PATRIOT NATIONAL BANCORP INC
Form 10-K
March 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2017

OR

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

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Connecticut	**06-1559137**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
900 Bedford Street, Stamford, Connecticut	**06901**
(Address of principal executive offices)	**(Zip Code)**

(203) 324-7500

(Registrant’s telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	The NASDAQ Global Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of June 30, 2017, the aggregate market value of the voting stock held by non-affiliates of the registrant based on the last sale price on June 30, 2017 as reported on the NASDAQ Global Market: $13.2 million

Number of shares of the registrant's Common stock, $0.01 par value per share, 3,901,910 shares outstanding as of March 17, 2018.

Document Incorporated by Reference

Proxy or Information Statement relating to the registrant's Annual Meeting of Shareholders to be held in 2018. (A definitive proxy or Information statement will be filed with the Securities and Exchange Commission within 120 days after the close of the Fiscal year covered by this form 10-K.)

Incorporated into part III of this Form 10-K.

PATRIOT NATIONAL BANCORP, INC.

2017 FORM 10-K ANNUAL REPORT

For the Year Ended December 31, 2017

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

Certain statements contained in the Company’s public statements, including this one, and in particular in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” may be forward-looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to: (1) changes in prevailing interest rates which would affect the interest earned on the Company’s interest earning assets and the interest paid on its interest bearing liabilities; (2) the timing of re-pricing of the Company’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 the Company and the Bank and the conduct of its business; (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks; (6) the ability of competitors that are larger than the Company to provide products and services which it is impracticable for the Company to provide; (7) the state of the economy and real estate values in the Company’s market areas, and the consequent effect on the quality of the Company’s loans; (8) recent governmental initiatives that are expected to have a profound effect on the financial services industry and could dramatically change the competitive environment of the Company; (9) other legislative or regulatory changes, including those related to residential mortgages, changes in accounting standards, and Federal Deposit Insurance Corporation (“FDIC”) premiums that may adversely affect the Company; (10) the application of generally accepted accounting principles, consistently applied; (11) the fact that one period of reported results may not be indicative of future periods; (12) the state of the economy in the greater New York metropolitan area and its particular effect on the Company's customers, vendors and communities and other such factors, including risk factors, as may be described in the Company’s other filings with the Securities and Exchange Commission (the “SEC”).

Although the Company believes that it offers competitive 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 the Company to adjust its operations in the future. Because of the foregoing and other factors, recent trends should not be considered reliable indicators of future financial results or stock prices.

PART I

ITEM 1. Business

General

Patriot National Bancorp, Inc. (the “Company”), a Connecticut corporation, is a one-bank holding company for Patriot Bank, N.A, a national banking association headquartered in Stamford, Fairfield County, Connecticut (the “Bank”) (collectively, “Patriot”). The Bank received its charter and commenced operations as a national bank on August 31, 1994. The Bank has a total of nine branch offices comprised of seven branch offices located in Fairfield and New Haven Counties, Connecticut and two branch offices located in Westchester County, New York as of December 31, 2017. The Bedford branch was closed February 28, 2018 and its business and staff transferred to the Scarsdale branch.

On March 11, 2003, the Company 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 the Company. The Company primarily invested the funds from the issuance of the debt in the Bank. The Bank used the proceeds to fund general operations.

On October 15, 2010, pursuant to a Securities Purchase Agreement (the “Securities Purchase Agreement”), the Company issued and sold to PNBK Holdings LLC (“Holdings”), an investment limited liability company controlled by Michael Carrazza, 3.36 million shares of its common stock at a purchase price of $15.00 per share (adjusted for a 1-for-10 reverse stock split discussed below) for an aggregate purchase price of $50.4 million. The shares sold to Holdings represented 87.6% of the Company’s then issued and outstanding common stock. In connection with the reverse stock split, the par value of the common stock was changed to $0.01 per share. Also in connection with the sale of shares, certain directors and officers of both the Company and the Bank resigned. Such directors and officers were replaced with nominees of Holdings and Michael Carrazza became the Chairman of the Board of the Company. In January 2018, Holding transferred 840,000 shares to its investors.

As of the date hereof, the only business of the Company 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 the Company’s business is a description of the Bank’s business.

On March 4, 2015, the Company effected a 1-for-10 reverse stock split.

On September 28, 2015, the Bank changed its name from Patriot National Bank to Patriot Bank, N.A. The name change came after the Bank reported eight consecutive quarters of increased earnings.

On January 26, 2017, the Board appointed Richard A. Muskus, Jr. President of Patriot. Mr. Muskus has served as Executive Vice President and Chief Lending Officer of the Bank since February 2014. Mr. Muskus' appointment replaced Peter D. Cureau who was acting as the Interim President and Chief Operating Officer of Patriot and who continued to work with Mr. Carrazza in the office of the Chairman through the first quarter of 2017.

On May 10, 2017, Joseph D. Perillo was appointed as Chief Financial Officer of Patriot effective as of May 9, 2017. Mr. Perillo's appointment was in response to the resignation of Neil M. McDonnell, who was the Chief Financial Officer of Patriot from January 5, 2016 through May 9, 2017 and who resigned on that date as an Executive Vice President and Chief Financial Officer.

Business Operations

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

Consumer and commercial deposit accounts offered include: checking, interest-bearing negotiable order of withdrawal "NOW", money market, time certificates of deposit, savings, Certificate of Deposit Account Registry Service CDARS, Individual Retirement Accounts ("IRAs"), and Health Savings Accounts ("HSAs"). Other services offered by the Bank include Automated Clearing House ("ACH") transfers, lockbox, internet banking, bill paying, remote deposit capture, debit cards, money orders, traveler's checks, and automatic teller machines ("ATMs"). In addition, the Bank may in the future offer other financial services.

The Bank's branch office locations are summarized as follows:

Branch No.	City	County	State
1	Darien	Fairfield	Connecticut
2	Fairfield	Fairfield	Connecticut
3	Greenwich	Fairfield	Connecticut
4	Milford	New Haven	Connecticut
5	Norwalk	Fairfield	Connecticut
6	Stamford	Fairfield	Connecticut
7	Westport	Fairfield	Connecticut
8	Scarsdale	Westchester	New York

The Stamford, Connecticut location serves as Patriot's headquarters. Additionally, the Bank also operates a loan origination office at its Stamford location.

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The Bank's employees perform most routine day-to-day banking transactions. The Bank has entered into a number of arrangements with third-party outside service providers, who provide services such as correspondent banking, check clearing, data processing services, credit card processing and armored car carrier transport.

In the normal course of business, subject to applicable government regulations, the Bank invests a portion of its assets in investment securities, which may include government securities. The Bank's investment portfolio strategy is to maintain a balance of high-quality diversified investments that minimizes risk, maintains adequate levels of liquidity, and limits exposure to interest rate and credit risk. Guaranteed U.S. federal government issues currently comprise the majority of the Bank's investment portfolio.

Employees

As of December 31, 2017, Patriot had 102 full-time employees and 7 part-time employees. None of Patriot's employees are covered by a collective bargaining agreement.

Competition

The Bank competes with a variety of financial institutions for loans and deposits in its market area. These include larger financial institutions with greater financial resources, larger branch systems and higher lending limits, as well as the ability to conduct larger advertising campaigns to attract business. The larger financial institutions may also offer additional services such as trust and international banking, which the Bank is not equipped to offer directly. When the need arises, arrangements are made with correspondent financial institutions to provide such services. To attract business in this competitive environment, the Bank relies on local promotional activities, personal contact by officers and directors, customer referrals, and its ability to distinguish itself by offering personalized and responsive banking service.

The customer base of the Bank generally is meant to be diversified, so that there is not a concentration of either loans or deposits within a single industry, a group of industries, or a single person or groups of people. The Bank is not dependent on one or a few major customers for its lending or deposit activities, the loss of any one of which would have a material adverse effect on the business of the Bank.

The Bank's loan customers extend beyond the towns and cities in which the Bank has branch offices, including nearby towns in Fairfield and New Haven Counties in Connecticut, and Westchester County and the five boroughs of New York City in New York, although the Bank's loan business is not necessarily limited to these areas. While the Bank does not currently hold or intend to attract significant deposit or loan business from major corporations with headquarters in its market area, the Bank believes that small manufacturers, distributors and wholesalers, and service industry professionals and related businesses, which have been attracted to this area, as well as the individuals that reside in the area, represent current and potential customers of the Bank.

In recent years, intense market demands, economic pressures, and significant legislative and regulatory actions have eroded banking industry classifications, which were once clearly defined, and have increased competition among banks, as well as other financial services institutions including non-bank competitors. This increase in competition has caused banks and other financial services institutions to diversify their services and become more cost effective. The impact of market dynamics, legislative, and regulatory changes on banks and other financial services institutions has increased customer awareness of product and service differences among competitors and increased merger activity among banks and other financial services institutions.

Supervision and Regulation

As a bank holding company, the Company's operations are subject to regulation, supervision, and examination by the Board of Governors of the Federal Reserve System (the "Fed"). The Fed has established capital adequacy guidelines for bank holding companies that are similar to the Office of the Comptroller of the Currency's ("OCC") capital guidelines applicable to the Bank. The Bank Holding Company Act of 1956, as amended (the "BHC"), limits the types of companies that a bank holding company may acquire or organize and the activities in which it or they may engage. In general, bank holding companies and their subsidiaries are only permitted to engage in, or acquire direct control of, any company engaged in banking or in a business so closely related to banking as to be a proper incident thereto. Federal legislation enacted in 1999 authorizes certain entities to register as financial holding companies. Registered financial holding companies are permitted to engage in businesses, including securities and investment banking businesses, which are prohibited to bank holding companies. The creation of financial holding companies has had no significant impact on the Company.

Under the BHC, the Company is required to file a quarterly report of its operations with the Fed. Patriot and any of its subsidiaries are subject to examination by the Fed. In addition, the Company will be required to obtain the prior approval of the Fed 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, Patriot and any of its 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 the Company 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 the Company wants to engage in businesses permitted to financial holding companies, but not to bank holding companies, it would need to register with the Fed as a financial holding company.

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

A bank holding company is required to give the Fed 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 Fed may disapprove of such a purchase or redemption, if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Fed order, or any condition imposed by, or written agreement with, the Fed.

The Company is subject to capital adequacy rules and guidelines issued by the Fed and the *FDIC* and the Bank is subject to capital adequacy rules and guidelines issued by the OCC. These substantially identical rules and guidelines require Patriot to maintain certain minimum ratios of capital to adjusted total assets and/or risk-weighted assets. Under the provisions of the FDIC Improvements Act of 1991, the federal regulatory agencies are required to implement and enforce these rules in a stringent manner. The Company 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. Patriot's operations are subject to regulation, supervision, and examination by the FDIC and the OCC.

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

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

The earnings and growth of Patriot and the banking industry in general are affected by the monetary and fiscal policies of the United States ("U.S.") government and its agencies, particularly the Fed. The Open Market Committee of the Fed implements national monetary policy to curb inflation and combat recession. The Fed uses its power to adjust interest rates on U.S. government securities, the discount rate, and deposit reserve retention rates. The actions of the Fed 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, Patriot is subject to the Community Reinvestment Act ("CRA"), which requires the federal bank regulatory agencies, when considering certain applications involving Patriot, to consider Patriot'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 unwarranted geographic differences in lending patterns. Existing banks have sought to comply with the CRA in various ways; some banks have made use of more flexible lending criteria for certain types of loans and borrowers (consistent with the requirement to conduct safe and sound operations), while other banks have increased their efforts to make loans to help meet identified credit needs within the consumer community, such as those for home mortgages, home improvements, and small business loans. Compliance may also include participation in various government insured lending programs, such as Federal Housing Administration insured or Veterans Administration guaranteed mortgage loans, Small Business Administration loans, and participation in other types of lending programs such as high loan-to-value ratio conventional mortgage loans with private mortgage insurance. To date, the market area from which the Bank draws much of its business is in the towns and cities in which the Bank has branch offices, which are characterized by a very diverse ethnic, economic and racial cross-section of the population. As the Bank expands further, the market areas served by the Bank will continue to evolve. The Company and the Bank have not and will not adopt any policies or practices, which discourage credit applications from, or unlawfully discriminate against, individuals or segments of the communities served by the Bank.

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

The Company 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.

On July 20, 2002, the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) was enacted, the primary purpose of which is to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes. Section 404 of Sarbanes-Oxley, entitled Management Assessment of Internal Controls, requires that each annual report include an internal control report which states that it is the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting, as well as an assessment by management of the effectiveness of the internal control structure and procedures for financial reporting. This section further requires that the external auditors attest to, and report on, the Company’s internal controls over financial reporting; although, Smaller Reporting Companies as defined by the SEC are exempt from this requirement. Sarbanes-Oxley contains provisions for the limitations of services that external auditors may provide, as well as requirements for the credentials of members of the Audit Committee of Patriot’s Board of Directors. In addition, Sarbanes-Oxley requires principal executive and principal financial officers to certify to the adequacy of internal controls over financial reporting and to the accuracy of financial information released to the public on a quarterly and annual basis. Specifically, Sarbanes-Oxley requires Patriot’s Chief Executive and Chief Financial officer to certify that, to their best of their knowledge, the financial information reported accurately presents the financial condition and results of operations of the Company and that it contains no untrue statement or omission of material fact. Patriot’s Chief Executive and Chief Financial officer also are required to certify to their responsibility for establishing and maintaining a system of internal controls, the design and implementation of which insures that all material information is made known to these officers or other responsible individuals; this certification also includes the evaluation of the effectiveness of disclosure controls and procedures, and the impact thereof, on the Company’s financial reporting.

Recent Legislative Developments

Many of the provisions of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) are aimed at financial institutions that are significantly larger than Patriot. Notwithstanding this, there are many other provisions that Patriot is subject to and had to comply with since July 21, 2010, including any applicable rules promulgated by the Consumer Financial Protection Bureau (“CFPB”). As rules and regulations are promulgated by the agencies responsible for implementing and enforcing Dodd-Frank, Patriot will have to address them to ensure compliance with such applicable provisions. Management expects the cost of compliance to increase, due to the regulatory burden imposed by Dodd-Frank.

Dodd-Frank also broadened the base for FDIC insurance assessments. Under rules issued by the FDIC in February 2011, the base for insurance assessments changed from domestic deposits to consolidated assets less tangible equity. Assessment rates are calculated using formulas that take into account the risks of the institution being assessed. The rule was effective beginning April 1, 2011 and did not have a material impact on the Company.

Financial reform legislation and the implementation of any rules ultimately issued could have adverse implications on the financial industry, the competitive environment, and the Bank’s ability to conduct business.

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In July 2013, the Fed, the FDIC, and the OCC approved final rules establishing a new comprehensive capital framework for U.S. Banking organizations (the “New Capital Rules”). The New Capital Rules generally implement the Basel Committee on Banking Supervision’s (the “Basel Committee”) December 2010 final capital framework (referred to as “Basel III”) for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including Patriot, as compared to the current U.S. general risk-based capital rules. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions’ regulatory capital ratios. The New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions’ regulatory capital ratios and replace the existing general risk-weighting approach with a more risk-sensitive approach, based, in part, on the “standardized approach” adopted by the Basel Committee in 2004. In addition, the New Capital Rules implement certain provisions of Dodd-Frank. The New Capital Rules became effective for Patriot on January 1, 2015. Patriot has not experienced any difficulties in complying with the New Capital Rules.

