulation, supervision and examination by the OCC and the FDIC.

Federal and state banking regulations regulate, 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 nature and amount of collateral for certain loans a bank makes, 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 is subject to applicable provisions of the Federal Reserve Act and regulations thereunder. 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.

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. For example, this may 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 Stamford, Greenwich, Norwalk and Wilton, 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.

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. The Bank has, however, registered the trademark "Patriot" and the corresponding logo with the State of Connecticut Trademark Office. Compliance by Bancorp and the Bank with federal, state and local provisions which have been enacted or adopted regulating or otherwise relating to the discharge of material into the environment is not expected to have a material effect upon the capital expenditures, earnings or competitive position of Bancorp.

As of December 31, 2003, Bancorp had 84 full-time employees and six part-time employees. None of the employees of Bancorp is covered by a

collective bargaining agreement.

Item 2. Description of Properties

The Bank leases approximately 12,000 square feet of office space located at 900 Bedford Street, Stamford, Connecticut, which is used for its main office and as the corporate offices of Bancorp. Such space is adequate for Bancorp's and the Bank's current needs. The entire building is being leased by the Bank for a term of ten years, which commenced on September 1, 1994. The Bank's lease also provides the Bank with a right of first refusal to purchase the building in the event the owner of the property receives an offer to purchase the building from a third party which it wishes to accept, on the same terms and conditions of such offer, subject to the terms of the lease. The Bank renewed this lease for a term of ten years commencing September 1, 2004 at a fixed rent for the first year with rent increases for the remainder of the term based on increases in the consumer price index. The lease provides for a five-year renewal after the initial term at the Bank's option. The Bank currently occupies approximately 90% of the space in the 900 Bedford Street building. The Bank has sublet the remaining space under a sublease having a maturity which coincides with the Bank's lease maturity. The business of the subtenant of the Bank is a law practice. See also, "Item 12. Certain Relationships and Related Transactions."

The Bank has entered into an agreement for additional parking at an annual rent of $18,000 which lease expires on January 31, 2005.

The Bank leases approximately 5,000 square feet of office space on the first floor located at 100 Mason Street, Greenwich, Connecticut which includes the 71 Lewis Street office of Pinnacle. The lease has a five-year term commencing July 1, 2002 at an initial annual rent of $246,000, which rent will increase by approximately 3% each consecutive year. The lease provides for two additional five-year renewals after the initial term at the Bank's option.

The Bank leases approximately 1,300 square feet of office space at 184 Sound Beach Avenue, Old Greenwich, Connecticut. The lease was renewed on December 31, 2003 at a fixed annual rent of $54,000.

The Bank leases approximately 2,100 square feet of office space at 16 River Street, Norwalk, Connecticut. The lease commenced on January 1, 2001 with a five-year term at an initial annual rent of $27,648 with annual increases of approximately 2.4% through the fifth year of the lease. The lease provides for a five-year renewal after the initial term at the Bank's option.

The Bank leases approximately 1,200 square feet of office space at 20 Broad Hollow Road, Melville, New York for a Pinnacle mortgage origination office. The lease commenced on April 1, 2002 at an initial annual rent of $23,400 with a three-year term, which rent will increase by approximately 5% each consecutive year. The lease provides for a three-year renewal after the initial term at the Bank's option.

The Bank leases approximately 1,250 square feet of office space at 365 Westport Avenue, Norwalk Connecticut. The lease commenced on January 1, 2003 with a five-year term at an annual rent of $36,240, which rent will increase based on increases in the Consumer Price Index. The lease provides for three five-year renewals after the initial term at the Bank's option.

The Bank leases approximately 3,032 square feet of office space at 838

High Ridge Road, Stamford Connecticut. The lease commenced on April 1, 2003 at an annual rent of $100,056 for an initial term of ten years, which rent will increase by approximately 3% during the third year; during years four through ten, increases will be based on increases in the Consumer Price Index. The lease provides for a ten-year renewal after the initial term at the option of the Bank. The Bank currently occupies 95% of the space in the 838 High Ridge Road facility. The Bank has licensed the remaining space under a licensing agreement with an attorney. See also, "Item 12. Certain Relationships and Related Transactions."

The Bank leases approximately 2,000 square feet of office space at One Danbury Road, Wilton, Connecticut. The lease commenced on April 1, 2003 at an annual rent of $53,700 for an initial term of ten years, which rent will increase each year thereafter based on increases in the consumer price index. The lease provides for a five-year renewal after the initial term at the option of the Bank.

The Bank leases approximately 3,900 square feet of office space at 1177 Summer Street, Stamford, Connecticut for a Pinnacle mortgage origination office which is relocating from the 71 Lewis Street, Greenwich, Connecticut location. The lease commenced on March 19, 2004 at an annual rent of $90,800 for an initial term of five years, which rent will increase $3,900 per year in years two through five. The lease provides for two five-year renewal periods after the initial term at the Bank's option.

The Bank leases approximately 2,400 square feet of office space at 800 Post Road, Darien, Connecticut for the purpose of establishing a branch office; it is anticipated that the Darien location will open for business in the second quarter of 2004. The lease commences on April 15, 2004 at an annual rent of $86,500 for an initial term which expires October 15 ,2004, which rent will increase by approximately 8.5% after the fifth year. The lease provides for a five-year renewal after the initial term at the option of the Bank.

All leased properties described above are in good condition.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of 2003, no matter was submitted to a vote of shareholders.

PART II

Item 5. Market for Common Equity and Related Shareholder Matters

Market Information

The Bancorp Common Stock is traded on the NASDAQ Small Cap Market under the Symbol "PNBK." On December 31, 2003, the last sale price for Bancorp

Common Stock on NASDAQ Small Cap Market was $12.50.

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 Small Cap Market.

	2003			2002		
	Sales Price		Cash Dividends	Sales Price		Cash Dividends
Quarter Ended	High	Low	Declared	High	Low	Declared
March 31	$ 10.56	$ 9.50	$ 0.025	$ 8.50	$ 8.10	$ 0.020
June 30	10.80	9.10	0.030	8.50	8.00	0.025
September 30	11.45	9.65	0.030	8.80	8.05	0.025
December 31	12.50	10.76	0.030	10.66	8.30	0.025

Holders

There were approximately 881 shareholders of record of Bancorp Common Stock as of December 31, 2003.

Dividends

2001 marked the first year in which Bancorp paid a dividend on Bancorp Common Stock; during the second quarter of 2002 and 2003 the quarterly dividend was increased by 25% and 20%, respectively . Bancorp's ability to pay future dividends on its Common Stock depends on the Bank's ability to pay dividends to Bancorp. In accordance with OCC rules and regulations, the Bank may continue to pay dividends only if the total amount of all dividends that will be paid, including the proposed dividend, by the Bank in any calendar year does not exceed the total of the Bank's retained net income of that year to date, combined with the retained net income of the preceding two years, unless the proposed dividend is approved by the OCC. In addition, the OCC and/or the FDIC may impose further restrictions on dividends. Future dividends depend on many factors, including management's estimates of future earnings and Bancorp's need for capital.

Recent Sales of Unregistered Securities

On December 31, 2003, Bancorp issued 7,482 shares of its Common Stock upon the exercise of certain warrants that were granted by the Bank in 1994 in connection with its organization to persons who assisted the Bank in meeting its pre-opening expenses. The exercise price per share of these warrants is $6.00. The obligations under these warrants were assumed by Bancorp at the time the Bank became a wholly owned subsidiary of Bancorp.

The total amount received by Bancorp for these shares was $44,892. No

underwriter was used in connection with the sale of these 7,482 shares nor were any underwriting discounts or commissions paid. Bancorp claims an exemption from registration for the sale of these shares under Rule 504 of the Securities Act of 1933, on the basis that the aggregate exercise price for all of the warrants issued to individuals involved in the organization is less than $1,000,000.

Securities Authorized for Issuance under Equity Compensation Plans

The following table presents information as of December 31, 2003 for equity compensation plans maintained by Bancorp.

Equity Compensation Plan Information

	Number of Securities to be issued upon exercise of outstanding options, warrants rights	Weighted-average price of outstanding options, warrants and rights	Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	110,000	$10.13	-
Equity compensation plans not approved by security holders	-	-	-
Total	110,000	$10.13	-

Item 6. Management's Discussion and Analysis or Plan of Operation

Patriot National Bancorp, Inc
Financial Highlights

	2003	2002	2001
Operating Data			

Interest and dividend income	$ 15,214,702	$ 12,604,718	$ 13,722,943
Interest expense	5,588,255	4,764,693	6,866,960
Net interest income	9,626,447	7,840,025	6,855,983
Provision for loan losses	563,000	468,000	250,000
Noninterest income	4,813,740	4,113,820	3,509,955
Noninterest expense	11,659,467	9,812,838	8,675,551
Net income	1,340,720	1,052,007	876,387
Basic income per share	0.56	0.44	0.37
Diluted income per share	0.55	0.43	0.36
Dividends per share	0.115	0.095	0.060

Balance Sheet Data

Cash and due from banks	4,023,732	5,385,757	7,544,242
Federal funds sold	15,000,000	3,000,000	12,700,000
Short term investmEnts	10,430,939	3,348,968	6,788,569
Investment securities	92,330,533	61,720,716	35,816,880
Loans, net	214,420,528	170,794,939	135,680,036
Total assets	342,469,049	248,496,753	202,569,457
Total deposits	289,992,182	217,911,260	183,263,939
Total borrowings	31,301,385	10,292,675	839,280
Total shareholders' equity	18,779,913	18,544,955	17,406,016

	2000	1999
Operating Data		
Interest and dividend income	$14,694,135	$ 9,732,719
Interest expense	8,017,615	4,739,921
Net interest income	6,676,520	4,992,798
Provision for loan losses	325,900	553,000
Noninterest income	2,685,296	1,221,329
Noninterest expense	7,693,345	5,245,986
Net income	767,171	348,641
Basic income per share	0.34	0.17
Diluted income per share	0.33	0.16
Dividends per share	-	-

Balance Sheet Data

Cash and due from banks	3,656,071	2,685,031
Federal funds sold	29,500,000	18,900,000
Short term investmEnts	-	10,976,264
Investment securities	34,073,832	33,003,494
Loans, net	126,411,265	107,769,911

Total assets	197,628,127	177,194,697
Total deposits	179,666,098	162,746,354
Total borrowings	945,270	888,687
Total shareholders' equity	16,427,436	13,236,088

(a) Plan of Operation

Not applicable since Bancorp has had revenues from operations in each of the last two fiscal years.

(b) Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary

Bancorp, for the fourth consecutive year, reported record earnings, which were $1,341,000 ($0.56 basic income per share and $0.55 diluted income per share) for 2003 compared to $1,052,000 ($0.44 basic income per share and $0.43 diluted income per share) for 2002. Total assets also ended the year at a new record high of $342.5 million, an increase of $94.0 million from December 31, 2002.

Net interest income for the year ended December 31, 2003 increased $1.8 million or 22.8% to $9.6 million as compared to $7.8 million for the year ended December 31, 2002.