Recent Developments with Regulators

The Company received overall satisfactory ratings in regulatory findings, with only minor corrective actions required in 2017.

Based on its satisfactory ratings reported to the Company on May 3, 2016, effective July 11, 2016, the Board of Governors of the Federal Reserve System (the “Fed”), the Company’s primary regulator, terminated its Supervisory Letter dated May 5, 2015 that placed certain restrictions on the Company. Citing the satisfactory condition of the Bank and a noted improvement in earnings, the Fed lifted restrictions on Patriot from issuing dividends in any form and creating new debt without prior written approval of the Federal Reserve Bank (“FRB”).

Available Information

The Company’s website address is https://www.bankpatriot.com; however, information found on, or that can be accessed through, the website is not incorporated by reference into this Form 10-K. The Company makes available free of charge on its website (under the links entitled “For Investors”, then “SEC filings”, then “Documents”), its annual report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, information statements on Schedule 14C, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act, as soon as practicable after such reports are electronically filed with or furnished to the SEC. Because the Company is an electronic filer, such reports are filed with the SEC and are also available on their website (http://www.sec.gov). The public may also read and copy any materials filed with the SEC at the SEC’s Public Reference Room, 100 F Street, N.E. Room 1580, Washington, DC 20549. Information about the Public Reference Room can be obtained by calling 1-800-551-8090 or SEC Investor Information Service 1-800-SEC-0330.

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ITEM 1A. Risk Factors

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

The risks involved in the Bank's commercial real estate loan portfolio are material.

The Bank's commercial real estate loan portfolio constitutes a material portion of its assets and generally has different risks than residential mortgage loans. Commercial real estate loans often involve larger loan balances concentrated with single borrowers or groups of related borrowers as compared to single-family residential loans.

Because the repayment of commercial real estate loans depends on the successful management and operation of the borrower's properties or related businesses, repayments of such loans can be affected by adverse conditions in the real estate market or local economy. A downturn in the real estate market within the Bank's market area may adversely impact the value of properties securing these loans. These risks are partially offset by shorter terms, reduced loan-to-value ratios, and guarantor support of the borrower.

Real estate lending in the Bank's core market involves risks related to a decline in value of commercial and residential real estate.

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

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

Changes in economic conditions, particularly a continued economic slowdown in Fairfield County, Connecticut and the New York metropolitan area could result in the following consequences, any of which may have a material detrimental effect on the Bank's business:

Increases in:
- Loan delinquencies;
- Problem assets and foreclosures; or

Decreases in:
- Demand for the Bank's products and services;
- Decreases in customer borrowing power that is caused by declines in the value of assets and/or collateral supporting the Bank's loans, especially real estate.

During the years 2007 through 2009, the general economic conditions and specific business conditions in the United States, including Fairfield County, Connecticut and the New York metropolitan area deteriorated, resulting in increases in loan delinquencies, problem assets and foreclosures, and declines in the value and collateral associated with the Bank's loans. During 2010 through 2017, however, the economic climate improved gradually, contributing to decreases in the Bank's non-performing assets.

The Bank’s allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, the Bank maintains an allowance for loan losses to provide for loan defaults and non-performance. The allowance for loan losses is based on an evaluation of the risks associated with the Bank’s loans receivable, as well as the Bank’s prior loss experience. Deterioration in general economic conditions and unforeseen risks affecting customers could have an adverse effect on borrowers’ capacity to timely repay their obligations before risk grades could reflect those changing conditions. Maintaining the adequacy of the Bank’s allowance for loan losses may require that the Bank make significant and unanticipated increases in the provision for loan losses, which would materially affect the results of operations and capital adequacy. The amount of future losses is susceptible to changes in economic, operating, and other conditions including changes in interest rates that may be beyond the Bank’s control and which losses may exceed current allowance estimates. Although the current economic environment has improved, conditions remain uncertain and may result in additional risk of loan losses.

Federal regulatory agencies, as an integral part of their examination process, review the Bank’s loan portfolio and assess the adequacy of the allowance for loan losses. The regulatory agencies may require the Bank to change classifications or grades on loans, increase the allowance for loan losses by recognizing additional loan loss provisions, or to recognize further loan charge-offs based upon their judgments, which may differ from the Bank’s. Any increase in the allowance for loan losses required by these regulatory agencies could have a negative effect on the Bank’s results of operations and financial condition. While management believes that the allowance for loan losses is currently adequate to cover inherent losses, further loan deterioration could occur, and therefore, management cannot assure shareholders that there will not be a need to increase the allowance for loan losses, or that the regulators will not require management to increase this allowance. Either of these occurrences could materially and adversely affect Patriot’s earnings and profitability.

Patriot is subject to certain risks with respect to liquidity.

"Liquidity" refers to Patriot’s ability to generate sufficient cash flows to support its operations and fulfill its obligations, including commitments by the Bank to originate loans, to repay its wholesale borrowings and other liabilities, and to satisfy the withdrawal of deposits by its customers.

Patriot’s primary sources of liquidity are the deposits the Bank acquires organically through its branch network, borrowed funds, primarily in the form of wholesale borrowings, and the cash flows generated through the collection of loan payments and on mortgage-related securities. In addition, depending on current market conditions, Patriot may have the ability to access the capital markets.

Deposit flows, calls of investment securities and wholesale borrowings, and prepayments of loans and mortgage-related securities are strongly influenced by such external factors as the direction of interest rates, whether actual or perceived; local and national economic conditions; and competition for deposits and loans in the markets served. Furthermore, changes to the underwriting guidelines for wholesale borrowings, or lending policies may limit or restrict Patriot's ability to borrow, and could therefore have a significant adverse impact on its liquidity. A decline in available funding could adversely impact Patriot's ability to originate loans, invest in securities, and meet its expenses, or to fulfill such obligations as repaying its borrowings or meeting deposit withdrawal demands.

The Bank’s business is subject to interest rate risk and variations in interest rates may negatively affect the Bank’s financial performance.

Patriot is unable to predict, with any degree of certainty, fluctuations of market interest rates, which are affected by many factors including inflation, recession, a rise in unemployment, a tightening money supply, domestic and international disorder, and instability in domestic and foreign financial markets. Changes in the interest rate environment may reduce Patriot’s profits. Patriot realizes income from the differential or “spread” between the interest earned on loans, securities, and other interest-earning assets and interest paid on deposits, borrowings, and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. In addition, an increase in the general level of interest rates may adversely affect the ability of some borrowers to pay the interest on and principal of their obligations. Although Patriot has implemented strategies which are designed to reduce the potential effects of changes in interest rates on operations, these strategies may not always be successful. Accordingly, changes in levels of market interest rates could materially and adversely affect Patriot’s net interest spread, asset quality, levels of prepayments, and cash flow, as well as the market value of its securities portfolio and overall profitability.

Patriot’s investment portfolio includes securities that are sensitive to interest rates and variations in interest rates may adversely impact Patriot’s profitability.

Patriot’s security portfolio is classified as available-for-sale, and is comprised primarily of corporate debt and mortgage-backed securities, which are insured or guaranteed by the U.S. Government. These securities are sensitive to interest rate fluctuations. Unrealized gains or losses in the available-for-sale portfolio of securities are reported as a separate component of shareholders’ equity. As a result, future interest rate fluctuations may impact shareholders’ equity, causing material fluctuations from quarter to quarter. The inability to hold its securities until market conditions are favorable for a sale, or until payments are received on mortgage-backed securities, could adversely affect Patriot’s earnings and profitability.

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

The Bank’s success is dependent upon the continued services and skills of its long-term locally-based management team. The unexpected loss of services of one or more of these key personnel, because of their skills, knowledge of the Bank’s market, years of industry experience, and the difficulty of promptly finding qualified replacement personnel could have an adverse impact on the Bank’s business.

Patriot's success also depends, in part, on its continued ability to attract and retain experienced commercial lenders and retail bankers, as well as other management personnel. The loss of services of several such key personnel could adversely affect Patriot's growth and prospects, to the extent replacement personnel are not able to be identified and promptly retained. Competition for commercial lenders and retail bankers is strong, and Patriot may not be successful in retaining or attracting such personnel.

Patriot is subject to certain general affirmative debt covenants, which if it cannot comply, may result in default and actions taken against it by its debt holders.

In December 2016, the Company issued $12 million of senior notes (the "Senior Notes") that contain certain affirmative covenants, which require the Company to: maintain its and its subsidiaries' legal entity and tax status, pay its income tax obligations on a timely basis, and comply with SEC and FDIC reporting requirements. The Senior Notes are unsecured, rank equally with all other senior obligations of the Company, are not redeemable nor may they be put to the Company by the holders of the notes, and require no payment of principal until maturity.

The affirmative covenants contained in the Senior Note agreements are of a general nature and not uncommon in such debt agreements. Management does not anticipate an inability to maintain its compliance with the affirmative covenants contained in the notes as such compliance is inherent in the Bank's continued operation and Patriot's public company status, as well as management's overall strategic plan.

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

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

The Bank is subject to environmental liability risk associated with its lending activities.

A significant portion of the Bank's loan portfolio is secured by real property. During the ordinary course of business, the Bank may foreclose on, and take title to, properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties, which may make Patriot liable for remediation costs, as well as for personal injury and property damage. In addition, Patriot owns and operates certain properties that may be subject to similar environmental liability risks.

Environmental laws may require the Bank to incur substantial expense and may materially reduce the affected property's value, or limit the Bank's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Bank's exposure to environmental liability. Although the Bank has policies and procedures requiring the performance of an environmental site assessment before loan approval or initiating any foreclosure action on real property, these assessments may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on Patriot's financial condition and results of operations.

The Company relies on the dividends it receives from its subsidiary.

The Company is a separate and distinct legal entity from the Bank. The Company’s primary source of revenue is the dividends it receives from the Bank, which cash flow the Company uses to fund its activities, meet its obligations, and remit dividends to its shareholders. Various federal and state laws and regulations limit the amount of dividends that a bank may pay to its parent company. In addition, the Company’s right to participate in a distribution of assets, upon liquidation or reorganization of the Bank or another regulated subsidiary, may be subordinate to claims by the Bank’s or subsidiary's creditors. If the Bank were to be restricted from paying dividends to the Company, the Company’s ability to fund its activities, meet its obligations, or pay dividends to its shareholders might be curtailed. The inability to receive dividends from the Bank could therefore have a material adverse effect on the Company.

The price of the Company’s common stock may fluctuate.

The market price of the Company’s common stock could be subject to significant fluctuations due to changes in sentiment in the market regarding the Company’s operations or business prospects. Among other factors, the Company’s stock price may be affected by:

- Operating results that vary from the expectations of securities analysts and investors;
- Developments in its business or in the financial services sector in-general;
- Regulatory or legislative changes affecting its business or the financial services sector in-general;
- Operating results or securities price performance of companies that investors consider being comparable to the Company;
- Changes in estimates or recommendations by securities analysts or rating agencies;
- Announcements of strategic developments, acquisitions, dispositions, financings, and other material events by the Company or the Company’s competitors; and
- Changes or volatility in global financial markets and economies, general market conditions, interest or foreign exchange rates, stock, commodity, credit, or asset valuations.

Difficult market conditions have adversely affected the Company's industry.

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

Less than optimal economic conditions may continue to affect market confidence levels and may cause adverse changes in payment patterns, thereby causing increased delinquencies, which could affect the Bank's provision for loan losses and charge-off of loans receivable.

The ability to assess the creditworthiness of the Bank's customers, or to accurately estimate loan collateral value, may be impaired if the models and approaches the Bank uses becomes less predictive of future behaviors, valuations, assumptions, or estimates due to the unpredictable economic climate.

Increasing consolidation of financial services companies, as a result of current market conditions, could have unexpected adverse effects on the Bank's ability to compete effectively.

The Bank may be required to pay significantly higher FDIC premiums, special assessments, or taxes that could adversely affect its earnings.

Market developments have significantly impacted the insurance fund of the FDIC. As a result, the Bank may be required to pay higher premiums, or special assessments, that could adversely affect earnings. The amount of premiums the FDIC requires for the insurance coverage it provides is outside the Bank's control. If there are additional banks or financial institution failures, the Bank may be required to pay higher FDIC premiums than are currently assessed. Increases in FDIC insurance premiums, including any future increases or required prepayments, may materially adversely affect the Bank's results of operations.

Patriot is subject to risks associated with taxation.

The amount of income taxes Patriot is required to pay on its earnings is based on federal and state legislation and regulations. Patriot provides for current and deferred taxes in its financial statements, based on the results of operations, business activity, legal structure, interpretation of tax statutes, assessment of risk of adjustment upon audit, and application of financial accounting standards. Patriot may take tax return filing positions for which the final determination of tax is uncertain. Patriot’s net income or loss and the related amount per share may be reduced, if a federal, state, or local tax authority assesses additional taxes, penalties, or interest that has not been provided for in the consolidated financial statements. There can be no assurance that Patriot will achieve its anticipated effective tax rate, due to a change in a tax law, or the result of a tax audit that disallows previously recognized tax benefits.

Risks associated with changes in technology.

Financial products and services have become increasingly technology-driven. The Bank's ability to compete for new and meet the needs of existing customers, in a cost-efficient manner, is dependent on its ability to keep pace with technological advances and to invest in new technology as it becomes available. Many of the Bank's competitors have greater resources to invest in technology and may be better equipped to market new technology-driven products and services. Failing to keep pace with technological change could have a material adverse impact on the Bank's business and therefore on Patriot's financial condition and results of operations.

Strong competition in Patriot's geographical market could limit growth and profitability.

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

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

Patriot is subject to extensive regulation, supervision, and examination by the OCC as the Bank's chartering authority, the FDIC as the insurer of its deposits, and the Fed as its primary regulator. Changes in federal and state banking laws and regulations, or in federal monetary policies, could adversely affect the Bank's profitability and continued growth. In light of recent events, legislative and regulatory changes are expected, but cannot be predicted. For example, new legislation or regulation could limit the manner in which Patriot may conduct its business, including the Bank's ability to obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads. The laws, regulations, interpretations, and enforcement policies that apply to Patriot have been subject to significant, and sometimes retroactively applied, changes in recent years, and are likely to change significantly in the future.

Legislation enacted by the U.S. Congress, proposing significant structural reforms to the financial services industry, has, among other things, created the CFPB, which is given broad authority to regulate financial service providers and financial products. In addition, the Fed has passed guidance on incentive compensation at financial institutions it regulates and the United States Department of the Treasury and federal banking regulators have issued statements calling for higher capital and liquidity requirements. Complying with any new legislative or regulatory requirements and any programs established thereunder by federal and state governments, could have an adverse impact on Patriot's operations and the results thereof.

Changing regulation of corporate governance and public disclosure.

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

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

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

The Company is a "Controlled Company" within the meaning of the NASDAQ U.S. Market Rules and Regulations and, as a result, the Company qualifies for, and relies on, exemptions from certain corporate governance requirements.