Total assets increased by 37.8% during the year as total loans increased from $170.8 million at December 31, 2002 to $214.4 million at December 31, 2003. The available for sale securities portfolio increased $30.0 million or 49.4% to $90.6 million from $60.6 million at December 31, 2002; this increase resulted from the investment of funds from the proceeds of the issuance of subordinated debentures at the end of the first quarter of 2003 and an interest rate leveraging strategy in which purchases of mortgage backed securities during the second quarter of 2003 were funded by Federal Home Loan Bank advances. Increases in commercial real estate and construction loans of $30.4 million and $17.9 million, respectively; and commercial and industrial loans of $2.5 million were partially offset by decreases in residential real estate and home equity loans of $5.2 million and $1.2 million, respectively. Loan growth was funded primarily through growth in total deposits. Deposits increased $72.1 million to $290.0 million at December 31, 2003; interest bearing deposits increased $67.1 million, or 34.9%, and non-interest bearing deposits increased $5.0 million or 19.4%. Borrowings increased $21.0 million due to the closing of the subordinated debt transaction and the interest rate leveraging strategy previously mentioned. The exercise of stock warrants combined with the increase in retained earnings from net income, net of dividend payments, partially offset by the decrease in other comprehensive income from unrealized losses on the available for sale securities portfolio, resulted in an increase of $235 thousand in shareholders' equity.

FINANCIAL CONDITION

Assets

Bancorp's total assets increased $94.0 million or 37.8% from $248.5 million at December 31, 2002 to $342.5 million at December 31, 2003. The

growth in total assets was funded primarily by deposit and borrowings growth of $72.1 million and $21.0 million, respectively, as well as net income after dividend payments.

Investments

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

	2003	2002	2001
U. S. Government Agency Obligations	$ 11,865,618	$ 9,129,414	-
Mortgage backed securities	66,696,465	38,461,159	10,243,418
Corporate bonds	-	383,797	11,880,156
Marketable equity securities	12,000,000	12,643,996	12,594,356
Federal Reserve Bank stock	691,150	481,050	481,050
Federal Home Loan Bank stock	1,077,300	621,300	617,900
Total Investments	$ 92,330,533	$ 61,720,716	$ 35,816,880

The available for sale portfolio increased $30.0 million to $90.6 million primarily due to purchases of U. S. Government Agency Obligations and agency mortgage backed securities. A portion of the increase in the mortgage backed securities portfolio was funded through an increase in borrowings as part of an interest rate leveraging strategy. The Bank is a member of the Federal Home Loan Bank of Boston which provides an additional source of liquidity.

The following table presents the maturity distribution of available for sale investment securities at December 31, 2003 and the weighted average yield of such securities. The weighted average yields were calculated on the amortized cost and effective yields to maturity of each security.

	One year or less	Over one through five years	Over five through ten years
U. S. Government agency obligations	$ -	$ 11,011,134	$ 1,006,977
Mortgage backed securities	-	-	-

Money market preferred equity securities	-	-	-
Total	$ -	$ 11,011,134	$ 1,006,977
Weighted average yield	-%	3.24%	4.38%

- continued -

	Over ten years	No maturity	Total	Weighted Average Yield
U.S. Government agency obligations	$ -	$ -	$ 12,018,111	3.34%
Mortgage backed securities	-	67,042,163	67,042,163	4.37%
Money market preferred equity securities	-	12,000,000	12,000,000	1.40%
Total	$ -	$ 79,042,163	$ 91,060,274	3.84%
Weighted average yield	-%	3.92%	3.84%	

The following table presents a summary of investments for any issuer that exceeds 10% of shareholders' equity at December 31, 2003.

	Amortized Cost	Fair Value
Available for sale securities:		
U.S. Government agency obligations	$ 12,018,111	$ 11,865,618
U.S. Government agency mortgage backed securities	67,042,163	66,696,465
Short term investments:		
Merrill Lynch Premier Institutional Fund	10,430,939	10,430,939

Loans

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

	2003	2002	2001
Real Estate			
Commercial	$ 96,339,220	$ 65,967,205	$ 60,481,789
Construction	57,122,445	39,208,651	26,215,265
Residential	21,772,759	27,012,024	7,501,504
Commercial	15,532,902	13,021,909	14,649,112
Consumer installment	1,861,924	1,757,321	1,231,672
Consumer home equity	25,607,775	26,812,092	27,770,723
Total Loans	218,237,025	173,779,202	137,850,065
Net deferred fees	(881,822)	(611,809)	(275,575)
Allowance for loan losses	(2,934,675)	(2,372,454)	(1,894,454)
Loans, net	$ 214,420,528	$170,794,939	$135,680,036

Bancorp's net loan portfolio increased $43.6 million from $170.8 million at December 31, 2002 to $214.4 million at December 31, 2003. Loan growth was funded through an increase in total deposits. At December 31, 2003, the net loan to deposit ratio was 73.9% and the net loan to asset ratio was 62.6%. At December 31, 2002, the net loan to deposit ratio was 78.4%, and the net loan to asset ratio was 68.7%.

During an historic environment of lower interest rates, loan activity continued to remain strong and the volume of new loans far exceeded principal reductions and payoffs.

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, 2003, 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	$ 10,262	$ 45,387	$ 40,690	$ 96,339
Construction loans	35,590	21,532	-	57,122
Residential real estate	4,540	1,193	16,040	21,773
Commercial loans	9,333	5,114	1,086	15,533
Consumer installment	1,614	248	-	1,862
Consumer home equity	66	952	24,590	25,608
Total	$ 61,405	$ 74,426	$ 82,406	$ 218,237

Fixed rate loans	$ 6,701	$ 28,728	$ 2,080	$ 37,509
Variable rate loans	54,704	45,698	80,326	180,728
Total	$ 61,405	$ 74,426	$ 82,406	$ 218,237

The following table presents loan concentrations at December 31, 2003:

Category	Percentage	Dollars Outstanding
		(thousands of dollars)
Construction	26.2%	$ 57,122
Commercial Retail	8.5%	18,579
Commercial Residential	4.6%	10,014
Restaurant	2.2%	4,696
Limousine Service	1.4%	3,094

Critical Accounting Policies

In the ordinary course of business, Bancorp has made a number of estimates and assumptions relating to reporting results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes the following discussion addresses Bancorp's only critical accounting policy, which is the policy that is most important to the presentation of Bancorp's financial results and requires management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Allowance for Loan Losses

The allowance for loan losses, a material estimate susceptible to significant change in the near-term, is established as losses are estimated to have occurred through a provision for loan losses charged against operations and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Management's judgment in determining the adequacy of the allowance is inherently subjective and is based on the evaluation of individual loans, the known and inherent risk characteristics and size of the loan portfolios, the assessment of current economic and real estate market conditions,

estimates of the current value of underlying collateral, past loan loss experience, review of regulatory authority examination reports and evaluations of specific loans and other relevant factors. The allowance for loan losses is maintained at a level that management believes is adequate to absorb probable losses on existing loans based on an evaluation of the collectibility of loans and prior loan loss experience.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are considered impaired. A risk rating system is utilized to measure the adequacy of the general component of the allowance for loan losses. Under this system, each loan is assigned a risk rating between one and nine, which has a corresponding loan loss factor assigned, 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 by the originating loan officer or loan committee at the initiation of the transactions and are reviewed and changed, when necessary during the life of the loan. Loan loss reserve factors are multiplied against the balances in each risk rating category to arrive at the appropriate level for the allowance for loan losses. Loans assigned a risk rating of "six" or above are monitored more closely by the credit administration officers. The unallocated portion of the allowance reflects management's estimate of probable but undetected losses inherent in the portfolio; such estimates are influenced by uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, 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 and reviewed by the board of directors and loan committee on a monthly basis, subject to oversight by the board of directors through its members who serve on the loan committee. The methodology for determining the adequacy of the allowance for loan losses is consistently applied; however, 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.

Based upon this evaluation, management believes the allowance for loan losses of $2.9 million, at December 31, 2003, which represents 1.35% of gross loans outstanding, is adequate, under prevailing economic conditions, to absorb losses on existing loans. At December 31, 2002, the allowance for loan losses was $2.4 million or 1.37% of gross loans outstanding.

The accrual of interest income on loans is discontinued whenever reasonable doubt exists as to its collectibility and generally is discontinued when loans are past due 90 days as to either principal or interest. When the accrual of interest income is discontinued, all previously accrued and uncollected interest is reversed against interest income. The accrual of interest on loans past due 90 days or more, including impaired loans, may be continued if the loan is well secured, and it is believed all principal and accrued interest income due on the loan will be realized, and the loan is in the process of collection. A non-accrual loan is restored to an accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt.

Management considers all non-accrual loans and restructured loans to be impaired. In most cases, loan payments that are past due less than 90 days, based on contractual terms, are considered minor collection delays and the related loans are not considered to be impaired. Bancorp

considers consumer installment loans to be pools of smaller balance homogeneous loans, which are collectively evaluated for impairment.

Analysis of Allowance for Loan Losses

	2003	2002	2001	2000	1999
	(thousands of dollars)				
Balance at beginning of period	$ 2,372	$ 1,894	$ 1,645	$ 1,360	$ 785
Charge-offs	(1)	-	(2)	(44)	(19)
Recoveries	-	10	1	3	41
Net recoveries (charge-offs)	(1)	10	(1)	(41)	22
Additions charged to operations	563	468	250	326	553
Balance at end of period	$ 2,934	$ 2,372	$ 1,894	$ 1,645	$ 1,360
Ratio of net recoveries (charge-offs) during the period to average loans outstanding during the period	(0.00%)	0.01%	(0.00%)	(0.03%)	0.03%

Allocation of the Allowance for Loan Losses

Balance at end of each period applicable to	Amounts (thousands of dollars) 2003	2002	2001	2000	1999
Real Estate:					
Commercial	$ 1,183	$ 893	$ 833	$ 700	$ 622
Construction	972	726	348	270	154
Residential	230	276	153	34	76
Commercial	155	129	142	185	79
Consumer installment	12	11	14	12	12
Consumer home equity	285	283	296	312	267
Unallocated	97	54	108	132	150
Total	$ 2,934	$ 2,372	$ 1,894	$ 1,645	$ 1,360

- continued -

Balance at end of each period applicable to	Percent of loans in each category to total loans 2003	2002	2001	2000	1999
Real Estate:					
Commercial	44.15%	37.97%	43.88%	44.67%	49.65%
Construction	26.17%	22.56%	19.02%	17.91%	12.69%
Residential	9.98%	15.54%	5.44%	3.93%	6.22%
Commercial	7.12%	7.49%	10.63%	10.01%	10.14%
Consumer installment	0.85%	1.01%	0.89%	1.29%	1.45%
Consumer home equity	11.73%	15.43%	20.14%	22.19%	19.85%
Unallocated	N/A	N/A	N/A	N/A	N/A
Total	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.

	2003	2002	2001	2000	1999
	(thousands of dollars)				
Loans delinquent over 90 days still accruing	$ 165	$ 1,172	$ 1,300	$ 507	$ 475
Non-accruing loans	150	201	1,654	1,759	91
	$ 315	$ 1,373	$ 2,954	$ 2,266	$ 566
% of Total Loans	0.14%	0.79%	2.14%	1.77%	0.52%
% of Total Assets	0.09%	0.56%	1.46%	1.15%	0.32%
Additional income on non-accrual loans if recognized on an accrual basis	$ 18	$ 67	$ 159	$ 115	$ 9

There were no loans in either 2003 or 2002 considered as "troubled debt restructurings."

Potential Problem Loans

The $150,000 of non-accruing loans at December 31, 2003 is comprised of one loan that is well collateralized and in process of collection.

At December 31, 2003, Bancorp had no loans other than those described above, as to which management has significant doubts as to the ability of the borrower to comply with the present repayment terms.

Deposits

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

	2003	2002	2001
Non-interest bearing	$ 30,477,295	$ 25,519,809	$ 16,961,636
Interest bearing			
Time certificates, less than $100,000	92,574,784	57,202,908	53,081,137
Time certificates, $100,000 or more	50,793,863	28,681,345	25,376,629
Money market	69,503,859	56,973,507	10,255,056
Savings	23,792,811	26,847,780	31,258,415
NOW	22,849,570	22,685,911	46,331,066
Total interest bearing	259,514,887	192,391,451	166,302,303
Total deposits	$ 289,992,182	$ 217,911,260	$ 183,263,939

Total deposits increased $72.1 million to $290.0 million at December 31, 2003. Non-interest bearing deposits increased $5.0 million to $30.5 million at December 31, 2003. Interest bearing deposits increased $67.1 million. During 2003, the Bank established three new branch banking offices; these new offices attracted $36.5 million or 50.6% of the annual growth in deposits. The new branch offices' grand opening promotional campaigns were also a contributing factor to the growth of deposits in existing branches. Increases in certificates of deposit and money market fund products of $57.5 million and $12.5 million, respectively, were partially offset by a decrease in savings accounts of $3.1 million. The outflow of funds from savings accounts is due in part to a shift of funds into the premium money market fund products and longer term certificates of deposit. The Bank continues to offer attractive interest rates in the very competitive Fairfield County marketplace in order to attract additional deposits to fund loan growth.

As of December 31, 2003, the Bank's maturities of time deposits were:

	$100,000 or greater	Less than $100,000	Totals
(thousands of dollars)			
Three months or less	$ 6,263	$ 14,085	$ 20,348
Three to six months	3,039	8,248	11,287
Six months to one year	9,240	17,905	27,145

Over one year	32,252	52,336	84,588
Total	$ 50,794	$ 92,574	$ 143,368

Borrowings

Borrowings increased $21.0 million net of principal repayments on capital leases and collateralized borrowings.

Borrowings include short term securities sold under agreements to repurchase, Federal Home Loan Bank Advances, junior subordinated debentures, a capital lease and a collateralized borrowing.

During 2003, the Bank entered into an additional $13 million in borrowing transactions with the Federal Home Loan Bank; $10 million was used as part of an interest rate leveraging strategy; the additional $3 million was used to fund loan demand.

At the end of the first quarter of 2003, Bancorp created a statutory trust of which Bancorp owns 100% of the capital stock. The trust issued $8.0 million in variable rate preferred securities to investors with a current rate of 4.32%; the rate adjusts quarterly based on changes to LIBOR. The duration of the trust is 30 years with early redemption at par at the Company's option after five years, or earlier in the event of certain regulatory or tax changes. The proceeds from the issuance of the preferred securities were used to purchase junior subordinated debt from Bancorp which bear interest at the same rate as the trust preferred securities. 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. The securities qualify for up to 25% of Bancorp's Tier 1 Capital with the remainder qualifying as Tier 2 Capital.

The following table sets forth short term borrowing amounts along with the respective interest rates and maturities:

Securities sold under repurchase agreements:

Amount	Maturity	Rate	Average amount outstanding
$ 5,700,000	05/23/2004	1.250%	$ 5,700,000

Federal Home Loan Bank advances:

Amount	Maturity	Rate	Average amount outstanding
$ 6,000,000	02/23/2004	1.270%	$ 2,169,863
3,000,000	04/29/2004	1.490%	2,021,918

$ 9,000,000	1.343%	$ 4,191,781

The amounts of short term borrowings outstanding at December 31, 2003 are representative of the maximum amounts of short term borrowings outstanding at any month end during 2003.

Other

The increase in premises and equipment is due primarily to the capitalized costs associated with leasehold improvements made to and providing equipment for three new branch offices.

The increase in accrued interest receivable is due to higher outstanding balances in investment securities and loans at December 31, 2003 as compared to those in effect at December 31, 2002.

The increase in accrued expenses and other liabilities is due primarily to increases in accruals for incentive compensation arrangements and higher balances at year end for other accrued expenses.

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 Shareholders' Equity
Interest Rates and Interest Differential
and Rate Volume Variance Analysis
(thousands of dollars) (1)

	2003		
	Average Balance	Interest Income/ Expense	Average Rate
Interest earning assets:			
Loans (2)	$ 193,990	$ 12,782	6.59%
Short term investments	7,124	79	1.11%
Investments (4)	72,250	2,256	3.12%
Federal funds sold	9,147	97	1.06%
Total interest earning assets	282,511	15,214	5.39%
Cash and due from banks	4,001		
Premises and equipment, net	1,083		
Allowance for loan losses	(2,652)		
Other	5,798		
Total Assets	$ 290,741		

Interest bearing liabilities:			
Time certificates	$ 110,129	$ 3,512	3.19%
Savings accounts	24,824	337	1.36%
Money market accounts	62,217	863	1.39%
NOW accounts	22,627	149	0.66%
Repurchase agreements	5,700	91	1.60%
FHLB advances	11,671	327	2.80%
Subordinated debt	6,159	271	4.40%
Other borrowings	471	38	8.07%
Total interest bearing liabilities	243,798	5,588	2.29%
Demand deposits	25,892		
Accrued expenses and other liabilities	2,140		
Shareholders' equity	18,911		
Total liabilities and equity	$ 290,741		
Net interest income		$ 9,626	
Interest margin			3.41%
Interest Spread			3.10%

(1) The rate volume analysis reflects the changes in net interest income arising from changes in interest rates and from asset and liability volume, including mix. The change in interest attributable to volume includes changes in interest attributable to mix.
(2) Includes non-accruing loans.
(3) Favorable/ (unfavorable) fluctuations.
(4) Yields are calculated at historical cost and excludes the effects of unrealized gain or loss on available for sale securities.

- TABLE CONTINUES -

Distribution of Assets, Liabilities and Shareholders' Equity
Interest Rates and Interest Differential
and Rate Volume Variance Analysis
(thousands of dollars) (1)

	2002		
	Average Balance	Interest Income/ Expense	Average Rate
Interest earning assets:			
Loans (2)	$ 145,162	$ 10,135	6.98%
Short term investments	7,443	138	1.85%
Investments (4)	51,572	2,177	4.22%

Federal funds sold	9,404	155	1.65%
Total interest earning assets	213,581	12,605	5.90%
Cash and due from banks	5,961		
Premises and equipment, net	924		
Allowance for loan losses	(2,061)		
Other	4,088		
Total Assets	$ 222,493		
Interest bearing liabilities:			
Time certificates	$ 79,691	$ 2,827	3.55%
Savings accounts	30,191	563	1.86%
Money market accounts	37,394	786	2.10%
NOW accounts	29,728	322	1.08%
Repurchase agreements	3,482	79	2.27%
FHLB advances	2,570	125	4.86%
Subordinated debt	-	-	-
Other borrowings	712	63	8.85%
Total interest bearing liabilities	183,768	4,765	2.59%
Demand deposits	19,522		
Accrued expenses and other liabilities	1,114		
Shareholders' equity	18,089		
Total liabilities and equity	$ 222,493		
Net interest income		$ 7,840	
Interest margin			3.67%
Interest Spread			3.31%

(1) The rate volume analysis reflects the changes in net interest income arising from changes in interest rates and from asset and liability volume, including mix. The change in interest attributable to volume includes changes in interest attributable to mix.
(2) Includes non-accruing loans.
(3) Favorable/ (unfavorable) fluctuations.
(4) Yields are calculated at historical cost and excludes the effects of unrealized gain or loss on available for sale securities.

- TABLE CONTINUES -

Distribution of Assets, Liabilities and Shareholders' Equity
Interest Rates and Interest Differential
and Rate Volume Variance Analysis
(thousands of dollars) (1)

	Fluctuations in Interest Income/Expense(3) Due to change in:		
	Volume	Rate	Total
Interest earning assets:			
Loans (2)	$ 3,241	$ (594)	$ 2,647
Short term investments	(6)	(53)	(59)
Investments (4)	735	(656)	79
Federal funds sold	(4)	(54)	(58)
Total interest earning assets	3,966	(1,357)	2,609
Interest bearing liabilities:			
Time certificates	$ 994	$ (309)	$ 685
Savings accounts	(89)	(137)	(226)
Money market accounts	404	(327)	77
NOW accounts	(66)	(107)	(173)
Repurchase agreements	40	(28)	12
FHLB advances	275	(73)	202
Subordinated debt	271	-	271
Other borrowings	(19)	(6)	(25)
Total interest bearing liabilities	1,810	(987)	823
Net interest income	$ 2,156	$ (370)	$ 1,786

(1) The rate volume analysis reflects the changes in net interest income arising from changes in interest rates and from asset and liability volume, including mix. The change in interest attributable to volume includes changes in interest attributable to mix.
(2) Includes non-accruing loans.
(3) Favorable/ (unfavorable) fluctuations.
(4) Yields are calculated at historical cost and excludes the effects of unrealized gain or loss on available for sale securities.

RESULTS OF OPERATIONS

For the year ended December 31, 2003, Bancorp earned $1,341,000 ($0.56 basic income per share and $0.55 diluted income per share) an increase of 27.5% as compared to 2002 when Bancorp earned $1,052,000 ($0.44 basic income per share and $0.43 diluted income per share). Interest income increased $2.6 million to $15.2 million in 2003 as compared to 2002 when interest income was $12.6 million. This increase is due mainly to the growth in the loan and the available for sales securities portfolios.

Noninterest income increased $700,000 or 17.0% to $4.8 million for 2003.

A favorable interest rate environment for borrowers and an increase in the volume of loan refinancings resulted in an increase in mortgage brokerage and referral fees and loan processing fees of $520,000 as compared to the previous year. The sale of investment securities resulted in a gain of $308,000 for the year ended December 31, 2003 as compared to loss on the sale of investment securities of $26,000 for the year ended December 31, 2002.

Interest expense increased $824,000 or 17.3% to $5.6 million in 2003 compared to $4.8 million in 2002. The increase in interest expense is due to the increase in total deposits and Federal Home Loan Bank borrowings and to the issuance of subordinated debentures.

Noninterest expenses for 2003 totaled $11.6 million which represents an increase of $1.8 million or 18.8% over the prior year. The higher operating costs were the result of staff additions, most of which were made for the three new branch offices; the new branch offices also contributed to the increase in occupancy expenses of $307,000 over last year.

The following are measurements relating to Bancorp's earnings.

	2003	2002	2001
Return on average assets	.46%	.47%	.46%
Return on average equity	7.09%	5.82%	5.10%
Dividend payout ratio	20.54%	21.59%	16.21%
Average equity to average assets	6.50%	8.13%	9.05%
Basic income per share	$0.56	$0.44	$0.37
Diluted income per share	$0.55	$0.43	$0.36

Interest income and expense

Bancorp's net interest income increased $1.8 million or 22.8%, to $9.6 million in 2003 from $7.8 million in 2002. An increase in average earning assets of $68.9 million, or 32.3% combined with a slightly declining rate environment increased Bancorp's interest income 20.7% from $12.6 million in 2002 to $15.2 million in 2003. Average loans outstanding increased $48.8 million or 33.6% led by growth in construction and real estate loans, which reflects the continued strength of the local real estate market. An increase in average investments resulted in an increase in interest income on available for sale securities of $20,000 despite a reduction in the investment yield. Low short-term interest rates resulted in a decrease of $58,000 in interest earned on Federal funds sold. Total average interest bearing liabilities increased by $60.0 million; average certificates of deposits increased by $30.4 million; average money market deposits increased $24.8 million; average NOW accounts and average savings accounts decreased $7.1 million and $5.4 million, respectively; average FHLB advances increased $9.1 million; the issuance of subordinated debentures resulted in an increase in average interest bearing liabilities of $6.2 million. The slightly declining rate environment, mentioned earlier, is also responsible for the general rate decreases across interest bearing liabilities. Interest expense increased from $4.8 million in 2002 to

$5.6 million in 2003. Interest expense on certificates of deposit increased $685,000 as a result of higher average outstanding balances partially offset by a decrease in the cost of funds for that portfolio from 3.55% in 2002 to 3.19% in 2003.