Holdings controls a majority of the Company's voting common stock. As a result, the Company is a "Controlled Company" within the meaning of Nasdaq corporate governance standards. Under the Nasdaq Rules and Regulations, a company of which more than 50% of the voting power is held by an individual, group or another company is considered a "Controlled Company", which may utilize exemptions relating to certain Nasdaq corporate governance requirements, including:

- Requiring the Board of Directors to be comprised of Independent Directors (as defined);
- The requirement that the Company have a Nominating and Governance Committee that is composed entirely of independent directors;
- The requirement that the Company have a Compensation Committee that is composed entirely of independent directors; and
- The requirement for an annual performance evaluation of the Nominating and Governance and Compensation Committees.

As a result of these exemptions, the Company's Nominating and Governance Committee and Compensation Committee do not consist entirely of independent directors and the Company is not required to have an annual performance evaluation of the Nominating and Governance and Compensation Committees. Accordingly, a holder of its common stock will not have the same protections afforded to stockholders of companies that are subject to all of the NASDAQ corporate governance requirements.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The following table summarizes Patriot’s owned and leased properties, as of December 31, 2017:

Street Address	**City**	**County**	**State**
Owned:			
233 Post Road	Darien	Fairfield	Connecticut
1755 Black Rock Turnpike	Fairfield	Fairfield	Connecticut
100 Mason Street	Greenwich	Fairfield	Connecticut
900 Bedford Street	Stamford	Fairfield	Connecticut
999 Bedford Street	Stamford	Fairfield	Connecticut
50 Charles Street	Westport	Fairfield	Connecticut
771 Boston Post Road	Milford	New Haven	Connecticut
50 Church Street	New Haven	New Haven	Connecticut
Leased:			
16 River Street	Norwalk	Fairfield	Connecticut
415 Post Road East	Westport	Fairfield	Connecticut
432 Old Post Road	Bedford	Westchester	New York
495 Central Park Avenue	Scarsdale	Westchester	New York

At December 31, 2017, five branch buildings were owned and four branch facilities were leased. Additionally, the Bank maintains certain operating and administrative service facilities and additional parking at its main branch banking office, which is subject to three distinct lease agreements. Patriot’s lease agreements have terms ranging from one year to fifteen years with fourteen years and six months remaining on the longest lease term. Generally, Patriot’s lease agreements contain rent escalation clauses, and renewals for one or more periods at the Bank’s option. On February 28, 2018, the Bedford branch was closed and its business and staff transferred to the Scarsdale branch.

On May 1, 2017, Patriot completed renovation on 999 Bedford Street, Stamford and moved certain corporate staff and its main branch banking office to this location, which was purchased in November 2014.

In 2014, the Bank purchased its Milford branch building and two new buildings for its Darien and Westport branches. In 2015, the Darien branch moved into its newly renovated building and, once renovations are completed, the Westport branch will move to its new building.

In 2013, Patriot purchased 900 Bedford Street, Stamford, Connecticut. In 2015, Patriot moved its corporate headquarters and main branch banking office to this location, leaving some operational departments at the old leased location.

In 2013, the Bank purchased its Greenwich branch building.

At three of its branch buildings, the Bank has excess space that it leases to seven unrelated parties.

For additional information, see the Commitment and Contingencies footnote disclosure in the Consolidated Financial Statements included herein.

ITEM 3. Legal Proceedings

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

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information

The Company's Common Stock is traded on the Nasdaq Global Market under the Symbol "PNBK." On March 27, 2018, the last sale price for the Company's Common Stock was $19.25.

The following table sets forth the high and low sales prices of the Company's Common Stock during each of the calendar quarters of the last two fiscal years.

	Year ended December 31,					
	2017			**2016**		
	Sales Price		**Cash dividends**	**Sales Price**		**Cash dividends**
Quarter ended	**High**	**Low**	**declared**	**High**	**Low**	**declared**
March 31,	$15.40	13.85	-	$15.50	12.57	-
June 30,	$17.50	14.60	-	$14.98	12.80	-
September 30,	$17.50	15.90	0.01	$16.50	12.80	-
December 31,	$18.30	16.63	0.01	$15.24	13.00	-

Holders

There were approximately 258 shareholders of record of the Company's Common Stock as of December 31, 2017. This number does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms or other nominees.

Dividends

The Company’s ability to pay dividends is dependent on the Bank’s ability to pay dividends to the Company. The Bank can pay dividends to the Company pursuant to a dividend policy requiring compliance with the Bank's OCC-approved capital program, in compliance with applicable law, and with the prior written determination of no supervisory objection by the Assistant Deputy Comptroller. In addition to the capital program, certain other restrictions exist regarding the ability of the Bank to transfer funds to the Company in the form of cash dividends, loans or advances. The approval of the OCC is required to pay dividends in excess of the Bank’s earnings retained in the current year plus retained net earnings for the preceding two years. The Company is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements. OCC regulations impose limitations upon all capital distributions by commercial institutions, like the Bank, such as dividends and payments to repurchase or otherwise acquire shares. The Company may not declare or pay cash dividends on or repurchase any of its shares of common stock, if the effect thereof would cause stockholders’ equity to be reduced below applicable regulatory capital maintenance requirements, or if such declaration and payments would otherwise violate regulatory requirements.

On July 17, 2017, the Company announced its intention to begin making quarterly cash dividend payments. For the year ended December 31, 2017, the Company paid cash dividends of $77,000. No dividend was declared and paid for the years ended December 31, 2016 and 2015.

Recent Sales of Unregistered Securities

During the fourth quarter of 2017, the Company did not have any sales of unregistered securities.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Performance Graph

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

PATRIOT NATIONAL BANCORP

TOTAL RETURN PERFORMANCE

	Period Ending December 31,					
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Patriot National Bancorp ("PNBK")	100.00%	83.20 %	131.36%	116.40%	112.40%	142.80%
Nasdaq Community Bank Total Return Index ("XABQ")	100.00%	141.68%	148.28%	162.44%	225.41%	231.20%
S&P 500 Total Return Index ("SP500TR")	100.00%	132.39%	150.51%	152.59%	170.84%	208.14%

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Stock Repurchases

The following table presents share repurchases of Patriot's common stock during the each of the months in the year ended December 31, 2017 and 2016.

Period Beginning	**Period Ending**	**No. of Shares Purchased**[1]		**Average Price Paid per Share**	**No. of Shares Purchased as part of Publicly Announced Plans**[1]	**Maximum No. of Shares that may yet be Purchased Under the Plans**[1]
November 1, 2016	November 30, 2016	629		$ 13.73	629	498,853
December 1, 2016	December 31, 2016	71,324		$ 14.04	71,324	427,529
Year ended December 31, 2016		71,953		**$ 14.04**		
August 1, 2017	August 31, 2017	100	(2)	$ 17.10	0 [2]	
Year ended December 31, 2017		100		**$ 17.10**		

(1) All shares have been repurchased in connection with the stock repurchase program (the "Program") authorized by the Company's Board of Directors on July 29, 2016. The Program authorized the Company's chairman to direct the Company to repurchase up to 500,000 shares of Patriot's common stock on the open-market or in private transactions, through July 31, 2017.

(2) After the Program closed, one shareholder elected to sell 100 shares back to the Company. This transaction was accepted and executed on the same terms as those executed during the Program.

ITEM 6. Selected Financial Data

(In thousands, except per share data)

	As of and for the year ended December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
Balance Sheet Data:					
Cash and due from banks	$49,241	92,289	85,400	73,258	34,866
Investment securities	38,417	36,596	42,472	46,818	47,738
Loans, net	713,350	576,982	479,127	471,984	418,148
Total assets	852,080	756,654	653,355	632,443	541,060
Total deposits	637,439	529,324	444,665	440,889	428,104
Total borrowings	141,369	159,476	142,026	128,066	65,060
Total shareholders' equity	66,749	62,570	61,464	58,735	41,841
Operating Data:					
Interest and dividend income	$32,849	25,408	23,741	20,368	21,654
Interest expense	6,956	3,008	2,690	2,970	4,854
Net interest income	25,893	22,400	21,051	17,398	16,800
(Credit) provision for loan losses	(857)	2,464	250	-	970
Non-interest income	1,444	1,556	1,551	1,832	2,426
Non-interest expense	21,172	18,355	18,851	18,271	25,884
Provision (benefit) for income taxes	2,875	1,207	1,358	(14,750)	(339)
Net income (loss)	$4,147	1,930	2,143	15,709	(7,289)
Per Share Data:					
Basic income (loss) per share	$1.06	0.49	0.55	4.08 (1)	(1.90) (1)
Diluted income (loss) per share	$1.06	0.49	0.55	4.05 (1)	(1.90) (1)
Selected Ratios:					
Return on average assets	0.54%	0.30%	0.34%	2.81%	(1.28)%
Return on average equity	6.32%	3.08%	3.55%	32.94%	(16.43)%
Average equity to average assets	8.48%	9.83%	9.65%	8.53%	7.80%

(1) All common stock and per share

data have been restated to give effect to a reverse stock split of 1-for-10 effective March 4, 2015.

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Non-GAAP Financial Measures

The following table represents a reconciliation of the reported net income to the net income excluding loan loss provision for the years ended December 31, 2017, 2016 and 2015. The table is reported in a format that is not in compliance with Generally Accepted Accounting Principles (non-GAAP) but is beneficial to the reader and provides enhanced comparability due to the loan loss and subsequent loan recovery associated with the troubled loan described in Item 7. Results of Operations - Provision for loan losses. Company management finds this measure useful when assessing the period to period change in core performance of the business.

(In thousands)	**Year Ended December 31, 2017**	**2016**
Net Income excluding Loan Loss (credit) Provision		
Net income reported	$4,147	$1,930
Tax provision	2,875	1,207
Loan loss (credit) provision	(857)	2,464
Pre-tax income reported	7,022	3,137
Pre-tax income excluding loan (credit) loss provision	6,165	5,601
Net income excluding loan loss (credit) provision	3,641	3,446

ITEM 7. Management’s Discussion and Analysis - Financial Condition & Results of Operations

Critical Accounting Policies

The accounting and reporting policies of Patriot conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”) and to general practices within the financial services industry. A summary of Patriot’s significant accounting policies is included in the Notes to Consolidated Financial Statements that are referenced in Item 8. Financial Statements and Supplementary Data. Although all of Patriot’s policies are integral to understanding its Consolidated Financial Statements, certain accounting policies involve Management to exercise judgment, develop assumptions, and make estimates that may have a material impact on the financial information presented in the Consolidated Financial Statements or Notes thereto. The assumptions and estimates are based on historical experience and other factors representing the best available information to Management as of the date of the Consolidated Financial Statements, up to and including the date of issuance or availability for issuance. As the basis for the assumptions and estimates incorporated in the Consolidated Financial Statements may change, as new information comes to light, the Consolidated Financial Statements could reflect different assumptions and estimates.

Due to the judgments, assumptions, and estimates inherent in the following policies, Management considers such accounting policies critical to an understanding of the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Allowance for Loan Losses (“ALL”)

The Company maintains an ALL at a level management believes is sufficient to absorb estimated credit losses incurred as of the report date. Management’s determination of the adequacy of the ALL is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires significant estimates by management. As applicable, consideration is given to a variety of factors in establishing these estimates including historical losses, peer and industry data, current economic conditions, the size and composition of the loan portfolio, delinquency statistics, criticized and classified assets and impaired loans, results of internal loan reviews, borrowers’ perceived financial and management strengths, the adequacy of underlying collateral, the dependence on collateral, and the strength of the present value of future cash flows and other relevant factors. These factors may be susceptible to significant change.

To the extent actual outcomes differ from Management’s estimates, additional provisions for loan losses may be required, which may adversely affect the Company’s results of operations in the future. Subsequent to acquisition of purchased-credit-impaired loans, estimates of cash flows expected to be collected are updated each reporting period based on updated assumptions regarding default rates, loss severities, and other factors that are reflective of current market conditions. Subsequent decreases in expected cash flows will generally result in a provision for loan losses; subsequent increases in expected cash flows may result in a reversal of the provision for loan losses to the extent of prior charges.

Unrealized Gains and Losses on Securities Available-for-sale

The Company receives estimated fair values of debt securities from independent valuation services and brokers. In developing these fair values, the valuation services and brokers use estimates of cash flows based on historical performance of similar instruments in similar rate environments. Available-for-sale debt securities consist primarily of mortgage-backed securities that are guaranteed by the U.S. government. The Company uses various indicators in determining whether a security is other-than-temporarily impaired including, for debt securities, when it is probable that the contractual interest and principal will not be collected, or for equity securities, whether the market value is below its cost for an extended period of time with low expectation of recovery. The debt securities are monitored for changes in credit ratings because adverse changes in credit ratings could indicate a change in the estimated cash flows of the underlying collateral or issuer. For marketable equity securities, the Company considers the issuer's financial condition, capital strength, and near term prospects to determine whether impairment is temporary or other-than-temporary. The Company also considers the volatility of a security's price in comparison to the market as a whole and any recoveries or declines in fair value subsequent to the balance sheet date. If management determines that the impairment is other-than-temporary, the entire amount of the impairment, as of the balance sheet date, is recognized in earnings, even if the decision to sell the security has not been made. The fair value of the security becomes the new amortized cost basis of the investment and is not adjusted for subsequent recoveries in fair value. Available-for-sale debt securities were not considered to be other-than-temporarily impaired as of December 31, 2017, 2016, or 2015 because the unrealized losses were related to changes in interest rates and did not affect the expected cash flows to be received, or indicate a loss of value on the underlying collateral, or a loss of financial stability on the part of the issuer. Management concluded that the declines in fair value of the investment portfolio as of the reporting dates is temporary and that values would recover by way of increases in market price or positive changes in market interest rates.

Deferred Income Taxes

The Company provides for deferred income taxes on the asset and liability approach, whereby a deferred tax liability or asset is recognized for the estimated future tax effect attributable to temporary differences or carryforwards. Temporary differences are the differences between the reported amounts of assets and liabilities in the financial statements and their tax basis. 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. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

FINANCIAL CONDITION

Assets

The Company's total assets increased $95.4 million, or 12.6%, from $756.7 million at December 31, 2016 to $852.1 million at December 31, 2017. The growth in assets is primarily attributable to management's efforts to increase the amount and quality of its loan portfolio through its loan origination activities and by investing in quality loan pools, primarily funded through a growth in deposits.

Following is a detailed discussion and analysis of events and transactions during the years ended December 31, 2017 and 2016 and the impacts that have been realized with respect to Patriot's financial position.

Cash and cash equivalents

Cash and cash equivalents have decreased $43.1 million or 46.7%, from $92.3 million at December 31, 2016 to 49.2 million as of December 31, 2017. The Company funded $73.0 million in purchases of loans, $63.1 million in net originations of loans receivable, and $20.6 million in purchases of available-for-sale securities. The effect of these outlays was partially offset by a $108.1 million increase in deposits, and $16.9 million of proceeds from sales and principal repayments on available for sale securities, and $7.3 million in net cash provided by operations during the period.

Investment securities

Patriot's investment security portfolio has increased $1.1 million or 4.0% from December 31, 2016 to 2017.

The total investment among the existing investment security classes, consisting of U.S. Government agency mortgage-backed securities, corporate bonds, and subordinated notes has remained stable. However, a redistribution of investment among these classes has occurred, in order to maximize returns. Specifically, corporate bonds has increased $4.8 million or 54.0%, the investment in Government agency mortgage-backed securities has decreased $3.2 million or 30.8%, subordinated notes have decreased $478,000 or 9.5%. The management of the investment portfolio produced a $468,000 or 52.2% improvement in interest income earned in 2017 over 2016.

Loans receivable, net

The following table provides the composition of the Company's loan portfolio as of December 31 for each of the years shown:

(In thousands)	**December 31,**								
Loan portfolio segment:	**2017**			**2016**			**2015**		
	Amount	%		Amount	%		Amount	%	
Commercial Real Estate	$299,925	41.68	%	271,229	46.63	%	245,828	50.75	%
Residential Real Estate	146,377	20.34	%	86,514	14.87	%	110,837	22.88	%
Commercial and Industrial	131,161	18.23	%	60,977	10.48	%	59,752	12.34	%
Consumer and Other	87,707	12.19	%	101,449	17.44	%	47,521	9.81	%
Construction	47,619	6.62	%	53,895	9.27	%	15,551	3.21	%
Construction to permanent - CRE	6,858	0.94	%	7,593	1.31	%	4,880	1.01	%
Loans receivable, gross	719,647	100.00	%	581,657	100.00	%	484,369	100.00	%
Allowance for loan losses	(6,297)			(4,675)			(5,242)		
Loans receivable, net	$713,350			576,982			479,127		

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The total loan receivable increased $137.9 million or 23.7%, which is attributable to the loan portfolio segments as follows:

- $70.2 million or 115.1% increase in Commercial and Industrial loans;
- $59.9 million or 69.2% increase in Residential Real Estate loans;
- $28.7 million or 10.6% increase in Commercial Real Estate loans;
- $13.7 million or 13.5% decrease in Consumer and other loans;
- $6.3 million or 11.6% decrease in Construction loans; and
- $735,000 or 9.7% decrease in Construction to permanent – CRE loans.

The increase in loans receivable was primarily attributable to purchases of $73.0 million residential real estate loans, and $63.1 million increase in net origination of loan receivables. As of December 31, 2017, the loan pipeline is strong, and management expects continued growth. The Company will continue to add to the product lines and enhance service offerings to the customers.

Maturities and Sensitivities of Loans to Changes in Interest Rates

Approximately 65.3% of the loan portfolio is currently weighted towards long-term maturities of five-years or more from December 31, 2017. The longer term of these loans provides a degree of stability to the Bank in managing its liquidity and concentrating its efforts on loan origination to higher quality, longer term relationships.

As a community bank, the Bank is invested in a thriving, robust local economy, which may be subject to the vagaries of general economic conditions. The existing conditions have led an investment in the loan portfolio weighted to Commercial Real Estate and Construction lending, which accounts for 48.3% of total loans receivable. These loans generally are collateralized by the underlying real estate and supported by personal guarantees of the borrowers.

The following table presents loans receivable, gross by portfolio segment, by contractual maturity as of December 31, 2017:

	Contractual Maturity of Loan Balance			
(In thousands)	**One year or less**	**One through Five Years**	**After Five Years**	**Total**
Loan portfolio segment:				
Commercial Real Estate	$75,384	39,747	184,794	299,925
Residential Real Estate	-	5,885	140,492	146,377
Commercial and Industrial	38,922	39,826	52,413	131,161
Consumer and Other	687	1,761	85,259	87,707
Construction	39,686	7,933	-	47,619
Construction to permanent - CRE	-	-	6,858	6,858
Total	$154,679	95,152	469,816	719,647
Fixed rate loans	$66,608	52,898	106,927	226,433
Variable rate loans	88,071	42,254	362,889	493,214
Total	$154,679	95,152	469,816	719,647

Variable rate loans account for 68.5% of the total loan portfolio, which is attractive to the Bank in a period of increasing interest rates. $362.9 million or 73.6% of the variable rate loan portfolio matures in more than five years, which contributes a certain degree of stability to the Bank in managing both its interest rate risk and liquidity.

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Allowance for Loan Losses

The allowance for loan losses increased $1.6 million from $4.7 million at December 31, 2016 to $6.3 million at December 31, 2017. The increase was primarily attributable to a $2.8 million increase in recoveries within our Commercial and Industrial category that were offset by $0.9 million credit to the allowance and $0.3 million of charge-offs for all loan categories.

The overall credit quality of the loan portfolio continues to be strong and stable. Based upon the overall assessment and evaluation of the loan portfolio at December 31, 2017, management believes the allowance for loan losses of $6.3 million, which represents 0.88% of gross loans outstanding, was adequate under prevailing economic conditions to absorb existing losses in the loan portfolio.

The following table provides detail of activity in the allowance for loan losses:

(In thousands)	**2017**	**2016**	**2015**
Balance at beginning of year	$4,675	5,242	4,924
Charge-offs:			
Residential Real Estate	-	(190)	(16)
Commercial and Industrial	(265)	(2,977)	-
Consumer and Other	(39)	(13)	(16)
Construction	-	-	-
Total charge-offs	(304)	(3,180)	(32)
Recoveries:			
Commercial Real Estate	10	80	35
Residential Real Estate	-	1	-
Commercial and Industrial	2,769	66	49
Consumer and Other	4	2	11
Construction to permanent - CRE	-	-	5
Total recoveries	2,783	149	100
Net (recoveries) charge-offs	(2,479)	3,031	(68)
(Credit) provision charged to earnings	(857)	2,464	250
Balance at end of year	$6,297	4,675	5,242
Ratios:			
Net (recoveries) charge-offs to average loans	(0.37)%	0.58%	(0.01)%
Allowance for loan losses to total loans	0.88%	0.81%	1.09%

The following table provides an allocation of allowance for loan losses by portfolio segment and the percentage of the loans to total loans:

(In thousands)	**2017**		**2016**		**2015**	
	Allowance for loan losses	**% of loans**	**Allowance for loan losses**	**% of loans**	**Allowance for loan losses**	**% of loans**
Commercial Real Estate	$2,212	41.68 %	1,853	46.63 %	1,970	50.75 %
Residential Real Estate	959	20.34 %	534	14.87 %	740	22.88 %
Commercial and Industrial	2,023	18.23 %	740	10.48 %	1,027	12.34 %
Consumer and Other	568	12.19 %	641	17.44 %	677	9.81 %
Construction	481	6.62 %	712	9.27 %	486	3.21 %
Construction to permanent - CRE	54	0.94 %	69	1.31 %	123	1.01 %
Unallocated	-	N/A	126	N/A	219	N/A
Total	$6,297	100.00%	4,675	100.00%	5,242	100.00%

<u>Nonperforming Assets</u>

The following table presents non-accrual and accruing loans which were past due by over 90 days for the dates indicated:

(In thousands)	**December 31,**		
	2017	**2016**	**2015**
Non-accruing loans:			
Residential Real Estate	$3,028	1,590	1,590
Commercial and Industrial	748	231	-
Consumer and Other	2	-	3
Total non-accruing loans	3,778	1,821	1,593
Loans past due over 90 days and still accruing	1,356	1,452	2,046
Other real estate owned	-	851	-
Total nonperforming assets	$5,134	4,124	3,639
Nonperforming assets to total assets	0.60 %	0.55 %	0.56 %
Nonperforming loans to total loans	0.72 %	0.71 %	0.76 %

Non-accrual loans increased $2.0 million, from $1.8 million at December 31, 2016 to $3.8 million at December 31, 2017. The $3.8 million of non-accrual loans at December 31, 2017 is comprised of eight relationships, for which a specific reserve of $253,000 has been established.

The Company has obtained appraisal reports from independent licensed appraisal firms and discounted those values for estimated selling costs to determine estimated impairment.

The $1.8 million of non-accrual loans at December 31, 2016 was comprised of three borrowers, for which a specific reserve of $231,000 had been established.

Loans greater than 90 days past due or more, and still accruing interest, were $1.4 million at December 31, 2017. The balance was consistent as compared to $1.5 million at December 31, 2016.

Premises and equipment

Management continuosly reviews its branch locations and corporate offices to improve penetration in targeted markets and increase operating efficiencies.

During the year ended December 31, 2017, construction-in-process decreased approximately $4.1 million or 65.0%, of which approximately $2.7 million or 65.9% was attributable to the build-out of the 999 Bedford Street, Stamford location in 2016. In December 2017 the 999 Bedford Street branch was opened for operations. Reduction of the construction-in-process was also impacted by the completion of the renovation and build-out of a new branch location in Westport, CT located at 50 Charles Street that accounts for $0.2 million or 4.9% of the decrease.

Other Real Estate Owned (“OREO”)

In December 2017, Patriot sold the OREO, which was recorded on the Consolidated Balance Sheet as of December 31, 2016. The balance consisted a single undeveloped property (i.e., raw land) zoned for multi-use construction that was foreclosed upon and was held as OREO of $851,000 at December 31, 2016. On taking possession of the property in 2016, the Bank recognized an approximate $11,000 gain that represents the fair value of the property in excess of the carrying value of the loan for the year ended December 31, 2016. In connection of the sale, Patriot recognized a loss of $9,000 for the year ended December 31, 2017.

Deferred Taxes

As of December 31, 2017, Patriot has available approximately $37.2 million of Federal net operating loss carryforwards ("NOL") that is offset by $22.4 million in §382 limitations imposed by the Internal Revenue Code. The $14.8 million of Federal NOLs are available to offset Patriot's taxable income for periods up to and through 2032, as these NOLs expire on various dates beginning in 2029.

Additionally, Patriot has approximately $60.4 million of NOLs available for Connecticut tax purposes, which may be used to offset up to 50% of taxable income in any year. The NOLs have an approximate fourteen year life.

Patriot anticipates utilizing approximately $2.3 million of its tax-effected NOLs, in respect to its 2017 tax year.

The provision for income taxes of $2.9 million for the year ended December 31, 2017 was impacted by two mostly offsetting adjustments:

- Change in the Federal corporate tax rate from 35% to 21% enacted in December 2017, which decreased the Company's deferred tax asset by $2.8 million as of December 31, 2017;
- Recognition of deferred tax benefit due to a change in the classification of certain net operating loss carryforwards that were previously deemed to have been subject to IRC section 382 limitations, which increased the deferred tax asset and decreased the provision for income taxes by $2.8 million for the year ended December 31, 2017.

As of December 31, 2017, Patriot had a $10.4 million deferred tax asset, comprised of multiple temporary differences, in addition to the previously aforementioned NOLs, which management believes will be fully realized in the future. The assessment of the potential realizability of the deferred tax assets is based on observation of the condition and future of the Bank, including:

- Favorable financial performance over the past three years;
- Forecasted taxable income for 2018 and future periods;
- The growth in loan originations and the overall quality of the loan portfolio;
- Improvements in operations and cost management; and
- Net operating loss carry-forwards that do not begin to expire until 2029.

There is no guarantee that Patriot will realize the benefits of the NOLs in the future. As such, management continues to evaluate its ability to realize the benefits of the net deferred tax assets and will act accordingly if conditions change.

Deposits

Total deposits increased by $108.1 million or 20.4%, from $529.3 million at December 31, 2016 to $637.4 million at December 31, 2017. The increase included a $74.2 million increase in brokered deposits as the Bank utilizes this funding source to support growth in its loan portfolio. The balance of the increase, from the Bank's branch operations, was result of expanding its product base to add new customer relationships and strengthen the loyalty of the existing customer base. The effort was part of a strategy to establish long-term relationships for sustained growth and profitability. The increase in deposits, most notably in the category of time certificates, signifies the success in strengthening the Bank’s liquidity by refocusing its operations on its customer base. The Company continues to implement deposit growth initiatives.

The growth in deposits was across all products offered by the Bank, except for NOW accounts, which decreased by $4.4 million or 14.7% from December 31, 2016.

Growth in the all other deposit accounts may be summarized as:

$74.2 million or 116.1% increase in brokered deposits;
$28.4 million or 13.4% increase in time certificates of deposits;
$4.6 million or 3.5% increase in savings accounts;
$4.4 million or 5.7% increase in non-interest bearing deposits; and
$1.0 million or 6.4% increase in money market accounts.

Borrowings

Total borrowings declined by $18.1 million or 11.3%, from $159.5 million at December 31, 2016 to $141.4 million at December 31, 2017. Borrowings consist primarily of Federal Home Loan Bank ("FHLB") advances, senior notes, junior subordinated debentures and a note payable to the seller from whom the Fairfield branch building was purchased in 2015.

FHLB advances decreased by $18.0 million or 13.0% at December 31, 2017 compared to 2016, which decrease is primarily attributable to the decision to fund balance sheet growth at slightly lower rates in the brokered deposit market. The Bank maintains strong standing with the FHLB and its "Well Capitalized" designation with the FDIC, as provided below.

In December 2016, the Bank entered into a $16 million revolving line of credit agreement with a correspondent bank. The line of credit was obtained to provide short-term liquidity to satisfy overnight Fed account balance requirements and to provide for daily settlement of FRB, ACH, and other clearinghouse transactions. At December 31, 2016, $15.0 million was outstanding under the line of credit, which amount was repaid early in January 2017.

In December 2016, the Company issued $12 million of 7% senior unsecured notes in a private placement to accredited institutional investors. The notes mature in December 2021, require the payment of interest on a semi-annual basis, require interest-only through maturity, and are neither callable by the Company nor putable by the holders. The Company used approximately $7.2 million of the proceeds from the note issuance to bolster its investment in the Bank, which capital contribution qualifies for Tier 1 Capital of the Bank.

Shareholders' Equity

Equity increased $4.2 million from $62.6 million at December 31, 2016 to $66.7 million at December 31, 2017, primarily due to $4.1 million of year-to-date net income, $146,000 of equity compensation, and $35,000 of investment portfolio unrealized loss.

In July 2016, the Company authorized a one-year stock repurchase program ("the Program") whereby management may repurchase up to 500,000 shares of common stock through July 2017. The program authorized management, at the direction of the Company's chairman, to repurchase shares on the open-market or in private transactions, in accordance with applicable security laws and regulations.

During the year ended December 31, 2016, 72,471 shares of common stock were repurchased in a combination of open market and private transactions at an average cost of $14.04 per share or $1.0 million. Approximately 68,500 shares repurchased and entered into treasury relate to shares held by a former officer of the Company, which shares were repurchased at an average cost of $14.05. Management viewed the buy-back program as a valuable means to increase shareholder value.

In August 2017, after the Program closed, one shareholder elected to sell 100 shares back to the Company at a cost of $17.10. Thus transaction was accepted and executed on the same terms as those executed during the Program.

Average Balances

The following table presents daily average balance sheets, interest income, interest expense and the corresponding yields earned and rates paid for each of the years in the three-year period ended December 31, 2017.