Noninterest income

Noninterest income increased $700,000 from $4.1 million in 2002 to $4.8 million in 2003. The increase is due primarily to the continued favorable interest rate environment for borrowers and an increase in the volume of residential mortgage loan originations which resulted in an increase of $520,000 in mortgage brokerage and loan processing fees. Gains from the sale of investment securities for the year ended December 31, 2003 were $308,000 as compared to losses on the sale of investment securities of $26,000 for the year ended December 31, 2002. Included in the gains for 2003 is $117,000 attributable to an investment security for which Bancorp recorded a write-down in 2001 made for the impairment of a debt security due to the deterioration in the financial condition of the issuer; in March 2003, Bancorp received the proceeds from a tender offer made by the issuer at a price of 100% of par for the above security under a comprehensive refinancing plan. Increases in accounts and transaction volumes resulted in an increase in fees and service charges of $66,000 from $312,000 for the year ended December 31, 2002 to $378,000 for the year ended December 31, 2003. Included in the results for 2002 is a gain of $249,000 resulting from the sale of a non-accrual loan.

Noninterest expenses

Noninterest expenses increased $1.8 million in 2003 from $9.8 million in 2002 to $11.6 million in 2003. Salaries and benefits increased $1.2 million due to staff additions made primarily for the opening of three new branch offices and to increases in performance related bonus and sales incentive compensation. Higher staffing levels and incentive compensation also resulted in higher payroll taxes and employee benefit costs. Occupancy and equipment expenses increased $307,000 from $1.0 million 2002 to $1.3 million in 2003; this increase is due primarily to the opening of three new branch offices in 2003 as well as to increases in maintenance and repairs. Loan administration and processing expenses increased $114,000 from $290,000 for the year ended December 31, 2002 to $404,000 for the year ended December 31, 2003; this increase is related to the increase in volume of residential mortgage loans and the resultant increases in mortgage brokerage and loan processing fees.

The provision for income taxes of $877,000 in 2003 and $621,000 for 2002 represents the tax expense recognized for both federal and state income tax. The effective tax rates for 2003 and 2002 are 39.5% and 37.1%, respectively. Fluctuations in effective tax rates are due to the change in pre-tax income as well as to an increase in the Connecticut tax rate.

Management believes that additional branch offices will contribute to the future growth and earnings of Bancorp. While the opening of these new branches will result in increased operating expenses, the openings will be strategically planned to maintain profitable operations.

Management regularly reviews loan and deposit rates and attempts to price Bancorp's products competitively. With the assistance of its investment advisors, 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.

LIQUIDITY

Bancorp's liquidity position was 35.1% and 29.1% at December 31, 2003 and 2002, 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, available-for-sale securities and held-to-maturity securities maturing in one year or less. 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.

CAPITAL

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

	December 31,		
	2003	2002	2001
Total Risk-Based Capital	11.67%	10.36%	10.69%
Tier 1 Risk-Based Capital	10.47%	9.11%	9.57%
Leverage Capital	7.85%	6.98%	8.11%

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

	December 31,		
	2003	2002	2001
Total Risk-Based Capital	11.87%	10.39%	10.74%
Tier 1 Risk-Based Capital	10.00%	9.13%	9.61%
Leverage Capital	7.51%	6.99%	8.15%

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 "well capitalized" under applicable regulations. To be considered "well-capitalized," an institution must generally have a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%.

The increase in capital ratios is due primarily to the formation, in the

first quarter of 2003, of a statutory trust as well as to the increase in retained earnings net of dividends paid.

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.

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. Customers may withdraw funds from their accounts at any time and deposit balances may therefore 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 to lock in a desirable spread.

The exposure to interest rate risk is monitored by the Asset and Liability Management Committee ("ALCO") consisting of senior management personnel. ALCO reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk. ALCO reports to the Board of Directors on a monthly basis regarding its activities.

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.

"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 this "Management's Discussion and Analysis or Plan 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 and the impact of federal legislation, (6) the ability of competitors which are larger than Bancorp to provide products and services which it is impracticable for Bancorp to provide, (7) the effect of Bancorp's opening of branches, and (8) the effect of any decision by Bancorp to engage in any business not historically permitted to it. Other such factors may be described in Bancorp's 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.

Item 7. Financial Statements

The consolidated balance sheets of Bancorp as of December 31, 2003 and December 31, 2002 and the related consolidated statements of income, shareholders' equity and cash flows for the years ended December 31, 2003 and December 31, 2002, together with the report thereon of McGladrey & Pullen, LLP dated February 24, 2004, are included as part of this Form 10-KSB in the "Financial Report" following page 31 hereof.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 8A. 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, 2003 that has materially affected, or is reasonably likely to materially affect, Bancorp's internal control over financial reporting

PART III

Item 9. Directors and Executive Officers of the Registrant

The information required by Items 401 and 405 of Regulation S-B is incorporated into this Form 10-KSB by reference to Bancorp's definitive proxy statement (the "Definitive Proxy Statement") for its 2004 Annual Meeting of Shareholders.

Item 10. Executive Compensation

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

Item 11. Security Ownership of Certain Beneficial Owners and Management

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

Item 12. Certain Relationships and Related Transactions

The information required by Item 404 of Regulation S-B is incorporated into this Form 10-KSB by reference to the Definitive Proxy Statement.

Item 13. Exhibits and Reports on Form 8-K

(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)).
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(ii)	By-laws of Bancorp (incorporated by reference to Exhibit 3(ii) to Bancorp's Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
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)).

10(a)(3)	Employment Agreement, dated as of October 23, 2000, as amended by a First Amendment, dated as of March 21, 2001, among the Bank, Bancorp and Charles F. Howell (incorporated by reference to Exhibit 10(a)(3) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2000 (Commission File No. 000-29599)).
10(a)(4)	Second Amendment to Employment Agreement among Patriot National Bank, Bancorp and Charles F. Howell, dated May 9, 2002 (incorporated by reference to Exhibit 10(a)(4) to Form 10-KSB for the year ended December 31, 2002 (Commission File No. 000-29599)).
10(a)(5)	Employment Agreement dated as of November 3, 2003 among Patriot National Bank, Bancorp and Robert F. O'Connell.
10(a)(6)	Change of Control Agreement, dated as of November 3, 2003 between Robert F. O'Connell and Patriot National Bank.
10(a)(7)	Employment Agreement dated as of January 1, 2004 between Patriot National Bank and Todd Brown.
10(a)(8)	Employment Agreement dated as of January 1, 2004 between Patriot National Bank and Marcus Zavattaro.
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. 000-29599)).
10(a)(9)	License agreement dated July 1, 2003 between Patriot National Bank and L. Morris Glucksman.
10(a)(10)	Employment Agreement dated as of October 23, 2003 among the Bank, Bancorp and Charles F. Howell.
21	Subsidiaries of Bancorp (incorporated by reference to Exhibit 21 to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 1999 (Commission File No. 000-29599)).
23	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

(b) Reports on Form 8-K

During the quarter ended December 31, 2003, Bancorp filed one current Report of Form 8-K dated October 28, 2003 (filed October 29, 2003) responding to Items 7 and 12 and relating to a press release announcing certain information concerning Bancorp's results of operations for the quarter and nine months ended September 30, 2003 and its financial condition at September 30, 2003.

14. Principal Accountant Fees and Services

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

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 25, 2004

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	March 25, 2004
Angelo De Caro, Chairman, Chief Executive Officer and Director	Date
/s/ Robert F. O'Connell	March 24, 2004
Robert F. O'Connell Senior Executive Vice President, Chief Financial Officer and Director	Date
/s/ Michael A. Capodanno	March 24, 2004
Michael A. Capodanno Senior Vice President & Controller	Date
/s/ John J. Ferguson	March 24, 2004
John J. Ferguson Director	Date

/s/ John A. Geoghegan ------------------------------ John A. Geoghegan Director | March 24, 2004 ---------------- Date

Form 10 KSB - Signatures continued

/s/ L. Morris Glucksman	March 24, 2004
L. Morris Glucksman	Date
Director	
/s/ Charles F. Howell	March 24, 2004
Charles F. Howell	Date
Director	
/s/ Michael Intrieri	March 24, 2004
Michael Intrieri	Date
Director	
Richard Naclerio	
	Date
Director	
/s/ Paul Settelmeyer	March 24, 2004
Paul Settelmeyer	Date
Director	
/s/ Philip Wolford	March 24, 2004
Philip Wolford	Date
Director	

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

FINANCIAL REPORT
December 31, 2003 and 2002

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheets of Patriot National Bancorp, Inc. and Subsidiary (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/McGladrey & Pullen, LLP

New Haven, Connecticut
February 24, 2004

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2003 and 2002

	2003	2002
ASSETS		
Cash and due from banks (Note 2)	$ 4,023,732	$ 5,385,757
Federal funds sold	15,000,000	3,000,000
Short-term investments	10,430,939	3,348,968
Cash and cash equivalents	29,454,671	11,734,725
Available for sale securities (at fair value) (Note 3)	90,562,083	60,618,366
Federal Reserve Bank stock	691,150	481,050
Federal Home Loan Bank stock (Note 7)	1,077,300	621,300
Loans receivable (net of allowance for loan losses: 2003 $2,934,675 2002 $2,372,454) (Note 4)	214,420,528	170,794,939
Accrued interest receivable	1,470,622	1,311,453
Premises and equipment, net (Notes 5 and 8)	1,421,098	789,197
Deferred tax asset (Note 9)	1,524,125	754,696
Goodwill (Note 10)	930,091	930,091
Other assets (Note 7)	917,381	460,936
Total assets	$ 342,469,049	$ 248,496,753
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Note 6):		
Noninterest bearing deposits	$ 30,477,295	$ 25,519,809
Interest bearing deposits	259,514,887	192,391,451
Total deposits	289,992,182	217,911,260
Repurchase agreements	5,700,000	5,700,000
Federal Home Loan Bank borrowings (Note 7)	17,000,000	4,000,000
Subordinated debt (Note 7)	8,248,000	-
Capital lease obligation (Note 8)	103,941	243,231
Collateralized borrowings	249,444	349,444

	2003	2002
Accrued expenses and other liabilities	2,395,569	1,747,863
Total liabilities	323,689,136	229,951,798
Commitments and Contingencies (Notes 7, 8, 11 and 13)		
Shareholders' equity (Notes 11 and 14)		
Common stock, $2 par value: 5,333,333 shares authorized; shares issued and outstanding: 2003 2,408,607; 2002 2,400,525	4,817,214	4,801,050
Additional paid-in capital	11,519,037	11,484,649
Retained earnings	2,752,541	1,688,158
Accumulated other comprehensive income - net unrealized (loss) gain on available for sale securities	(308,879)	571,098
Total shareholders' equity	18,779,913	18,544,955
Total liabilities and shareholders' equity	$ 342,469,049	$ 248,496,753

See Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2003 and 2002

	2003	2002
Interest and Dividend Income		
Interest and fees on loans	$ 12,782,457	$ 10,134,768
Interest and dividends on investment securities	2,335,552	2,315,412
Interest on Federal funds sold	96,693	154,538
Total interest and dividend income	15,214,702	12,604,718
Interest Expense		
Interest on deposits (Note 6)	4,861,152	4,497,409
Interest on Federal Home Loan Bank borrowings	327,020	124,489
Interest on subordinated debt	270,610	-
Interest on other borrowings	129,473	142,795
Total interest expense	5,588,255	4,764,693
Net interest income	9,626,447	7,840,025