(In thousands)	**Year ended December 31,**								
	2017			**2016**			**2015**		
	Daily Average Balance ($)	**Interest ($)**	**Yield (%)**	**Daily Average Balance ($)**	**Interest ($)**	**Yield (%)**	**Daily Average Balance ($)**	**Interest ($)**	**Yield (%)**
ASSETS									
Interest Earning Assets:									
Loans	$662,299	31,270	4.72	522,021	24,391	4.67	492,245	22,879	4.65
Cash equivalents	23,481	214	0.91	33,411	120	0.36	48,248	102	0.21
Investments	38,016	1,365	4.79	37,583	897	2.39	44,427	760	1.71
Total interest earning assets	723,796	32,849	4.54	593,015	25,408	4.28	584,920	23,741	4.06
Cash and due from banks	3,966			3,525			2,623		
Allowance for loan losses	(5,734)			(6,238)			(5,148)		
OREO	840			499			-		
Other assets	50,434			47,501			43,238		
Total Assets	$773,302			638,302			625,633		
Liabilities									
Interest bearing liabilities:									
Time certificates	$238,056	2,787	1.17	156,638	1,103	0.70	180,910	1,297	0.72
Savings accounts	143,711	1,160	0.81	127,238	778	0.61	100,517	489	0.49
Money market accounts	14,488	5	0.04	17,989	7	0.04	22,481	10	0.04
NOW accounts	25,088	7	0.03	26,559	8	0.03	29,027	4	0.01
Broker deposits	79,610	989	1.24	47,950	346	0.72	43,896	216	0.49
Borrowings	107,677	702	0.65	110,319	371	0.34	105,348	368	0.35
Senior notes	11,664	915	7.84	319	25	7.84	-	-	-
Subordinated debt	8,204	360	4.39	8,248	334	4.05	8,248	294	3.56
Note Payable	1,665	31	1.75	1,852	36	1.94	529	12	2.27
Total interest bearing liabilities	630,163	6,956	1.10	497,112	3,008	0.61	490,956	2,690	0.55
Demand deposits	75,177			75,311			71,222		
Other liabilities	2,393			3,127			3,060		

Total Liabilities	707,733			575,550			565,238		
Shareholders' equity	65,569			62,752			60,395		
Total Liabilities and Shareholders' Equity	$773,302			638,302			625,633		
Net interest income		25,893			22,400			21,051	
Interest margin			3.58			3.78			3.60
Interest spread			3.44			3.68			3.51

The following table presents the change in interest-earning assets and interest-bearing liabilities by major category and the related change in the interest income earned and interest expense incurred thereon attributable to the change in transactional volume in the financial instruments and the rates of interest applicable thereto, comparing the years ended December 31, 2017 to 2016 and December 31, 2016 to 2015.

(In thousands)	**Years ended December 31, 2017 compared to 2016 Increase/(Decrease)**				**2016 compared to 2015 Increase/(Decrease)**			
	Daily Average Balance	**Volume**	**Rate**	**Total**	**Daily Average Balance**	**Volume**	**Rate**	**Total**
Interest Earning Assets:								
Loans	$140,278	6,169	710	6,879	$29,776	1,384	128	1,512
Cash equivalents	(9,930)	(36)	130	94	(14,837)	(31)	49	18
Investments	433	2	466	468	(6,844)	(117)	254	137
Total interest earning assets	130,781	6,135	1,306	7,441	8,095	1,236	431	1,667
Interest bearing liabilities:								
Time certificates	81,418	572	1,112	1,684	(24,272)	(174)	(20)	(194)
Savings accounts	16,473	100	282	382	26,721	130	159	289
Money market accounts	(3,501)	(2)	-	(2)	(4,492)	(2)	(1)	(3)
NOW accounts	(1,471)	(1)	-	(1)	(2,468)	-	4	4
Broker deposits	31,660	229	414	643	4,054	20	110	130
Borrowings	(2,642)	(6)	337	331	4,971	17	(14)	3
Senior notes	11,345	890	-	890	319	25	-	25
Subordinated debt	(44)	(2)	28	26	-	-	40	40
Note payable	(187)	(5)	-	(5)	1,323	30	(6)	24
Total interest bearing liabilities	133,051	1,775	2,173	3,948	6,156	46	272	318
Net interest income	$(2,270)	4,360	(867)	3,493	$1,939	1,189	159	1,349

RESULTS OF OPERATIONS

Comparison of Results of Operations for the years 2017 and 2016

For the year ended December 31, 2017, the Company recorded net income of $4.1 million ($1.06 per share) compared to a net income of $1.9 million ($0.49 per share) for the year ended December 31, 2016. The 2017 full year results represented the strongest earnings year in the Company's history.

Income before tax expense was $7.0 million compared to 2016's income before income tax expense of $3.1 million. Highlights include:

Interest and dividend income increased $7.4 million;
Net interest income increased $3.5million;
Provision for loan losses decreased $3.3 million, which included a $2.8 million loan recovery; and
Non-interest expense increased $2.8 million.

The positive results for 2017 demonstrate the continued growth and success of the Company, primarily due to loan and deposit growth as well as balance sheet and operational efficiencies implemented during the past two years. These initiatives included:

Targeted lending opportunities and loan pool purchases;
Prudent underwriting standards and the successful recovery of a previously charged-off loan;
Re-shaping of the executive management team with a renewed focus on growth and value accretion;
Expanding branch product offerings.

Net interest Income

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

Net interest income for the years ended December 31, 2017 and 2016 was $25.9 million and $22.4 million, respectively. The increase of $3.5 million in 2017 over the previous year as focused growth and diversification in the loan portfolio yielded an increase in interest income. Average loan balances increased $140.3 million in 2017 as compared to the year ended December 31, 2016. Average yields on loans increased slightly to 4.72% from 4.67% in

2016.

Average yields on investment securities improved in 2017 to 4.79% from 2.39% in 2016 resulting in higher interest income of $468,000. This increase was primarily due to average higher yield of the subordinated bonds from two creditworthy financial institutions, which were purchased during 2016, each yielding 5% or greater.

As loans continued to grow in 2017, so did the need to increase the Bank's deposit base and liquidity sources. Since the second half of 2016, the Bank has adopted a certificate of deposits (CD) program to attract term deposits at competitive rates. For the year ended December 31, 2017, total interest expense increased $3.9 million as compared to the year ended December 31, 2016, primarily driven by $2.7 million increase in interest on deposits as the result of an increase in deposit volumes and rates. In addition, interest expense increased $890,000 associated with the issuance of senior debt in December 2016.

In December 2016, the Company completed an issuance, through a private placement, of $12 million aggregate principal amount of 7.0% fixed senior unsecured notes due December 22, 2021 (the "Notes"). The Notes were issued pursuant to a Purchase Agreement, dated as of December 22, 2016, between the Company and accredited institutional investors. The Notes bear a fixed interest rate of 7.00% per annum from December 22, 2016 up to but excluding December 22, 2021. The Notes are payable semi-annually in arrears on June 22 and December 22 of each year, beginning June 22, 2017. The Notes are not subject to redemption at the option of the Company. Principal and interest on the Notes are subject to acceleration only in limited circumstances.

Net interest margin for the year ended December 31, 2017 was 3.58% as compared to 3.78% for the year-ago period. The margin decline primarily reflected the cost of the Senior Notes and the higher cost associated with raising funds in the brokered deposit market. Management regularly reviews loan and deposit rates and strives to price the Bank's products competitively. The Bank tracks its mix of asset and liability maturities and manages its balance sheet in an effort to maintain a reasonable maturity match, between the two.

Provision for loan losses

For the year ended December 31, 2017, provision (credit) for loan losses of $(857,000) decreased $3.3 million from $2.5 million provision in 2016. This is primarily attributable to a single recovery in its Commercial and Industrial portfolio segment. Potential loss on the loan was fully reserved during 2016 and the loan was charged off during the fourth quarter of 2016. In March 2017, the Bank received a $2.8 million insurance recovery, which was recorded as a credit to the allowance for loan losses.

Non-interest income

Non-interest income decreased $112,000 from $1.6 million for 2016 to $1.4 million for 2017. The decrease was primarily attributable to a decrease of $107,000 in loan application and processing fees, a $10,000 decrease in deposit fees and service charges, and a $15,000 decrease in rental income.

Non-interest expense

Non-interest expense increased $2.8 million from $18.4 million for 2016 to $21.2 million for 2017. As the Bank grew in 2017, additional client facing and support team members were necessary. As such, salary and related benefit costs increased by $1.4 million and professional and other outside services increased $303,000. In addition, the expenses were impacted by non-recurring project costs of $640,000 associated with the pending merger and acquisition and an income tax related consulting project in 2017.

Pending acquisitions

On August 1, 2017, a definitive merger agreement (“Merger Agreement”) was entered into by and among the Company, Patriot Bank, Prime Bank, a Connecticut bank headquartered in Orange, CT (“Prime Bank”) (PMHV:US) and a stockholder representative of Prime Bank. In connection with the merger and acquisition, the Company incurred $365,000 of merger and acquisition expenses related to the Prime Bank merger for the year ended December 31, 2017.

On February 06, 2018, the Company and Hana Small Business Lending, Inc. (“Hana SBL”), a wholly-owned subsidiary of Hana Financial, Inc. (“Hana Financial”) announced the signing of a definitive purchase agreement pursuant to which Patriot will acquire Hana SBL's SBA Lending business.

Both of these pending acquisitions are subject to regulatory approval.

Comparison of Results of Operations for the years 2016 and 2015

For the year ended December 31, 2016, the Company recorded net income of $1.9 million ($.49 per share) compared to a net income of $2.1 million ($0.55 per share) for the year ended December 31, 2015.

Income before tax expense was $3.1 million compared to 2015's income before income tax expense of $3.5 million. Highlights include:

- Interest income increased $1.7 million;
- Net interest income increased $1.3 million;
- Provision for loan losses increased $2.2 million; and
- Non-interest expense decreased $496,000.

The positive results for 2016 demonstrate the continued growth and success of the Company. 2016 was the third consecutive year of net profitability, which was primarily due to loan and deposit growth as well as balance sheet and operational efficiencies implemented during 2014, 2015 and 2016. These initiatives included:

- Targeted lending opportunities and loan pool purchases.
- Replacing high cost borrowings with lower rate funding.
- Strategic repricing of deposits to target specific maturities.
- Streamlining of branch and operational teams to improve efficiencies and costs.
- Negotiating vendor price concessions.
- The purchase of three branch buildings where the benefits of owning outweigh the cost of leasing.

Net interest Income

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

Net interest income increased $1.3 million in 2016 over the previous year as focused growth and diversification in the loan portfolio yielded an increase in interest income. In order to achieve this, the Bank originated $94.7 million in commercial real estate loans and $14.7 million in construction loans. Average loan balances were $29.8 million higher in 2016 than in 2015, as loan payoffs continued throughout 2016. Average yields on loans increased slightly to 4.67%

from 4.65% in 2015 as the Bank operates in a very competitive market. Additionally, the Bank purchased two refinanced education loan pools totaling $52.0 million with a weighted average stated interest rate of approximately 5.3% from an originator who used targeted marketing to source qualified borrowers and applied strong credit standards similar to the Bank’s credit guidelines.

Average yields on investment securities improved in 2016 to 2.39% from 1.71% in 2015 resulting in higher interest income of $137,000. This increase was primarily due to the purchase of subordinated bonds from two creditworthy financial institutions during 2016 each yielding 5% or greater. One government sponsored bond was called in 2016 which yielded under 2%.

As the loan pipeline began to grow during 2016, so did the need to increase the Bank’s deposit base and liquidity sources. In the second half of 2016, the Bank initiated a certificate of deposits (CD) program to attract term deposits at competitive rates. The program was successful and achieved over $50 million in CDs in just five months. The average term of the new CDs was 15 months.

Total deposit interest expense increased $226,000 to $2.2 million for the year ended December 31, 2016. This increase was related to the deposit initiative as well as the increase in the use of broker deposits as a funding source. The average rate on interest bearing deposits increased from 54.8 basis points in 2015 to 55.3 basis points in 2016.

Interest expense on borrowings increased $92,000 from 2015. Interest expense on subordinated debt increased $40,000 from 2015, primarily due to incremental increase in three month LIBOR throughout 2016 which is the index this coupon is based upon.

In December 2016, the Company completed the issuance, through a private placement, of $12 million aggregate principal amount of 7.0% fixed senior unsecured notes due December 22, 2021 (the "Notes"). The Company intends to use the proceeds of this offering for general corporate purposes, which will include advances to the Bank to finance growth activities. In December, the Company advanced $7.2 million to the Bank which qualifies as Tier 1 capital.

The Notes were issued pursuant to a Purchase Agreement, dated as of December 22, 2016, between the Company and accredited institutional investors. The Notes bear a fixed interest rate of 7.00% per annum from and including December 22, 2016 to but excluding December 22, 2021 and are payable semi-annually in arrears on June 22 and December 22 of each year, beginning June 22, 2017. The Notes are not subject to redemption at the option of the Company. Principal and interest on the Notes are subject to acceleration only in limited circumstances. The senior notes issued increased interest expense by $25,000 in 2016.

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

Provision for loan losses

In 2016, loans outstanding grew $98 million over 2015 after loan payoffs and paydowns. With the exception of one commercial loan, the performance and credit quality of the portfolio continues to strengthen. In the second half of 2016, the Bank determined that an increase the loan loss reserve for one specific loan was required due to information and further analysis regarding the full collectability of this loan. To fully reserve for this loan, the Bank recognized a $3.0 million provision for loan losses in the year ended December 31, 2016, consisting of a $1 million provision in the first quarter of 2016 and an additional provision of $2 million in the second quarter of 2016, when it became clear that a total loss on the loan was imminent.

Despite the Bank's position that this loan should be fully reserved as of December 31, 2016, the Bank commenced recovery actions across all available avenues, including insurance coverage and claims against third parties. Potential insurance coverage, under which the Bank has sought recovery, included a Financial Institution Bond with a limit of liability of $5,000,000 above a $50,000 deductible. The Bank has vigorously pursued its avenues of recovery, including insurance coverage and third party claims. In March 2017, the Bank received $2.8 million of insurance proceeds against the loss recognized on the subject loan.

Non-interest income

Non-interest income of $1.6 million was recorded for 2016 and was consistent with the results of 2015. This category includes loan fees, deposit service charges, rental income and miscellaneous income. In 2015, non-interest income totaled $1.6 million.

Non-interest expense

In 2016, the Company continued its efforts of monitoring and controlling costs. Vendor management and evaluations were conducted in order to make certain the quality, level of service and expense expectations of vendors were in line with contractual agreements, some employee benefit costs were reduced, or in some cases, benefits modified to prevent future cost increases, and office occupancy costs were re-examined. Non-interest expense decreased $496,000, or 2.6%, to $18.4 million for the year ended December 31, 2016.

As the Bank grew in 2016, additional client facing and support team members were necessary. As such, salary and related benefit costs increased by $810,000. However, incentive savings of $176,000 and an increase in deferred loan costs credit of $340,000, due to the increase in loans originated in 2016, offset some of this additional staff expense.

The 2016 full year impact of relocating into new branches in 2015 benefited occupancy costs with approximately $350,000 in expense reductions. In 2015, there was a non-cash charge of $133,000 associated with the abandonment of leasehold improvements relating to the Fairfield branch building. There were no similar charges recorded in 2016.

In discussions with one of the Bank's data system providers, the Bank was able to negotiate specific terms to include offsetting future credits for services provided. In 2016, $150,000 in credits was applied to some invoices.

Professional and other outside services increased $91,000 primarily due to legal fees resulting from the recovery actions taken in 2016 with regards to the one commercial loan mentioned above in the "Provision for Loan Losses" section.

Advertising and promotional expense decreased approximately $200,000 relating to the Bank's change in its service providers and its focus on specific initiatives.

LIQUIDITY

The Company’s balance sheet liquidity to total assets ratio was 8.2% at December 31, 2017 compared to 14.9% at December 31, 2016. The decline in balance sheet liquidity reflected a management decision to shift a portion of its liquidity to off-balance sheet readily available funds (FHLB and other bank credit lines). Liquidity including readily available off balance sheet funding sources was 15.6% at December 31, 2017 compared to 20.9% at December 31, 2016. The Company's available total liquidity (readily available plus brokered deposit availability) to total assets ratio was 18.3% at December 31, 2017 compared to 23.0% at December 31, 2016.

The following categories of assets are considered balance sheet liquidity: cash and due from banks, federal funds sold (if any), short-term investments (if any) and unpledged available-for-sale securities. In addition, off balance sheet funding sources include collateral based borrowing available from the FHLB, correspondent bank borrowing lines, and brokered deposits subject to internal limitations.

Liquidity is a measure of the Company’s ability to generate adequate cash to meet its financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposit accounts. Management believes the Company’s liquid assets provide sufficient coverage to satisfy loan demand, cover potential fluctuations in deposit accounts, and to meet other anticipated operational cash requirements.

At December 31, 2017, cash and cash equivalents and unpledged available-for-sale securities amounted to $49.2 million and $18.9 million, respectively.

At December 31, 2017, the Bank had additional borrowing capacity of $48.1 million available from FHLB Boston, which is comprised of $46.1 million of advances and a $2.0 million overnight line of credit. These amounts are in addition to the FHLB advances of $120 million that are outstanding at December 31, 2017. Additionally, the Bank has the ability to borrow from the FRB.

As of December 31, 2017, the maturities of Patriot’s contractual obligations are as follows:

(In thousands)

	Contractual Obligations Due				
Contractual Obligation Catgegory	**Less than One**	**One to Three Years**	**Three to Five**	**Over Five Years**	**Total**

	Year		Years		
Certificates of deposit	$212,779	26,378	930	-	240,087
Federal Home Loan Bank borrowings	30,000	25,000	65,000	-	120,000
Brokered deposits	138,129	-	-	-	138,129
Senior notes	-	-	12,000	-	12,000
Junior subordinated debt	-	-	-	8,248	8,248
Note payable	192	394	408	586	1,580
Operating lease obligations	383	517	443	1,077	2,420
Total contractual obligations	$381,483	52,289	78,781	9,911	522,464

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OFF-BALANCE SHEET ARRANGEMENTS

The Bank's off-balance sheet commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon or are contingent upon the customer adhering to the terms of the agreements, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2017, the Bank's off-balance sheet commitments are as follows:

(In thousands)	**December 31, 2017**
<u>Commitments to extend credit:</u>	
Unused lines of credit	$ 63,760
Undisbursed construction loans	7,930
Home equity lines of credit	19,727
Future loan commitments	24,675
Financial standby letters of credit	1,133
	$ 117,225

REGULATORY CAPITAL REQUIREMENTS

The following tables illustrate the Company's and the Bank's regulatory capital ratios at December 31, 2017 and 2016:

(In thousands)	**Patriot National Bancorp, Inc.**				**Patriot Bank, N.A.**			
	December 31, 2017		**December 31, 2016**		**December 31, 2017**		**December 31, 2016**	
	Amount ($)	**Ratio (%)**	**Amount ($)**	**Ratio (%)**	**Amount ($)**	**Ratio (%)**	**Amount ($)**	**Ratio (%)**
Total Capital (to risk weighted assets)	74,264	10.092	66,254	10.603	83,711	11.406	74,303	11.928
Tier 1 Capital (to risk weighted assets)	67,959	9.235	61,571	9.854	77,407	10.547	69,620	11.176
Common Equity Tier 1 Capital (to risk weighted assets)	59,959	8.148	53,571	8.573	77,407	10.547	69,620	11.176
Tier 1 Leverage Capital (to average assets)	67,959	8.219	61,571	9.296	77,407	9.360	69,620	10.518

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. Under the regulatory framework for prompt correction action, to be considered "well capitalized," an institution must generally have a leverage capital ratio of at least 5.0%, Common Equity Tier 1 capital ratio at least 6.5%, a Tier 1 risk-based capital ratio of at least 8.0% and a total risk-based capital ratio of at least 10%.

However, the OCC has the discretion to require increased capital ratios.

Under the final capital rules that became effective on January 1, 2015, there is a requirement for a CET1 Capital conservation buffer of 2.5% of risk-weighted assets, which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain this required capital buffer become subject to progressively more stringent limitations on the percentage of earnings that may be distributed to shareholders or used for stock repurchases and on the payment of discretionary bonuses to senior executive management.

The capital buffer requirement is being phased in over three years beginning in 2016. The 0.625% capital conservation buffer for 2016 has been included in the minimum capital adequacy ratios in 2016 column in the table above. The capital conversation buffer increased to 1.25% for 2017, which has been included in the minimum capital adequacy ratios in the 2017 column above.

The capital buffer requirement effectively raises the minimum required Total Capital ratio to 10.5%, the Tier 1 Capital ratio to 8.5%, and the CET1 Capital ratio to 7.0% on a fully phased-in basis, which will be effective beginning on January 1, 2019. Management believes that, as of December 31, 2017, Patriot satisfies all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis, as if all such requirements were currently in effect.

Management continuously assesses the adequacy of the Bank's capital with the goal to maintain a "well capitalized" classification.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk is defined as the sensitivity of income to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices and other market-driven rates or prices. The Bank's market risk is primarily limited to interest rate risk.

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

The exposure to interest rate risk is monitored by the Management Asset and Liability Committee consisting of senior management personnel. The Committee reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk. This Committee reports to the Board of Directors. In addition to the Management Asset and Liability Committee, there is a Board Asset and Liability Committee ("ALCO"), which meets quarterly. ALCO monitors the interest rate risk analyses, reviews investment transactions during the period and determines compliance with the Bank's Investment, ALCO and Liquidity policies.

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

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

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

The tables below sets forth examples of changes in estimated net interest income and the estimated net portfolio value based on projected scenarios of interest rate increases and decreases. The analyses indicate the rate risk embedded in the Bank's portfolio at the dates indicated should all interest rates instantaneously rise or fall. The results of these changes are added to or subtracted from the base case; however, there are certain limitations to these types of analyses. Rate changes are rarely instantaneous and these analyses may also overstate the impact of short-term repricings. As a result of the historically low interest rate environment, the calculated effects of the 100 and 200 basis point downward shocks cannot absolutely reflect the risk to earnings and equity since the interest rates on certain balance sheet items have approached their minimums and therefore, it is not possible for the analyses to fully measure the true impact of these downward shocks.

(In thousands)

	Net Portfolio Value - Performance Summary					
	As of December 31, 2017			**As of December 31, 2016**		
Projected Interest Rate Scenario	**Estimated Value**	**Change from Base ($)**	**Change from Base (%)**	**Estimated Value**	**Change from Base ($)**	**Change from Base (%)**
+200	89,258	(13,440)	(13.1)	102,546	(1,629)	(1.6)
+100	96,939	(5,758)	(5.6)	104,044	(130)	(0.1)
BASE	102,697	-	-	104,174	-	-
-100	105,874	3,177	3.1	105,408	1,233	1.2
-200	108,657	5,959	5.8	107,152	2,977	2.9

	Net Interest Income - Performance Summary					
	Year ended December 31, 2017			**Year ended December 31, 2016**		
Projected Interest Rate Scenario	**Estimated Value**	**Change from Base ($)**	**Change from Base (%)**	**Estimated Value**	**Change from Base ($)**	**Change from Base (%)**
+200	27,936	(937)	(3.2)	25,588	976	4.0
+100	28,454	(420)	(1.5)	25,149	538	2.2
BASE	28,873	-	-	24,611	-	-
-100	28,830	(43)	(0.2)	23,956	(655)	(2.7)
-200	29,271	398	1.4	24,073	(538)	(2.2)

Impact of Inflation and Changing Prices

Patriot'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 the Bank'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 Patriot's earnings in future periods.

ITEM 8. Financial Statements and Supplementary Data

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

- Report of Independent Registered Public Accounting Firm - As of and for the year ended December 31, 2017
- Report of Independent Registered Public Accounting Firm - As of and for each of the years in the two year period ended December 31, 2016
- Consolidated Balance Sheets as of December 31, 2017 and 2016
- Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2017
- Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2017
- Consolidated Statements of Shareholders' Equity for each of the years in the three-year period ended December 31, 2017
- Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2017
- Consolidated Supplemental Statements of Non-Cash Activity for each of the years in the three-year period ended December 31, 2017
- Notes to Consolidated Financial Statements

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

The following tables present the summarized quarterly results of operations (unaudited) to the Consolidated Financial Statements for each of the calendar years in the two-year period ended December 31, 2017:

(In thousands, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2017:				
Interest and Dividend Income	$6,924	7,945	8,967	9,013
Interest expense	1,390	1,637	1,915	2,014
Net Interest Income	5,534	6,308	7,052	6,999
(Credit) Provision for loan losses	(1,749)	260	545	87
Non-interest income	277	349	386	432
Non-interest expense	4,694	5,014	5,222	6,242 (1)
Income before income taxes	2,866	1,383	1,671	1,102
Expense for Income Taxes	1,136	579	658	502
Net income	$1,730	804	1,013	600
<u>Earnings per share</u>				
Basic	$0.44	0.21	0.26	0.15
Diluted	$0.44	0.21	0.26	0.15
Weighted average shares outstanding - Basic	3,892,726	3,894,128	3,894,237	3,895,763
Weighted average shares outstanding - Diluted	3,896,094	3,901,528	3,903,430	3,904,354
2016:				
Interest and Dividend Income	$6,109	6,033	6,432	6,834
Interest expense	684	651	716	957
Net Interest Income	5,425	5,382	5,716	5,877
Provision for loan losses	-	1,959	355	150
Non-interest income	410	365	412	369
Non-interest expense	4,764	4,736	4,441	4,414
Income (loss) before income taxes	1,071	(948)	1,332	1,682
Expense (benefit) for Income Taxes	418	(366)	518	637
Net income (loss)	$653	(582)	814	1,045
<u>Earnings (loss) per share</u>				
Basic[2]	$0.17	(0.15)	0.21	0.27
Diluted	$0.16	(0.15)	0.21	0.27
Weighted average shares outstanding - Basic	3,956,207	3,957,012	3,958,718	3,941,259
Weighted average shares outstanding - Diluted	3,988,686	3,957,012	3,958,718	3,941,542

(1) Includes special project costs of $601,000.

(2) The sum of Earnings (loss) per share - Basic of each of the quarters in the year ended December 31, 2016 does not agree to the amount of Basic earnings per share presented on the Consolidated Statement of Operations for the year

ended December 31, 2016, due to the impact of rounding to the nearest cent on the amount of Earnings per share - Basic for the three months ended December 31, 2016 (i.e., the "Fourth Quarter").

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

None.

ITEM 9A. Controls and Procedures

Disclosure Controls and Procedures

Patriot maintains disclosure controls and procedures that are designed to provide reasonable assurance that information that is required to be disclosed is accumulated and communicated to management in a timely fashion. In designing and evaluating such controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Management's judgment is required in evaluating controls and procedures.

As used herein, "disclosure controls and procedures" means controls and other procedures of Patriot that are designed to ensure that information required to be disclosed by Patriot in the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and regulations. Patriot's disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Continual evaluation of the effectiveness of its disclosure controls and procedures is performed by management, with the participation of Patriot's Chief Executive Officer and Chief Financial Officer. Based on the evaluation, the aforementioned officers concluded that, as of December 31, 2017, the Company's disclosure controls and procedures were effective.

A system of internal controls is designed to provide reasonable assurance that management's operating objectives, reliance on financial information and reports, and compliance with its mandated and stakeholder obligations are achieved. In implementing internal controls, management must consider constraints on resources and the benefits of controls relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Management's Annual Report on Internal Control Over Financial Reporting

Patriot's management is responsible for establishing and maintaining adequate internal controls over financial reporting, as defined in rules 13a-15(f) and 15d-15f under the Exchange Act. Patriot's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

Patriot's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and deployment of its assets; provide reasonable assurance that transactions are recorded in a timely manner to enable the preparation of financial statements in accordance with U.S. GAAP; receipts and disbursements are made only in compliance with the authorizations established by management and policies instituted by its Board of Directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. In addition, projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and/or procedures may deteriorate.

A material weakness in the Company's internal control over financial reporting was disclosed in Item 9A, Controls and Procedures, of the Company's annual report on Form 10-K, for the year ended December 31, 2016. The Company did not have effective controls over (i) the recording, monitoring and valuation of eligible collateral when calculating specific reserves on impaired loans; and (ii) controls over the development and monitoring of qualitative factors used in calculating the general component of the loan loss reserve in accordance with the approved allowance for loan losses policy. Based on the evaluation, management concluded that, as of December 31, 2016, the Company's disclosure controls and procedures were not effective as a result of the material weakness in internal controls over financial reporting that affected its financial reporting during the second and third quarters of 2016.

In response to the identified material weakness, management implemented changes to its disclosure controls and procedures and its system of internal control over financial reporting in each of the quarters ended December 31, 2016, March 31, 2017, and June 30, 2017, September 30, 2017, and December 31, 2017 including changes to the process and procedures for establishing allowances for loan loss and enhancements to create a more robust review process. Other implemented enhancements include strengthened controls over the monitoring and valuation of collateral related to loans deemed to be impaired and for which specific reserves have been established.

Management believes all disclosure controls and procedures needed to provide reasonable assurance that information will be communicated in a timely fashion to management are now in place and such controls related to the allowance for loan losses have operated for a sufficient period of time for Management to evaluate the operating effectiveness of the controls and, accordingly, Management believes the material weakness in internal control described in the preceding paragraph has been remediated.

During the quarter ended December 31, 2017 and continuing to the filing of Form 10-K, management began and continues to test the actions taken and changes implemented to its disclosure controls and procedures and system of internal controls over financial reporting with respect to the aforementioned material weakness. During the fourth quarter of fiscal 2017, management successfully completed the testing necessary to assess that the controls were appropriately designed and operating effectively and has concluded that the material weakness has been remediated.

In accordance with the rules and regulations of the SEC, management's report on the design and effectiveness of Patriot's system of internal controls over financial reporting is not subject to attestation by Patriot's independent registered public accounting firm. The SEC rules and regulations applicable to Patriot only require a report by management. Accordingly, this annual report filed on Form 10-K for the year ended December 31, 2017 does not include an opinion by Patriot's independent registered public accounting firm regarding management's system of internal controls over financial reporting.

ITEM 9B. Other Information

None.

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PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by Items 401, 405, 406 and 407 (c)(3); (d)(4) and (d)(5) of Regulation S-K is incorporated into this Form 10-K by reference to the Company's definitive proxy statement or information statement for its 2018 Annual Meeting of Shareholders to be filed within 120 days following December 31, 2017.