Provision for Loan Losses (Note 4)	563,000	468,000
Net interest income after provision for loan losses	9,063,447	7,372,025
Noninterest Income		
Mortgage brokerage referral fees	3,356,470	2,936,735
Loan origination and processing fees	668,410	567,686
Fees and service charges	378,415	311,729
Gains and origination fees from loans sold	-	249,365
Gain (loss) on sale of investment securities	307,739	(25,733)
Other income	102,706	74,038
Total noninterest income	4,813,740	4,113,820
Noninterest Expenses		
Salaries and benefits (Note 12)	7,574,532	6,418,855
Occupancy and equipment expense, net	1,311,038	1,004,297
Data processing and other outside services	690,168	623,877
Professional services	301,016	302,000
Advertising and promotional expenses	332,852	265,845
Loan administration and processing expenses	404,231	290,426
Other operating expenses	1,045,630	907,538
Total noninterest expenses	11,659,467	9,812,838
Income before income taxes	2,217,720	1,673,007
Provision for Income Taxes (Note 9)	877,000	621,000
Net income	$ 1,340,720	$ 1,052,007
Basic income per share (Note 11)	$ 0.56	$ 0.44
Diluted income per share (Note 11)	$ 0.55	$ 0.43
Dividends per share	$ 0.115	$ 0.095

See Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2003 and 2002

	Number of Shares	Common Stock	Additional Paid-in Capital
Balance at December 31, 2001	2,400,525	$4,801,050	$11,484,649
Comprehensive income			
Net income	-	-	-
Unrealized holding gain on available for sale securities, net of taxes (Note 16)	-	-	-
Total comprehensive income			
Dividends	-	-	-
Balance at December 31, 2002	2,400,525	4,801,050	11,484,649
Comprehensive income			
Net income	-	-	-
Unrealized holding loss on available for sale securities, net of taxes (Note 16)	-	-	-
Total comprehensive income			
Dividends	-	-	-
Issuance of capital stock	8,082	16,164	34,388
Balance, December 31, 2003	2,408,607	$4,817,214	$11,519,037

See Notes to Consolidated Financial Statements.

- TABLE CONTINUES -

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2001	$864,202	$256,115	$17,406,016
Comprehensive income			
Net income	1,052,007	-	1,052,007
Unrealized holding gain on available for sale securities, net of taxes (Note 16)		314,983	314,983
Total comprehensive income			1,366,990
Dividends	(228,051)	-	(228,051)

Balance at December 31, 2002	1,688,158	571,098	18,544,955
Comprehensive income			
Net income	1,340,720	-	1,340,720
Unrealized holding loss on available for sale securities, net of taxes (Note 16)		(879,977)	(879,977)
Total comprehensive income			460,743
Dividends	(276,337)	-	(276,337)
Issuance of capital stock	-	-	50,552
Balance, December 31, 2003	$2,752,541	$(308,879)	$18,779,913

See Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2003 and 2002

	2003	2002
Cash Flows from Operating Activities		
Net Income	$ 1,340,720	$ 1,052,007
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion of investment premiums and discounts, net	593,490	138,158
Originations of loans held for sale	-	208,000
Proceeds from sales of loans held for sale	-	(208,000)
Gains on sales of loans	-	(249,365)
Provision for loan losses	563,000	468,000
(Gain) loss on sales of investment securities	(307,739)	25,733
Depreciation and amortization of premises and equipment	417,377	405,040
Loss on disposal of bank premises and equipment	2,037	-
Deferred income taxes	(230,089)	(269,753)
Change in assets and liabilities:		
Increase in deferred loan fees	270,013	336,234
Increase in accrued interest receivable	(159,169)	(232,003)
Decrease (increase) in other assets	31,555	(195,471)

Increase in accrued expenses and other liabilities	635,461	675,637
Net cash provided by operating activities	3,156,656	2,154,217
Cash Flows from Investing Activities		
Purchases of available for sale securities	(71,907,123)	(55,062,998)
Proceeds from sales of available for sale securities	7,094,321	11,375,386
Proceeds from maturities of available for sale securities	8,200,000	7,000,000
Principal repayments on available for sale securities	24,964,017	11,115,621
Purchase of Federal Reserve Bank stock	(210,100)	-
Purchase of Federal Home Loan Bank stock	(456,000)	(3,400)
Proceeds from sale of loan receivable	-	1,549,365
Net increase in loans	(44,458,602)	(37,219,137)
Purchases of premises and equipment	(1,058,215)	(91,809)
Proceeds from sale of bank premises and equipment	6,900	-
Investment in trust (Note 7)	(248,000)	-
Net cash used in investing activities	(78,072,802)	(61,336,972)
Cash Flows from Financing Activities		
Net increase in demand, savings and money market deposits	14,596,528	27,220,834
Net increase in time certificates of deposit	57,484,394	7,426,487
Increase in securities sold under repurchase agreements	-	5,700,000
Proceeds from FHLB borrowings	16,000,000	4,000,000
Principal repayments of FHLB borrowings	(3,000,000)	-
Proceeds from issuance of subordinated debt	8,248,000	-
Debt issuance costs	(240,000)	-
Principal payments on capital lease obligation	(139,290)	(121,605)
Decrease in collateralized borrowings	(100,000)	(125,000)
Proceeds from issuance of common stock	50,552	-
Dividends paid on common stock	(264,092)	(216,047)
Net cash provided by financing activities	92,636,092	43,884,669
Net increase (decrease) in cash and cash equivalents	17,719,946	(15,298,086)
Cash and cash equivalents		
Beginning	11,734,725	27,032,811
Ending	$ 29,454,671	$11,734,725

Supplemental Disclosures of Cash Flow Information

Cash paid for:

Interest	$ 5,569,011	$ 4,782,645
Income taxes	$ 1,102,971	$ 808,809
Supplemental Disclosure of Noncash Investing and Financing Activities		
Unrealized holding gains on available for sale securities arising during the period	$ (1,419,317)	$ 492,336
Accrued dividends declared on common stock	$ 72,258	$ 60,013

See Notes to Consolidated Financial Statements.

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, and six branch offices in Fairfield County, Connecticut. The Bank's customers are concentrated in Fairfield County, Connecticut and Westchester County, New York. The Bank also conducts mortgage brokerage operations in Connecticut and New York through its mortgage brokerage division, Pinnacle Financial.

On March 11, 2003, the Company formed Patriot National Statutory Trust I 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.

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

Significant group concentrations of credit risk

Most of the Company's activities are with customers located within Fairfield County, Connecticut and Westchester County, 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.

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 (currently inactive); 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 allowance for loan losses and the evaluation of goodwill for impairment.

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 investment represents 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 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 terms of the securities. In estimating other-than-temporary impairment losses, which are charged to earnings, management considers (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 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 at 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 receivable are stated at their current unpaid principal balances and are net of the allowance for loan losses and net deferred loan origination fees. The Company has the ability and intent to hold its loans for the foreseeable future or until maturity or payoff.

A loan is classified as a restructured loan when certain concessions have been made to the original contractual terms, such as reductions in interest rates or deferral of interest or principal payments, due to the borrower's financial condition.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are recorded as adjustments to the allowance for loan losses. A loan is impaired when it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement.

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

Allowance for loan losses

The allowance for loan losses, a material estimate susceptible to significant change in the near-term, is established as losses are estimated to have occurred through a provision for losses charged against operations and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Management's judgment in determining the adequacy of the allowance is inherently subjective and is based on the evaluation of individual loans, the known and inherent risk characteristics and size of the loan portfolios, the assessment of current economic and real estate market conditions, estimates of the current value of underlying collateral, past loan loss experience, review of regulatory authority examination reports and evaluations of specific loans and other relevant factors. Loans,

including impaired loans, are charged against the allowance for loan losses when management believes that the uncollectibility of principal is confirmed. Any subsequent recoveries are credited to the allowance for loan losses when received. In connection with the determination of the allowance for loan losses, management obtains appraisals for significant properties, when considered necessary.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are considered impaired. For impaired loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. A risk rating system is utilized to measure the general component of the allowance for loan losses. Under this system, each loan is assigned a risk rating between one and nine, which has a corresponding loan loss factor assigned, 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 by the originating loan officer or loan committee at the initiation of the transactions and are reviewed and changed, when necessary, during the life of the loan. Loan loss reserve factors are multiplied against the balances in each risk rating category to arrive at the appropriate level for the allowance for loan losses. Loans assigned a risk rating of "six" or above are monitored more closely by the credit administration officers. An unallocated component is maintained to cover uncertainties that could affect management's estimate or probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

Management believes the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies have the authority to require the Company to recognize additions to the allowance or charge-offs based on the agencies' judgments about information available to them at the time of their examination.

Interest and fees on loans

Interest on loans is accrued and included in operating income based on contractual rates applied to principal amounts outstanding. The accrual of interest income is discontinued whenever reasonable doubt exists as to its collectibility and generally is discontinued when loans are past due 90 days as to either principal or interest. When the accrual of interest income is discontinued, all previously accrued and uncollected interest is reversed against interest income. The accrual of interest on loans past due 90 days or more, including impaired loans, may be continued if the loan is well secured, and it is believed all principal and accrued interest income due on the loan will be realized, and the loan is in the process of collection. A nonaccrual loan is restored to an accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt.

Loan origination fees, net of direct loan origination costs, are deferred and amortized as an adjustment to the loan's yield generally over the contractual life of the loan, utilizing the interest method.

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.

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, (2) the transferee obtains the right to pledge or exchange the transferred assets and no condition both constrains the transferee from taking advantage of that right and provides more than a trivial benefit for the transferor, and (3) the transferor does not maintain effective control over the transferred assets through either (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

Other real estate owned

Other real estate owned, if any, consists of properties acquired through, or in lieu of, loan foreclosure or other proceedings and is initially recorded at fair value at the date of foreclosure, which establishes a new cost basis. After foreclosure, the properties are held for sale and are carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value at the time of acquisition is charged to the allowance for loan losses. Properties are evaluated regularly to ensure the recorded amounts are supported by current fair values, and valuation allowances are recorded as necessary to reduce the carrying amount to fair value less estimated cost of disposal. Revenue and expense from the operation of other real estate owned and valuation allowances 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 operations upon disposal.

Premises and equipment

Premises and equipment are stated at cost for purchased assets, and at the lower of fair value or the net present value of the minimum lease payments required over the term of the lease for assets under capital leases, 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 using the straight-line method over the estimated useful lives of the related assets which range from three to ten years. Amortization of premises under capital leases is charged to operations using the straight-line method over the life of the lease. 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

Goodwill represents the cost in excess of net assets of businesses acquired and was being amortized on a straight-line basis over ten years through December 31, 2001. Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") was adopted January 1, 2002, and accordingly amortization of goodwill was discontinued and such goodwill is tested for impairment annually, or more frequently under prescribed conditions.

Collateralized borrowings

Collateralized borrowings represent the portion of loans transferred to other institutions under loan participation agreements. Such transfers were not recognized as sales due to recourse provisions and/or restrictions on the participant's right to transfer their portion of the loan.

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 carryforwards. 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.

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 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, 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 collectibility or favored treatment or terms, or present other unfavorable features. Note

15 contains details regarding related party transactions.

Earnings per share

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

Stock compensation plans

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. Stock options issued under the Company's stock option plan, and stock warrants issued, have no intrinsic value at the grant date, and under Opinion No. 25 no compensation cost is recognized for them. The Company has elected to continue with the accounting methodology in Opinion No. 25 and, as a result, provides pro forma disclosures of net income and earnings per share and other disclosures, as if the fair value based method of accounting had been applied. There is no proforma disclosure required for 2003 and 2002, because no compensation cost related to stock options and warrants was attributed to those periods.

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. 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 the shareholders' equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income.

Fair values of financial instruments

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and due from banks, federal funds sold, short-term investments and accrued interest receivable

The carrying amount is a reasonable estimate of fair value.

Securities

Fair values, excluding restricted Federal Reserve Bank stock and Federal Home Loan Bank stock, are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The carrying values of the Federal Reserve Bank stock and Federal Home Loan Bank stock approximate fair value based on the redemption provisions of the related stock.

Loans receivable

For variable rate loans which reprice frequently, and have no significant changes in credit risk, fair value is based on the loans' carrying value. The fair value of fixed rate loans is estimated by discounting the future cash flows using the year end rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits

The fair value of demand deposits, regular savings and certain money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit and other time deposits is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities to a schedule of aggregated expected maturities on such deposits.

Borrowings

For variable rate borrowings which reprice frequently, and short-term borrowings, fair value is based on carrying value. The fair value of fixed rate borrowings is estimated by discounting the future cash flows using current interest rates for similar available borrowings with the same remaining maturities.

Off-balance-sheet instruments

Fair values for the Company's off-balance-sheet instruments (lending commitments and standby letters of credit) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

Recent accounting pronouncements

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," ("FIN 45"), which covers guarantees such as standby letters of credit, performance guarantees, and direct or indirect guarantees of the indebtedness of others, but not guarantees of funding. FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability in an amount equal to the fair value of the obligation undertaken in issuing the guarantee, and requires disclosure about the maximum potential payments that might be required, as well as the collateral or other recourse obtainable. The recognition and measurement provisions of FIN 45 were effective on a

prospective basis after December 31, 2002, and its adoption by the Company on January 1, 2003 has not had a significant effect on the Company's consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," ("FIN 46"), which establishes guidance for determining when an entity should consolidate another entity that meets the definition of a variable interest entity. FIN 46 requires a variable interest entity to be consolidated by a company if that company will absorb a majority of the expected losses, will receive a majority of the expected residual returns, or both. Transfers to qualified special-purpose entities ("QSPEs") and certain other interests in a QSPE are not subject to the requirements of FIN 46. On December 17, 2003, the FASB revised FIN 46 (FIN 46R) and deferred the effective date of FIN 46 to no later than the end of the first reporting period that ends after March 15, 2004, however, for special-purpose entities, FIN 46 would be required to be applied as of December 31, 2003. See Note 7 for the impact of the adoption of FIN 46 by the Company.

In April 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This Statement is effective for contracts entered into or modified after June 30, 2003, except in certain circumstances, and for hedging relationships designated after June 30, 2003. This Statement did not have a material effect on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement provides new rules on the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. Such financial instruments include mandatorily redeemable shares, instruments that require the issuer to buy back some of its shares in exchange for cash or other assets, or obligations that can be settled with shares, the monetary value of which is fixed. Most of the guidance in SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 30, 2003. This Statement had no effect on the Company's consolidated financial statements.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Postretirement Benefits." This Statement requires additional disclosures about the assets, obligations and cash flows of defined benefit pension and postretirement plans, as well as the expense recorded for such plans. This Statement had no effect on the Company's consolidated financial statements.

Reclassifications

Certain 2002 financial statement amounts have been reclassified to conform with the 2003 presentations. Such reclassifications had no effect on 2002 net income.

Note 2. Restrictions on Cash and Due From Banks

The Company is required to maintain reserves against its respective transaction accounts and non-personal time deposits. At December 31,

2003 and 2002, the Bank was required to have cash and liquid assets of approximately $1,617,000 and $1,053,000, respectively, to meet these requirements. In addition, at December 31, 2003 and 2002, 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, 2003 and 2002 are as follows:

2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency obligations	$12,018,111	$ 7,500	$ (159,993)	$11,865,618
Mortgage-backed securities	67,042,163	147,589	(493,287)	66,696,465
Money market preferred equity securities	12,000,000	-	-	12,000,000
	$91,060,274	$155,089	$ (653,280)	$90,562,083

The following table presents the Bank'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, 2003:

	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government agency obligations	$ 10,858,118	$ (159,993)	$ -	$ -
Mortgage-backed securities	43,560,220	(493,287)	-	-
Totals	$ 54,418,338	$ (653,280)	$ -	$ -

	Total	
	Fair Value	Unrealized Loss
U.S. Government agency obligations	$ 10,858,118	$ (159,993)
Mortgage-backed securities	43,560,220	(493,287)
Totals	$ 54,418,338	$ (653,280)

At December 31, 2003, there are no losses on available for sale securities that existed for a period of twelve months or more. Management believes that none of the unrealized losses on available for sale securities above are other than temporary due to the fact that they relate to debt and mortgage-backed securities issued by U.S. Government and Government sponsored agencies. Additionally, management expects to receive all contractual principal and interest related to these investments.

2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency obligations	$ 9,024,526	$ 104,888	$ -	$ 9,129,414
Mortgage-backed securities	37,756,793	705,573	(1,207)	38,461,159
Corporate bonds	283,853	99,944	-	383,797
Money market preferred equity securities and mutual funds	12,632,068	11,928	-	12,643,996
	$ 59,697,240	$ 922,333	$ (1,207)	$ 60,618,366

At December 31, 2003 and 2002, available for sale securities with a carrying value of $7,599,558 and $8,368,347, respectively, were pledged to secure obligations under repurchase agreements and municipal deposits.

The amortized cost and fair value of available for sale debt securities at December 31, 2003 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:		
1-5 years	$ 11,011,134	$ 10,864,681
5-10 years	1,006,977	1,000,937
Mortgage-backed securities	67,042,163	66,696,465
Total	$ 79,060,274	$ 78,562,083

During 2003 and 2002, proceeds from sales of available for sale securities were $7,094,321 and $11,375,386, respectively, and there were gross gains of $307,739 and gross losses of $25,733 on such sales, respectively.

Note 4. Loans Receivable and Allowance for Loan Losses

A summary of the Company's loan portfolio at December 31, 2003 and 2002 is as follows:

	2003	2002
Real estate:		
Commercial	$ 96,339,220	$ 65,967,205
Residential	21,772,759	27,012,024

	2003	2002
Construction, net of undisbursed portion of $31,958,302 in 2003 and $29,592,692 in 2002	57,122,445	39,208,651
Commercial	15,532,902	13,021,909
Consumer installment	1,861,924	1,757,321
Consumer home equity	25,607,775	26,812,092
Total loans	218,237,025	173,779,202
Net deferred loan fees	(881,822)	(611,809)
Allowance for loan losses	(2,934,675)	(2,372,454)
Loans receivable, net	$ 214,420,528	$ 170,794,939

The changes in the allowance for loan losses for the years ended December 31, 2003 and 2002 are as follows:

	2003	2002
Balance, beginning of year	$ 2,372,454	$ 1,894,454
Provision for loan losses	563,000	468,000
Recoveries of loans previously charged-off	-	10,000
Loans charged-off	(779)	-
Balance, end of year	$ 2,934,675	$ 2,372,454

At December 31, 2003 and 2002, the unpaid principal balances of loans delinquent 90 days or more were $315,127 and $1,372,705, respectively, and the unpaid principal balances of loans placed on nonaccrual status were $150,000 and $200,957, respectively.

The following information relates to impaired loans as of and for the years ended December 31, 2003 and 2002:

	2003	2002
Loans receivable for which there is a related allowance for credit losses	$ -	$ -
Loans receivable for which there is		

no related allowance for credit losses	$ 150,000	$ 200,957
Allowance for credit losses related to impaired loans	$ -	$ -
Average recorded investment in impaired loans	$ 157,678	$ 903,634

There was no interest income on impaired loans collected or recognized in 2003 and 2002. The Company has no commitments to lend additional funds to borrowers whose loans are impaired.

The Company's lending activities are conducted principally in Fairfield County, Connecticut and Westchester County, New York. The Company grants commercial real estate loans, commercial business loans and a variety of consumer loans. In addition, the Company grants loans for the construction of residential homes, residential developments and for land development projects. All residential and commercial mortgage loans are collateralized by first or second mortgages on 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 collectibility 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. 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.

Note 5. Premises and Equipment

At December 31, 2003 and 2002, premises and equipment consisted of the following:

	2003	2002
Premises under capital lease	$ 783,000	$ 783,000
Leasehold improvements	1,372,576	880,169

Furniture, equipment and software	1,561,579	1,034,782
	3,717,155	2,697,951
Less accumulated depreciation and amortization	(2,296,057)	(1,908,754)
	$ 1,421,098	$ 789,197

For the years ended December 31, 2003 and 2002, depreciation and amortization expense related to premises and equipment totaled $417,377 and $405,040, respectively. Note 6. Deposits At December 31, 2003 and 2002, deposits consisted of the following:

	2003	2002
Noninterest bearing	$ 30,477,295	$ 25,519,809
Interest bearing:		
Time certificates, less than $100,000	92,574,784	57,202,908
Time certificates, $100,000 or more	50,793,863	28,681,345
Money market	69,503,859	56,973,507
Savings	23,792,811	26,847,780
NOW	22,849,570	22,685,911
Total interest bearing	259,514,887	192,391,451
Total deposits	$ 289,992,182	$ 217,911,260

Interest expense on certificates of deposit in denominations of $100,000 or more was $1,297,461 and $985,602 for the years ended December 31, 2003 and 2002, respectively.

Contractual maturities of time certificates of deposit as of December 31, 2003 are summarized below:

Due within:	
1 year	$ 58,780,205
1-2 years	25,807,595
2-3 years	21,409,139
3-4 years	16,254,678
4-5 years	21,117,030
	$ 143,368,647

Note 7. Borrowings

Federal Home Loan Bank borrowings

The Bank is a member of the Federal Home Loan Bank of Boston ("FHLB"). At December 31, 2003, the Bank has the ability to borrow from the FHLB based on a certain percentage of the value of the Bank's qualified collateral, as defined in the FHLB Statement of Products Policy, comprised mainly of mortgage-backed securities delivered under collateral safekeeping to the FHLB, and a blanket lien on qualifying mortgage loans, at the time of the borrowing. In accordance with an agreement with the FHLB, the qualified collateral must be free and clear of liens, pledges and encumbrances. In addition, the Company has a $2,000,000 available line of credit with the FHLB. At December 31, 2003 and 2002, there were no advances outstanding under this line of credit. At December 31, 2003, other outstanding advances from the FHLB aggregated $17,000,000 at interest rates ranging from 1.27% to 5.11%, and at December 31, 2002, outstanding advances aggregated $4,000,000 at interest rates ranging from 4.48% to 5.11%.

The Bank is required to maintain an investment in capital stock of the FHLB in an amount equal to a percentage of its outstanding mortgage loans and contracts secured by residential properties, including mortgage-backed securities. No ready market exists for FHLB stock and it has no quoted market value. For disclosure purposes, such stock is assumed to have a market value which is equal to cost since the Bank can redeem the stock with FHLB at cost.

Repurchase agreements

At December 31, 2003 and 2002, the Company had $5,700,000 outstanding under short-term securities sold under agreements to repurchase at 1.25%, and 1.4% to 2.69%, respectively.