The Company has adopted a Code of Conduct for its senior financial officers. The information required by Item 406 is contained in Exhibit 15 to this Form 10-K, incorporated by reference to Exhibit 14 to the Company's Annual Report on Form 10 -KSB for the year ended December 31, 2004. A copy of this Code of Ethics will be provided to any person so requesting by writing to Patriot National Bancorp Inc., 900 Bedford Street, Stamford, Connecticut 06901, Attn: Joseph D. Perillo, Chief Financial Officer.

ITEM 11. Executive Compensation

The information required by Item 402 of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement or Information Statement to be filed within 120 days following December 31, 2017.

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

The information required by Item 201(d) and Item 403 of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement or Information Statement, to be filed within 120 days following December 31, 2017.

The table below provides information as of December 31, 2017, with respect to the compensation plan under which equity securities of the Company are authorized for issuance to directors, officers or employees.

Plan Category	**Weighted**

	Number of common shares to be issued upon vesting of restricted shares	**average grant date fair value**	**Number of common shares available for issuance under the Plan excluding unvested shares**
Equity compensation plans approved by security holders	25,870	$ 12.15	2,887,032
Equity compensation plans not approved by security holders	-	-	-
Total	25,870	$ 12.15	2,887,032

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

The information required by Items 404 and 407(a) of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement or Information Statement to be filed within 120 days following December 31, 2017.

ITEM 14. Principal Accountant Fees and Services

The information required by Item 9(e) of Schedule 14A of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement or Information Statement to be filed within 120 days following December 31, 2017.

Part IV

ITEM 15. Exhibits and Financial Statement Schedules

Exhibits **No.**	**Description**
3(i)(C)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp Inc.(incorporated by reference to Exhibit 3(i) to the Company's Current Report Form 8-K dated October 21, 2010)
3(ii)	Amended and Restated By-laws of Patriot National Bancorp Inc. (incorporated by reference to Exhibit 3(ii) to the Company's Current Report on Form 8-K dated November 1, 2010 (Commission File No. 000-29599))
10(a)(2)	2012 Stock Plan of Patriot National Bancorp Inc. (incorporated by reference from Annex A to the Proxy Statement on Form 14C filed November 1, 2011)
10(a)(20)	Amended Financial Services Agreement, (incorporated by

	reference to Exhibit 10(a) (20) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (Commission File No. 000-29599))
10(a)(24)	Appointment of Joseph D. Perillo, (EVP/ CFO) (incorporated by reference Item 5.02 to the Company's Current Report on Form 8K, dated May 9, 2017, (Commission File No. 000-29599))
10(a)(25)	Agreement and Plan of Merger by and among Patriot National Bancorp, Inc., Patriot Bank, National Association, Prime Bank and Jasper J. Jaser, as stockholders' representative, dated as of August 1, 2017 (incorporated by reference to Exhibit 10(a) (21) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017).
10(a)(26)	Asset Purchase Agreement by and between Hana Small Business Lending, Inc.; Hana ABS 2014-1, LLC; Hana Investment, LLC and Patriot Bank, N.A., dated as of February 2, 2018.

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	Code of Conduct for Senior Financial Officers (incorporated by reference to Exhibit 14 to the Company's Annual Report on Form 10 -KSB for the year ended December 31, 2004 (Commission File No. 000-29599)
16.1	Letter from KPMG, LLP to the Securities and Exchange Commission, dated April 13, 2015, (incorporated by reference to Item 16.1 to the Company's Current Report on Form 8-K, dated April 13, 2015 (Commission File No. 000-29599))
21	Subsidiaries of Bancorp (incorporated by reference to Exhibit 21 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1999 (Commission File No. 000-29599))
23.1	Consent of RSM US LLP
23.2	Consent of BDO USA, 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 Certifications
101.INS#	XBRL Instance Document
101.SCH#	XBRL Schema Document
101.CAL#	XBRL Calculation Linkbase Document
101.LAB#	XBRL Labels Linkbase Document
101.PRE#	XBRL Presentation Linkbase Document
101.DEF#	XBRL Definition Linkbase Document

The exhibits marked with the section symbol (#) are interactive data files.

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Patriot National Bancorp, Inc. and its subsidiaries (the Company) as of December 31, 2017, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year ended December 31, 2017, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2017.

New Haven, Connecticut

March 30, 2018

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	**December 31, 2017**	**2016**
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	$ *3,582*	*2,596*
Interest bearing deposits	*45,659*	*89,693*
Total cash and cash equivalents	*49,241*	*92,289*
Investment securities:		
Available-for-sale securities, at fair value	*25,576*	*24,428*
Other investments, at cost	*4,450*	*4,450*
Total investment securities	*30,026*	*28,878*
Federal Reserve Bank stock, at cost	*2,502*	*2,109*
Federal Home Loan Bank stock, at cost	*5,889*	*5,609*
Loans receivable (net of allowance for loan losses: 2017: $6,297, 2016: $4,675)	*713,350*	*576,982*
Accrued interest and dividends receivable	*3,496*	*2,726*
Premises and equipment, net	*35,358*	*32,759*
Other real estate owned	-	*851*
Deferred tax asset	*10,397*	*12,632*
Other assets	*1,821*	*1,819*
Total assets	$ *852,080*	*756,654*
Liabilities		
Deposits:		
Noninterest bearing deposits	$ *81,197*	*76,772*
Interest bearing deposits	*556,242*	*452,552*
Total deposits	*637,439*	*529,324*
Federal Home Loan Bank and correspondent bank borrowings	*120,000*	*138,000*
Senior notes, net	*11,703*	*11,628*
Junior subordinated debt owed to unconsolidated trust	*8,086*	*8,079*
Note payable	*1,580*	*1,769*
Advances from borrowers for taxes and insurance	*2,829*	*2,676*
Accrued expenses and other liabilities	*3,694*	*2,608*
Total liabilities	*785,331*	*694,084*
Commitments and Contingencies		
Shareholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-

Common stock, $.01 par value, 100,000,000 shares authorized; 2017: 3,973,416 shares issued; 3,899,675 shares outstanding. 2016: 3,965,538 shares issued; 3,891,897 shares outstanding	*40*	*40*
Additional paid-in capital	*106,875*	*106,729*
Accumulated deficit	*(38,832*)	*(42,902*)
Less: Treasury stock, at cost: 2017 and 2016, 73,741 and 73,641 shares, respectively	*(1,179*)	*(1,177*)
Accumulated other comprehensive loss	*(155*)	*(120*)
Total shareholders' equity	*66,749*	*62,570*
Total liabilities and shareholders' equity	$ *852,080*	*756,654*

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
(In thousands, except per share amounts)	**2017**	**2016**	**2015**
Interest and Dividend Income			
Interest and fees on loans	$31,270	24,391	22,879
Interest on investment securities	982	544	473
Dividends on investment securities	383	353	287
Other interest income	214	120	102
Total interest and dividend income	32,849	25,408	23,741
Interest Expense			
Interest on deposits	4,948	2,242	2,016
Interest on Federal Home Loan Bank borrowings	702	371	368
Interest on senior debt	915	25	-
Interest on subordinated debt	360	334	294
Interest on note payable	31	36	12
Total interest expense	6,956	3,008	2,690
Net interest income	25,893	22,400	21,051
(Credit) Provision for Loan Losses	(857)	2,464	250
Net interest income after (credit) provision for loan losses	26,750	19,936	20,801
Non-interest Income			
Loan application, inspection and processing fees	73	180	185
Deposit fees and service charges	590	600	612
Rental Income	399	414	402
Other income	382	362	352
Total non-interest income	1,444	1,556	1,551
Non-interest Expense			
Salaries and benefits	10,915	9,489	9,247
Occupancy and equipment expense	3,133	3,110	3,462
Data processing expense	1,139	939	1,226
Professional and other outside services	2,050	1,747	1,656
Merger/tax initiative project expenses	640	-	-
Advertising and promotional expense	322	394	591
Loan administration and processing expense	63	54	50
Regulatory assessments	844	603	603
Insurance expense	233	222	304
Material and communications	381	402	427

Other operating expense	*1,452*	*1,395*	*1,285*
Total non-interest expense	*21,172*	*18,355*	*18,851*
Income before income taxes	*7,022*	*3,137*	*3,501*
Provision for Income Taxes	*2,875*	*1,207*	*1,358*
Net income	$*4,147*	*1,930*	*2,143*
Basic earnings per share	$*1.06*	*0.49*	*0.55*
Diluted earnings per share	$*1.06*	*0.49*	*0.55*

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	**Year Ended December 31,**		
	2017	**2016**	**2015**
Net income	$*4,147*	*1,930*	*2,143*
Other comprehensive (loss) income			
Unrealized holding (loss) gains on securities	*(64*)	*52*	*205*
Income tax effect	*25*	*(20*)	*(80*)
Reclassification for realized gain on sale of investment securities	*6*	-	-
Income tax effect	*(2*)	-	-
Total other comprehensive (loss) income	*(35*)	*32*	*125*
Comprehensive income	$*4,112*	*1,962*	*2,268*

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands, except shares)	**Number of Shares** [1]	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Total**
Balance at December 31, 2014	*3,924,192*	$ *39*	*106,108*	*(46,975)*	*(160)*	*(277)*	*58,735*
Comprehensive income:							
Net income	-	-	-	*2,143*	-	-	*2,143*
Unrealized holding gain on available-for-sale securities, net of tax	-	-	-	-	-	*125*	*125*
Total comprehensive income	-	-	-	*2,143*	-	*125*	*2,268*
Share-based compensation expense	-	-	*461*	-	-	-	*461*
Vesting of restricted stock	*32,015*	*1*	*(1)*	-	-	-	-
Balance at December 31, 2015	*3,956,207*	$ *40*	*106,568*	*(44,832)*	*(160)*	*(152)*	*61,464*
Comprehensive income:							
Net income	-	-	-	*1,930*	-	-	*1,930*
Unrealized holding gain on available-for-sale securities, net of tax	-	-	-	-	-	*32*	*32*
Total comprehensive income	-	-	-	*1,930*	-	*32*	*1,962*
Purchase of treasury stock	*(72,471)*	-	-	-	*(1,017)*	-	*(1,017)*
Share-based compensation expense	-	-	*161*	-	-	-	*161*
Vesting of restricted stock	*8,161*	-	-	-	-	-	-
Balance at December 31, 2016	*3,891,897*	$ *40*	*106,729*	*(42,902)*	*(1,177)*	*(120)*	*62,570*
Comprehensive income:							
Net income	-	-	-	*4,147*	-	-	*4,147*
Unrealized holding loss on available-for-sale securities, net of tax	-	-	-	-	-	*(35)*	*(35)*
Total comprehensive income	-	-	-	*4,147*	-	*(35)*	*4,112*
Purchase of treasury stock	*(100)*	-	-	-	*(2)*	-	*(2)*
Common stock dividends	-	-	-	*(77)*	-	-	*(77)*
Share-based compensation expense	-	-	*146*	-	-	-	*146*
Vesting of restricted stock	*7,878*	-	-	-	-	-	-
Balance at December 31, 2017	*3,899,675*	$ *40*	*106,875*	*(38,832)*	*(1,179)*	*(155)*	*66,749*

[1] On March 4, 2015, the Company effected a 1-for-10 reverse stock split. Shares outstanding at and issued during the year ended December 31, 2014 have been restated for the effects thereof, as applicable.

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	**Year Ended December 31, 2017**	**2016**	**2015**
Cash Flows from Operating Activities:			
Net income	$4,147	1,930	2,143
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of investment premiums, net	86	131	188
Amortization and accretion of purchase loan premiums and discounts, net to loans	650	219	218
Amortization of debt issuance costs	82	9	7
(Credit) provision for loan losses	(857)	2,464	250
Loss on disposal of fixed assets	-	-	133
Depreciation and amortization	1,269	1,209	1,039
Gain on sales of available-for-sale securities	(6)	-	-
Share-based compensation	146	161	461
Deferred income taxes	2,258	1,111	1,083
Net loss (gain) on sale or acquisition of other real estate owned	9	(11)	-
Changes in assets and liabilities:			
Increase in accrued interest and dividends receivable	(770)	(716)	(92)
(Increase) decrease in other assets	(2)	(657)	18
Increase (decrease) in accrued expenses and other liabilities	278	(1,325)	225
Net cash provided by operating activities	7,290	4,525	5,673
Cash Flows from Investing Activities:			
Proceeds from sales on available-for-sale securities	16,929	7,870	6,322
Principal repayments on available-for-sale securities	2,361	-	-
Purchases of available-for-sale securities	(20,576)	(3,000)	(2,000)
Purchases of Federal Reserve Bank stock	(393)	(34)	(17)
(Purchases) redemptions of Federal Home Loan Bank stock	(280)	961	58
Increase in net originations of loans receivable	(63,139)	(49,373)	(7,611)
Purchase of loan pools receivable	(73,022)	(52,005)	-
Purchase of premises and equipment	(3,060)	(3,529)	(6,236)
Proceeds from sale of other real estate owned	842	-	-
Net cash used in investing activities	(140,338)	(99,110)	(9,484)
Cash Flows from Financing Activities:			
Increase in deposits, net	108,115	84,659	4,014
(Repayments of) increase in FHLB and correspondent bank borrowings	(18,000)	6,000	12,000
Proceeds from issuance of senior notes, net	-	11,708	-
Principal repayments of note payable	(189)	(185)	(61)
Decrease in advances from borrowers for taxes and insurance	153	309	-

Purchases of treasury stock	(2)	(1,017)	-
Dividends paid on common stock	(77)	-	-
Net cash provided by financing activities	90,000	101,474	15,953
Net (decrease) increase in cash and cash equivalents	(43,048)	6,889	12,142
Cash and cash equivalents at beginning of period	92,289	85,400	73,258
Cash and cash equivalents at end of period	$49,241	92,289	85,400
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	$6,424	3,413	2,325
Cash paid for income taxes	$515	360	3

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED SUPPLEMENTAL STATEMENTS OF NON-CASH ACTIVITY

	Year Ended December 31,		
(In thousands)	**2017**	**2016**	**2015**
Purchase of premises and equipment	$ *808*	*1,018*	*2,000*
Increase in notes payable	-	-	*(2,000)*
Increase in accrued expense and other liabilities	*(808)*	*(1,018)*	-
	$ -	-	-
Transfers of loans receivable to other real estate owned	$ -	*840*	-
Increase in debt issuance costs	$ -	*82*	-
Increase in accrued expense and other liabilities	-	*(82)*	-
	$ -	-	-

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

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.* Patriot Bank, N.A. (the "Bank") (collectively, “Patriot”) is a wholly owned subsidiary of the Company. The Bank is a nationally chartered commercial bank whose deposits are insured under the Bank Insurance Fund, which is administered by the Federal Deposit Insurance Corporation. The Bank provides a full range of banking services to commercial and consumer customers through its main office in Stamford, Connecticut, *seven* branch offices in Connecticut and *two* branch offices in New York. The Bank's customers are concentrated in Fairfield and New Haven Counties in Connecticut and Westchester County in New York.