Subordinated debt

During 2003, the Company formed Patriot National Statutory Trust I (the "Trust") of which the Company owns 100% of the Trust's common securities. The Trust has no independent assets, and exists for the sole purpose of issuing trust securities and investing the proceeds thereof in an equivalent amount of junior subordinated debentures issued by the Company.

The Trust issued $8,000,000 of trust preferred securities in 2003. Pursuant to FASB Interpretation No. 46R ("FIN 46R"), "Consolidated of Variable Interest Entities," issued in December 2003, the Company deconsolidated the Trust at December 31, 2003. As a result, the balance sheet as of December 31, 2003 includes $8,248,000 of subordinated debt, which was previously presented in the Company's 2003 quarterly unaudited balance sheets as $8,000,000 in trust preferred securities after a consolidation elimination entry of $248,000. The Company's investment in the Trust of $248,000 is included in other assets. The overall effect on the financial position and operating results of the Company as a result of the deconsolidation was not material.

Trust preferred securities currently qualify for up to 25% of the Company's Tier I Capital, with the excess qualifying as Tier 2 Capital.

The Company believes that the Board of Governors of the Federal Reserve System, which is the banking regulator for the Holding Company, may rule on continued inclusion of trust preferred securities in regulatory capital following the issuance of FIN 46R. At this time, management cannot estimate the effect, if any, on the Company's regulatory capital as a result of any future action by the Board of Governors of the Federal Reserve System.

The subordinated debentures are unsecured obligations of the Company and are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. The Company has entered into a guarantee, which together with its obligations under the subordinated debentures and the declaration of trust governing the Trust, including its obligations to pay costs, expenses, debts and liabilities, other than trust securities, provides a full and unconditional guarantee of amounts on the capital securities. The subordinated debentures, which bear interest at three month LIBOR plus 3.15% (4.32% at December 31, 2003), mature on March 26, 2033 and can be redeemed at the Company's option in 2008.

The duration of the Trust is 30 years with early redemption at par at the Company's option in 2008, or earlier in the event of certain regulatory or tax changes. The trust securities also bear interest at three month LIBOR plus 3.15%.

Maturity of borrowings

The contractual maturities of the Company's borrowings at December 31, 2003, by year, are as follows:

	Fixed Rate	Floating Rate	Total
2004	$ 14,700,000	$ -	$ 14,700,000
2005	4,000,000	-	4,000,000
2006	1,000,000	-	1,000,000
2007	3,000,000	-	3,000,000
2008	-	-	-
Thereafter	-	8,248,000	8,248,000
Total borrowings	22,700,000	8,248,000	30,948,000

Note 8. Commitments and Contingencies

Capital lease

The Company leases the Bank's main office under a capital lease which expires in 2004. Premises under capital lease of $783,000 and related accumulated amortization of $730,800 and $652,500 as of December 31,

2003 and 2002, respectively, are included in premises and equipment. During 2003, the Company entered into a new lease agreement for its existing main office that commences in August 2004. This new lease will be classified as an operating lease upon commencement.

The Company is obligated under the lease to pay executory costs including insurance, property taxes, maintenance and other related expenses.

At December 31, 2003, future minimum lease payments, by years and in the aggregate, under this capital lease are as follows:

Years Ending December 31,	Amount
2004	$109,333
Less amount representing interest	5,392
Present value of future minimum lease payments-capital lease obligation	$103,941

Operating leases

The Company also has non-cancelable operating leases for certain of its branch offices and for its mortgage brokerage office in New York. Under these lease agreements, the Company is required to pay certain executory costs such as insurance and property taxes. The Company also leases parking space under a noncancelable operating lease agreement and certain equipment under cancelable and noncancelable arrangements.

Future minimum rental commitments under the terms of these leases, by year and in the aggregate, are as follows:

Years Ending December 31,	Amount
2004	$677,703
2005	783,385
2006	745,077
2007	602,457
2008	423,842
Thereafter	1,871,205
	$5,103,669

Total rental expense charged to operations for cancelable and noncancelable operating leases was $630,002 and $423,343 for the years ended December 31, 2003 and 2002, respectively.

Employment Agreements

President's Agreement

In October of 2003, the Company and the Bank entered into an employment agreement (the "Agreement") with the Bank's President and Chief Executive Officer that expires on December 31, 2006. The Agreement provides for, among other things, a stipulated base salary for the first year of the Agreement, annual increases at each anniversary and a discretionary annual bonus to be determined by the Board of Directors.

In the event of the early termination of the Agreement for any reason other than cause, the Company would be obligated to compensate the President in one lump sum payment, an amount equal to the higher of the aggregate salary payments that would be made to the President under the remaining term of the Agreement, or eighteen months of the President's stipulated base salary at the time of termination.

The Agreement also includes change of control provisions that entitles the President to a lump sum payment of two times the greater of the President's stipulated base salary at the time of the change in control; total cash compensation, as defined, for the year preceding the change in control; or the average total cash compensation, as defined, for the two years preceding the change in control.

The provisions of the early termination clause apply only to termination of the Agreement prior to a change of control. Termination of the Agreement following a change of control shall be governed by the change of control provisions.

Under the terms of a prior employment agreement (the "Prior Agreement"), the Prior Agreement provided that the Company granted shares of the Company's common stock to the President on December 31, 2000, and annually thereafter through December 31, 2003. The number of shares granted was based on 30% of the President's stipulated base salary for the preceding annual employment period, as defined, and such shares granted would vest and be distributed to the President in four annual installments (with any balance distributed upon termination other than for cause). Compensation cost is being recognized over four years under the terms of the Prior Agreement. Under certain circumstances defined in the Prior Agreement, this stock grant may be settled in cash. The Prior Agreement also provided for the grant of options to purchase a minimum of 10,000 shares of the Company's common stock on December 31, 2000, and annually thereafter through December 2002, and on December 31, 2003, if the President remained employed by the Bank. In the event that the Company did not have stock options available to grant at any of the stipulated dates, which was the case at December 31, 2000, 2001, 2002 and 2003, the President may then elect, on a future determination date, as defined, to be chosen by the President, to receive cash compensation in the future equal to the difference between the value of the Company's stock at the time the options would have been granted, and the value of the Company's stock on the determination date. For the years ended December 31, 2003 and 2002, approximately $194,000 and $75,000, respectively, was charged to expense related to the stock and option compensation components of the Agreement.

Other Employment Agreements

Effective January 1, 2004, the Company entered into one-year employment agreements with two officers of the Pinnacle Financial division, which replaced contracts that expired on December 31, 2003. The agreements provide for, among other things, a minimum and maximum base salary and commission arrangement, as well as additional compensation based upon the achievement of certain other financial results, and for reimbursement of expenses incurred incidental to their duties as officers. The agreements terminate on December 31, 2004.

In November 2003, the Company entered into an employment agreement with its Chief Financial Officer that expires on December 31, 2007. The agreement provides for, among other things, a stipulated base salary and annual discretionary bonuses as determined from time to time by the Board of Directors. In addition, the Chief Financial Officer has a change of control agreement that entitles the Chief Financial Officer to receive two years' compensation (as defined in the agreement) if a change of control (as defined in the agreement) occurs while the Chief Financial Officer is a full-time officer of the Bank or within six months following termination of employment other than for cause (as defined in the agreement) or by reason of death or disability.

In addition, certain officers of the Company have change of control agreements that entitle such officers to receive one year's compensation (as defined in the agreements) if a change of control (as defined in the agreements) occurs while such officers are full time officers of the Bank or within six months following termination of employment other than for cause (as defined in the agreements) or by reason of death or disability.

Stock Appreciation Rights Plan

During 2001, the Company adopted the Patriot National Bancorp, Inc. 2001 Stock Appreciation Rights Plan (the "SAR Plan"). Under the terms of the SAR Plan, the Company may grant stock appreciation rights to officers of the Company that entitle the officers to receive, in cash or Company common stock, the appreciation in the value of the Company's common stock from the date of grant. Each award vests at the rate of 20% per year from the date of grant. Any unexercised rights will expire ten years from the date of grant. During 2001, the Company granted a total of 18,000 stock appreciation rights to three Company officers, and $36,576 and $2,600, respectively, was charged to operations under the SAR Plan for the years ended December 31, 2003 and 2002.

Legal Matters

The Company is involved in various legal proceedings which have arisen in the normal course of business. Management believes that resolution of these matters will not have a material effect on the Company's financial condition or results of operations.

Other

The Company expects to open two new branch offices in 2004. Subsequent to December 31, 2003, the Company entered into a non-cancelable lease for one of these locations.

Note 9. Income Taxes

The components of the income tax provision for the years ended December 31, 2003 and 2002 are as follows:

	2003	2002
Current		
Federal	$ 842,241	$ 701,867
State	264,848	188,886
Total	1,107,089	890,753
Deferred		
Federal	(178,241)	(211,866)
State	(51,848)	(57,887)
Total	(230,089)	(269,753)
Provision for income taxes	$ 877,000	$ 621,000

A reconciliation of the anticipated income tax provision (computed by applying the statutory Federal income tax rate to the income before income taxes) to the income tax provision as reported in the statements of income for the years ended December 31, 2003 and 2002 is as follows:

	2003	2002
Provision for income taxes at statutory Federal rate	$ 754,000	$ 568,800
State taxes, net of Federal benefit	129,000	86,800
Dividends received deduction	(45,900)	(69,100)
Nondeductible expenses	10,900	9,000
Other	29,000	25,500
Total provision for income taxes	$ 877,000	$ 621,000

At December 31, 2003 and 2002, the components of gross deferred tax assets and gross deferred tax liabilities are as follows:

	2003	2002
Deferred tax assets:		
Allowance for loan losses	$ 1,172,111	$ 939,729
Investment securities	189,312	46,613
Asset under capital lease	20,667	44,654
Premises and equipment	230,643	159,637
Accrued expenses	13,580	14,062
Other	7,206	15,938
Gross deferred tax assets	1,633,519	1,220,633
Deferred tax liabilities:		
Tax bad debt reserve	109,394	115,909
Investment securities	-	350,028
Gross deferred tax liabilities	109,394	465,937
Deferred tax asset, net	$ 1,524,125	$ 754,696

Note 10. Goodwill

The Company adopted the provisions of SFAS 142 effective January 1, 2002. As a result, effective January 1, 2002, goodwill is no longer amortized, and is evaluated for impairment under SFAS 142. Based on the Company's initial goodwill impairment test, goodwill was not impaired at the date of adoption of SFAS 142, and based on the Company's annual goodwill impairment tests performed in October 2003 and 2002, goodwill was not impaired for the years ended December 31, 2003 and 2002. In addition, no goodwill was acquired during 2003 and 2002.

Note 11. Shareholders' Equity

Income Per Share

The following is information about the computation of income per share for the years ended December 31, 2003 and 2002.

	2003		
	Net Income	Shares	Per Share Amount
Basic Income Per Share			

	Net Income	Shares	Per Share Amount
Income available to common shareholders	$ 1,340,720	2,400,879	$ 0.56
Effect of Dilutive Securities			
Warrants and stock options outstanding	-	42,357	(0.01)
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	$ 1,340,720	2,443,236	$ 0.55

	2002		
	Net Income	Shares	Per Share Amount
Basic Income Per Share			
Income available to common shareholders	$ 1,052,007	2,400,525	$ 0.44
Effect of Dilutive Securities			
Warrants and stock options outstanding	-	26,789	(0.01)
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	$ 1,052,007	2,427,314	$ 0.43

Stock warrants

The Bank issued warrants to certain of the Bank's original organizing group and certain other individuals to purchase up to 95,000 shares of the Bank's common stock at the original public offering price of $6 per share. These warrants are currently exercisable and expire on August 31, 2004. The obligations related to all warrants issued by the Bank were assumed by the Company. The Company has reserved 83,484 shares of its common stock for issuance upon exercise of these warrants.

A summary of the status of the warrants at December 31, 2003 and 2002, and changes during the years ended on those dates, is as follows:

2003		2002	
Number of	Weighted-Average Exercise	Number of	Weighted-Average Exercise

	Shares	Price	Shares	Price
Outstanding at beginning of year	91,166	$ 6.00	91,166	$ 6.00
Expired	-		-	
Exercised	7,682	6.00	-	
Outstanding at end of year	83,484	6.00	91,166	6.00
Exercisable at end of year	83,484	6.00	91,166	6.00

The weighted average remaining contractual life for the warrants outstanding at December 31, 2003 is 0.7 years.

Stock options

On August 17, 1999, the Bank adopted a stock option plan (the "Plan") for employees and directors, under which both incentive and non-qualified stock options could have been granted, and subsequently the Company assumed all obligations related to such options. The Plan provided for the grant of 110,000 non-qualified and incentive stock options in 1999 to certain directors of the Company, with an exercise price equal to the market value of the Company's stock on the date of grant. Such options were immediately exercisable and expire if unexercised ten years after the date of grant. The Company has reserved 110,000 shares of common stock for issuance under the Plan. No additional options may be granted under the Plan.

A summary of the status of the stock options at December 31, 2003 and 2002 is as follows:

	2003		2002	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	110,000	$ 10.13	110,000	$ 10.13
Granted	-		-	
Outstanding at end of year	110,000	10.13	110,000	10.13

Exercisable at end of year	110,000	10.13	110,000	10.13
	========		=========	

The weighted-average remaining contractual life for the options outstanding at December 31, 2003 is 5.6 years.

Note 12. 401(k) Savings Plan

The Company offers employees participation in the Patriot National Bank 401(k) Savings Plan (the "401(k) Plan") under Section 401(k) of the Internal Revenue Code. The 401(k) Plan covers substantially all employees who have completed six months of service, are 21 years of age and who elect to participate. Under the terms of the 401(k) Plan, participants can contribute up to the maximum amount allowed, subject to Federal limitations. The Company may make discretionary matching contributions to the 401(k) Plan. Participants are immediately vested in their contributions and Company contributions. The Company contributed approximately $73,000 and $34,000 to the 401(k) Plan in 2003 and 2002, respectively.

Note 13. Financial Instruments With Off-Balance-Sheet Risk

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

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

Financial instruments whose contract amounts represent credit risk are as follows at December 31, 2003 and 2002:

	2003	2002
Commitments to extend credit:		
Future loan commitments	$ 23,618,500	$ 32,714,416
Unused lines of credit	31,433,770	25,127,648
Undisbursed construction loans	31,958,302	29,592,692
Financial standby letters of credit	122,000	635,500

	$ 87,132,572	$ 88,070,256

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

Standby letters of credit are written commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of January 1, 2003, newly issued or modified guarantees that are not derivative contracts have been recorded on the Company's consolidated balance sheet at their fair value at inception. No liability related to guarantees was required to be recorded at December 31, 2003.

Note 14. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2003, that the Company and the Bank meet all capital adequacy requirements to which it is subject.

The most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier-I leverage ratios as set forth in the table. There are no conditions or events since then that management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios at December 31, 2003 and 2002 were (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2003						
The Company:						
Total Capital (to Risk Weighted Assets)	$ 29,094	11.87%	$ 19,608	8.00%	$ N/A	N/A
Tier I Capital (to Risk Weighted Assets)	24,522	10.00%	9,809	4.00%	N/A	N/A
Tier I Capital (Average Assets)	24,522	7.51%	13,061	4.00%	N/A	N/A
The Bank:						
Total Capital (to Risk Weighted Assets)	$ 28,568	11.67%	$ 19,584	8.00%	$24,480	10.00%
Tier I Capital (to Risk Weighted Assets)	25,633	10.47%	9,793	4.00%	14,689	6.00%
Tier I Capital (to Average Assets)	25,633	7.85%	13,061	4.00%	16,327	5.00%
2002						
The Company:						
Total Capital (to Risk Weighted Assets)	$ 19,382	10.39%	$ 14,924	8.00%	$ N/A	N/A
Tier I Capital (to Risk Weighted Assets)	17,044	9.13%	7,467	4.00%	N/A	N/A
Tier I Capital (Average Assets)	17,044	6.99%	9,753	4.00%	N/A	N/A
The Bank:						

Total Capital (to Risk Weighted Assets)	$ 19,340	10.36%	$ 14,934	8.00%	$18,668	10.00%
Tier I Capital (to Risk Weighted Assets)	17,001	9.11%	7,465	4.00%	11,197	6.00%
Tier I Capital (to Average Assets)	17,001	6.98%	9,743	4.00%	12,178	5.00%

Restrictions on dividends, loans and advances

The Company's ability to pay dividends is dependent on the Bank's ability to pay dividends to the Company. However, certain restrictions exist regarding the ability of the Bank to transfer funds to the Company 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, 2003, the Bank had retained earnings of approximately $3,477,000, all of which is available for distribution to the Company as dividends without prior regulatory approval. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements, and the FRB may impose further dividend restrictions on the Company.

Loans or advances to the Company by the Bank are limited to 10% of the Bank's capital stock and surplus on a secured basis.

Note 15. Related Party Transactions

In the normal course of business, the Company grants loans to executive officers, directors and members of their immediate families, as defined, and to entities in which these individuals have more than a 10% equity ownership. Such loans are transacted at terms, including interest rates, similar to those available to unrelated customers.

Changes in loans outstanding to such related parties during 2003 and 2002 are as follows:

	2003	2002
Balance, beginning of year	$ 3,547,766	$ 3,847,622
Additional loans	8,823	4,043,876
Repayments	(2,129,708)	(3,914,030)
Adjustment for former related parties	(16,441)	(429,702)
Balance, end of year	$ 1,410,440	$ 3,547,766

Related party deposits aggregated approximately $4,126,000 and $4,002,000 as of December 31, 2003 and 2002, respectively.

The Company leases office space to a director of the Company under two leases. Rental income under these leases was approximately $25,300 and $22,300, respectively, for the years ended December 31, 2003 and 2002.

During 2003 and 2002, the Company paid legal fees of approximately $30,400 and $21,800, respectively, to an attorney who is a director of the Company.

Note 16. Other Comprehensive Income

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

	2003		
	Before-Tax Amount	Tax Effect	Net-of-Tax Amount
Unrealized holding losses arising during period	$ (1,727,056)	$ 656,281	$ (1,070,775)
Less reclassification adjustment for gains recognized in net income	307,739	(116,941)	190,798
Unrealized holding loss on available for sale securities, net of taxes	$ (1,419,317)	$ 539,340	$ (879,977)

	2002		
	Before-Tax Amount	Tax Effect	Net-of-Tax Amount
Unrealized holding gains arising during period	$ 466,603	$(168,083)	$ 298,520
Add reclassification adjustment for losses recognized in net income	25,733	(9,270)	16,463
Unrealized holding gain on available for sale securities, net of taxes	$ 492,336	$(177,353)	$ 314,983

Note 17. Fair Value of Financial Instruments and Interest Rate Risk

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" ("Statement No. 107"), requires disclosure of fair value information about financial instruments, whether or not recognized in the statements of condition, for which it is practicable to estimate that value. 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 rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Statement No. 107 excludes certain financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at December 31, 2003 and 2002. The estimated fair value amounts for 2003 and 2002 have been measured as of their respective year-ends, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the fair values of these financial instruments subsequent to the respective reporting dates may be different from the amounts reported at each year-end.

The information presented should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimate, comparisons between the Company's disclosures and those of other bank holding companies may not be meaningful.

As of December 31, 2003 and 2002, the recorded book balances and estimated fair values of the Company's financial instruments were (in thousands):

	2003		2002	
	Recorded Book Balance	Fair Value	Recorded Book Balance	Fair Value
Financial Assets:				
Cash and due from banks	$ 4,024	$ 4,024	$ 5,386	$ 5,386
Federal funds sold	15,000	15,000	3,000	3,000
Short-term investments	10,431	10,431	3,349	3,349
Available for sale securities	90,562	90,562	60,618	60,618

Federal Reserve Bank stock	691	691	481	481
Federal Home Loan Bank stock	1,077	1,077	621	621
Loans receivable, net	214,421	218,064	170,795	174,693
Accrued interest receivable	1,471	1,471	1,311	1,311
Financial Liabilities:				
Demand deposits	$ 30,477	$ 30,477	$ 25,520	$ 25,520
Savings deposits	23,793	23,793	26,848	26,848
Money market deposits	69,504	69,504	56,974	56,974
NOW accounts	22,850	22,850	22,686	22,686
Time deposits	143,369	148,005	85,884	88,470
FHLB borrowings	17,000	17,107	4,000	4,251
Securities sold under agreements to repurchase	5,700	5,700	5,700	5,700
Subordinated debt	8,248	8,248	-	-
Collateralized borrowings	249	249	349	349

Unrecognized financial instruments

Loan commitments on which the committed interest rate is less than the current market rate were insignificant at December 31, 2003 and 2002. The estimated fair value of fee income on letters of credit at December 31, 2003 and 2002 was insignificant.

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Note 18. Segment Reporting

The Company has two reportable segments, the commercial bank and the mortgage broker. The commercial bank segment provides its commercial customers with products such as commercial mortgage and construction loans, working capital loans, equipment loans and other business financing arrangements, and provides its consumer customers with residential mortgage loans, home equity loans and other consumer installment loans. The commercial bank segment also attracts deposits from both consumer and commercial customers and invests such deposits in loans, investments and working capital. The commercial bank's revenues are generated primarily from net interest income from its lending, investment and deposit activities.

The mortgage broker solicits and processes conventional mortgage loan applications from consumers on behalf of permanent investors and originates loans for sale. Revenues are generated from loan brokerage and application processing fees received from the permanent investors, and gains and origination fees from loans sold.

Information about reportable segments, and a reconciliation of such information to the consolidated financial statements as of and for the years ended December 31, 2003 and 2002 is as follows (in thousands):

2003	Commercial Bank	Mortgage Broker	Consolidated Totals
Net interest income	$ 9,626	$ -	$ 9,626
Noninterest income	851	3,963	4,814
Noninterest expenses	8,441	3,218	11,659
Provision for loan losses	563	-	563
Income before taxes	1,473	745	2,218
Assets	341,473	996	342,469

2002	Commercial Bank	Mortgage Broker	Consolidated Totals
Net interest income	$ 7,840	$ -	$ 7,840
Noninterest income	496	3,618	4,114
Noninterest expenses	6,934	2,879	9,813
Provision for loan losses	468	-	468
Income before taxes	934	739	1,673
Assets	247,459	1,038	248,497

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Management allocates certain overhead expenses of the commercial bank to the mortgage broker segment, which allocations are based on a pre-determined monthly charge agreed to between the Company and the mortgage broker segment. Management evaluates the performance of each segment based on profit or loss from operations before income taxes. Intersegment revenues are accounted for at amounts that assume the revenues were between unrelated third parties at the current market prices at the time of the transactions.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each segment appeals to different markets and, accordingly, requires different technology and marketing strategies.

The Company does not have operating segments other than those reported and the Company does not have a single external customer from which it derives 10% or more of its revenues and the Company operates in one geographical area.