On *March 11, 2003,* the Company formed Patriot National Statutory Trust I (the “Trust”) for the purpose of issuing trust preferred securities and investing the proceeds in subordinated debentures issued by the Company, and on *March 26, 2003,* the *first* series of trust preferred securities were issued. In accordance with accounting principles generally accepted in the United States of America (“US GAAP”), the Trust is *not* included in the Company’s Consolidated Financial Statements.

The preparation of consolidated financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates. Management has identified accounting for the allowance for loan losses, the analysis and valuation of its investment securities, and the valuation of deferred tax assets as certain of Patriot’s more significant accounting policies and estimates, in that they are critical to the presentation of Patriot’s financial condition and results of operations. As they concern matters that are inherently uncertain, these estimates require management to make subjective and complex judgments in the preparation of Patriot’s Consolidated Financial Statements.

These and other of Patriot’s significant accounting policies are summarized below.

Summary of Significant Accounting Policies

Principles of consolidation and basis of financial statement presentation

The Consolidated Financial Statements include the accounts of Patriot, and the Bank's wholly owned subsidiaries, PinPat Acquisition Corporation and ABC HOLD Co, LLC, (inactive) and have been prepared in conformity with US GAAP. All significant intercompany balances and transactions have been eliminated.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements

Cash and cash equivalents

Patriot considers all short-term, highly liquid investments purchased with an original maturity of *three* months or less or within *three* months of maturity to be cash equivalents. Cash and due from banks, federal funds sold, and short-term investments are recognized as cash equivalents in the Consolidated Balance Sheets.

Patriot maintains amounts due from banks which, at times, *may* exceed federally insured limits. Patriot has *not* experienced any losses from such concentrations.

Federal Reserve Bank and Federal Home Loan Bank stock

The Bank is required to maintain an investment in capital stock of the Federal Home Loan Bank of Boston ("FHLB"), as collateral, in an amount equal to a percentage of its outstanding mortgage loans and loans secured by residential properties, including mortgage-backed securities. Additionally, the Bank is required to maintain an investment in the capital stock of the Federal Reserve Bank ("FRB"), as collateral, in an amount equal to *one* percent of *six* percent of the Bank's total equity capital as per its latest Report of Condition ("Call Report") filed with the Federal Deposit Insurance Corporation. The FRB requires that *one*-half of the investment in its stock be funded currently, with the remaining amount subject to call when deemed necessary by the FRB Board of Governors.

Shares in the FHLB and FRB are purchased and redeemed based upon their *$100* par value. The stocks are non-marketable equity securities, and as such, are considered restricted securities that are carried at cost, and evaluated for impairment in accordance with relevant accounting guidance. In accordance with this guidance, the stocks' values are determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as: (a) the significance of any decline in net assets of the FHLB or FRB, as applicable, compared to its capital stock amount, and the length of time this situation has persisted; (b) commitments by either the FHLB or FRB to make payments required by law or regulation and the level of such payments in relation to their operating performance; (c) the potential impact of any legislative or regulatory changes; and (d) the regulatory capital ratios and liquidity position of the FHLB or FRB, as applicable.

Included in the Bank's investment portfolio are shares in the FHLB and FRB of *$8.4* million and *$7.7* million as of *December 31, 2017* and *2016,* respectively. Management has evaluated its investment in the capital stock of the FHLB and FRB for impairment, based on the aforementioned criteria, and has determined that as of *December 31, 2017* and *2016* there is *no* impairment of its investment in either the FHLB or FRB.

Investment Securities

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

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements

Patriot conducts a quarterly review and evaluation of the securities portfolio to determine if a decline in the fair value of any security below its cost basis is an other-than-temporary impairment ("OTTI"). Our evaluation of OTTI considers the duration and severity of the impairment, our intent to hold the securities, whether or *not* we will be required to sell the securities, and our assessments of the reason for the decline in value and the likelihood of a near-term recovery. If such decline is deemed to be an OTTI, the security is written down to its fair value, which becomes its new cost basis, and the resulting loss is charged to earnings as a component of non-interest income. Other than the credit loss portion, OTTI on a debt security that we have the intent and ability to hold until recovery of its amortized cost is recognized in other comprehensive income/loss, net of applicable taxes. The credit loss portion of OTTI (i.e., any losses resulting from an inability to collect on the instrument) is charged against earnings.

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

At *December 31, 2017* and *2016,* the Bank's investment portfolio includes a *$4.5* million investment in the Solomon Hess SBA Loan Fund ("SBA Fund"). The Bank uses this investment to satisfy its Community Reinvestment Act lending requirements. At *December 31, 2017* and *2016,* the investment in the SBA Fund is reported in the Consolidated Balance Sheets at cost, which management believes approximates fair value.

<u>Loans receivable</u>

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

Interest income is accrued based on unpaid principal balances. Loan application fees are reported as non-interest income, while other certain direct origination costs, or for purchased loans, any discounts or premiums are deferred and amortized to interest income as a level yield adjustment over the respective term of the loan.

Loans are placed on non-accrual status or charged off when collection of principal or interest is considered doubtful. The accrual of interest on loans is discontinued *no* later than when the loan is *90* days past due for payment, unless the loan is well secured and in process of collection. Consumer installment loans are typically charged off *no* later than when they become *180* days past due. Past due status is based on the contractual terms of the loan.

Accrued uncollected interest income on loans that are placed on non-accrual status or have been charged off is reversed against interest income. Interest income on such non-performing loans is accounted for on the cash-basis of accounting until qualifying for return to accrual status. Any cash received on non-accrual or charged off loans is *first* applied against unpaid and past-due principal and then to interest, unless the loan is in a cure period. If in a cure period, and management believes there will be a loss, cash receipts are applied to principal until the balance at risk and collateral value, if any, is equal to the amount management believes will ultimately be collected. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements

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

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

Lower balance lending arrangements, such as consumer installment loans, are evaluated for impairment by pooling the loans into homogenous groupings. Accordingly, Patriot does *not* separately identify individual consumer installment loans for impairment, unless such loans are individually evaluated for impairment due to financial difficulties of the borrower.

<u>Allowance for loan losses</u>

The allowance for loan losses ("ALL") is regularly evaluated by management, based upon the nature and volume of the loan portfolio, periodic review of loan collectability using historical experience rates, adverse situations potentially affecting individual borrowers' ability to repay, the estimated value of any underlying collateral, and prevailing economic conditions on overall segments of the loan portfolio. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The non-specific ALL by loan segment is calculated using a systematic methodology, consisting of a quantitative and qualitative analytical component, applied on a quarterly basis to homogeneous loans. The model is comprised of *six* distinct loan portfolio segments: Commercial Real Estate, Residential Real Estate, Commercial and Industrial, Consumer and Other, Construction, and Construction to Permanent – Commercial Real Estate ("Construction to permanent – CRE").

Management monitors a distinct set of risk characteristics for each loan segment. Additionally, management assesses and monitors risk and performance on a disaggregated basis, including an internal risk rating system for loans included in the Commercial loan segment and analyzing the type of collateral, lien position, and loan-to-value (i.e., LTV) ratio for loans included in the Consumer loan segment.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements

Management's ALL process *first* applies historical loss rates to pools of loans with homogeneous risk characteristics. Loss rates are calculated by historical charge-off rates that have occurred within each pool of homogenous loans over its loss emergence period ("LEP"). The LEP is an estimate of the average amount of time from the point at which a loan loss is incurred to the point in time at which the loan loss is confirmed. In general, the LEP will be shorter in an economic slowdown or recession and longer during times of economic stability or growth, when adverse conditions are *not* generally applicable across a class of borrowers and individual customers are better able to manage deteriorating conditions.

Another key assumption is the look-back period ("LBP"), which represents the historical data period utilized to calculate loss rates. A *three*-year LBP is used for each loan segment, in order to capture relevant historical data believed to reflect losses inherent in the loan segment portfolios.

After considering the historic loss calculations, management applies additional qualitative adjustments to the ALL to reflect the inherent risk of loss that exists in the loan portfolio at the balance sheet date. Qualitative adjustments are made based upon changes in economic conditions, loan portfolio and asset quality data, and credit process changes, such as credit policies or underwriting standards. Evaluation of the ALL requires considerable judgment, in order to adequately estimate and provide for the risk of loss inherent in the loan portfolio segments.

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

- Changes in lending policies and procedures, including underwriting standards, collection, charge-off, and recovery practices *not* considered elsewhere in estimating credit losses;
- Changes in national, regional, and local economic and business conditions and developments that affect the collectability of the loan portfolio, including the condition of various market segments;
- Changes in the nature and volume of the loan portfolio and terms of loans;
- Changes in the experience, ability and depth of lending management and staff;
- Changes in the volume and loss severity of past due loans, the volume of non-accrual loans, and the volume and loss severity of adversely classified or graded loans;
- Changes in the quality of the loan review system;
- Changes in the value of the underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit and changes in the level of such concentrations; and

The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in our current loan portfolio.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements

Patriot provides for loan losses by consistently applying the documented ALL methodology. Loan losses are charged to the allowance as incurred and recoveries are credited to the ALL. Additions to the ALL are charged against income, based on various factors which, in management's judgment, deserve current recognition in estimating probable losses. Loan losses are charged-off in the period the loans, or portions thereof, are deemed uncollectible. Generally, Patriot will record a loan charge-off (including a partial charge-off) to reduce a loan to the estimated fair value of the underlying collateral, less costs to sell, for collateral dependent loans. Subsequent recoveries, if any, are credited to the ALL. Patriot regularly reviews the loan portfolio and makes adjustments for loan losses, in order to maintain the allowance for loan losses in accordance with US GAAP. The allowance for loan losses consists primarily of the following *three* components:

(*1*) Allowances are established for impaired loans (generally defined by Patriot as non-accrual loans, troubled debt restructured loans, and loans that were previously classified as troubled debt restructurings but have been upgraded). The amount of impairment provided as an allowance is represented by the deficiency, if any, between the present value of expected future cash flows discounted at the original loan's effective interest rate or the underlying collateral value, less estimated costs to sell, if the loan is collateral dependent, and the carrying value of the loan. Impaired loans that have *no* discounted cash flow or collateral deficiency, if applicable, are *not* considered for general valuation allowances described below.

(*2*) General allowances are established for loan losses on a portfolio basis for loans that do *not* meet the definition of impaired. The portfolio is grouped into homogeneous risk characteristics, primarily loan type and, if collateral dependent, LTV ratio. Management applies an estimated loss rate to each pool of homogeneous loans. The loss rates applied are based on Patriot's *three*-year loss LBP adjusted, as appropriate, for the factors discussed above. The evaluation is inherently subjective, as it requires material estimates that *may* be susceptible to significant revision based on changes in economic and real estate market conditions. Actual loan losses *may* be more or less than the ALL management established which could have an effect on Patriot's financial results.

In addition, a risk rating system is utilized to evaluate the general component of the ALL. Under this system, management assigns risk ratings between *one* and eleven. Risk ratings are assigned based upon the recommendation of the credit analyst and the originating loan officer. The risk ratings are reviewed and confirmed by the management loan committee of the Board of Directors (the "Loan Committee"). Risk ratings are established at the initiation of transactions and are reviewed and changed, when necessary, during the life of the loan. Loans assigned a risk rating of *six* or above are monitored more closely by the credit administration officers and the Loan Committee.

(*3*) An unallocated component is maintained in the ALL to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the ALL reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies applied to estimating specific and general losses in the loan portfolio.

In underwriting a loan secured by real property, a property appraisal is required to be performed by an independent licensed appraiser that has been approved by Patriot's Board of Directors. Appraisals are subject to review by independent *third* parties hired by Patriot. All appraisals are reviewed by qualified independent parties to the firm preparing the appraisals. Generally, management obtains updated appraisals when a loan is deemed impaired. These appraisals *may* be more limited than those prepared for the underwriting of a new loan. Additionally, Management reviews and inspects properties before disbursing funds, during the term of a construction loan.

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While Patriot uses the best information available to evaluate the ALL, future adjustments to the ALL *may* be necessary if conditions differ or substantially change from the information used in making the evaluation. In addition, as an integral part of its regulatory examination process, the Office of the Comptroller of the Currency (the "OCC") will periodically review the ALL. The OCC *may* require Patriot to adjust the ALL based on its analysis of information available at the time of its examination.

Transfers of financial assets

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

Other real estate owned

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

Write-downs of foreclosed properties that are required upon transfer to OREO are charged to the ALL. Thereafter, an allowance for OREO losses is established for any further declines in the property's value. These losses are included in non-interest expenses in the Consolidated Statements of Income.

Premises and equipment

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

Impairment of assets

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

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Notes to consolidated financial statements

Income taxes

Patriot recognizes income taxes under the asset and liability method. Under this method, net deferred taxes are recognized for the estimated tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and loss carry forwards. Deferred tax assets ("DTA"s) and liabilities ("DTL"s) are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on DTAs and DTLs of a change in tax rates is recognized in income in the period that includes the enactment date.

On *December 22, 2017,* the Tax Cuts and Jobs Act was signed into law. The Tax Cuts and Jobs Act reduces the corporate tax rate to *21%* from *35%,* and companies are required to recognize the effect of the tax law changes in the period of enactment in accordance with GAAP. As a result of the change in tax rates the Company revalued its deferred tax assets to reflect realization at the lower rate in *December 2017,* the date the law was enacted. The impact of this adjustment was an increase to income tax expense of *$2.8* million for the year ended *December 31, 2017.*

In addition, for the year ended *December 31, 2017,* the income tax provision was reduced by *$2.8* million, as a result of the recognition of deferred tax benefits due to a change in the classification of certain net operating loss carryforwards that were previously deemed to have been subject to Internal Revenue Code ("IRC") section *382* limitations.

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

Patriot evaluates its ability to realize its net deferred tax assets on a quarterly basis. In doing so, management considers all available evidence, both positive and negative, to determine whether it is more likely than *not* that the deferred tax assets will be realized. When comparing *2017* and *2016* to prior periods, management noted improvements in the results of operations, forecasted future period taxable income, the overall quality of the loan portfolio, continued efforts to reduce and control operating expenses, and net operating loss carry-forwards that do *not* begin to expire until the year *2029.* Based upon this evidence, management concluded there was *no* need for a valuation allowance as of *December 31, 2017* and *2016.*

Management will continue to evaluate its ability to realize the net deferred tax asset. Future evidence *may* indicate that it is more likely than *not* that a portion of the net deferred tax asset will *not* be realized at which point the valuation allowance *may* need to be increased.

Patriot had a net deferred tax asset of *$10.4* million at *December 31, 2017* as compared to a net deferred tax asset of *$12.6* million at *December 31, 2016.*

Unrecognized tax benefits

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

Patriot's returns for tax years *2015* through *2017* are subject to examination by the Internal Revenue Service ("IRS") for U.S. Federal tax purposes and, for State tax purposes, by the Department of Revenue Services for the State of Connecticut and the State of New York Department of Taxation and Finance.

At *December 31, 2017* and *2016,* there are *no* uncertain tax positions recognized in the Consolidated Financial Statements. Additionally, Patriot has *no* pending or on-going audits in any tax jurisdiction.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements

Earnings per Share

Basic earnings per share represents earnings accruing to common shareholders and are 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 potentially dilutive securities had been converted to common stock, as well as any adjustments to earnings resulting from the assumed conversion, unless such effect is anti-dilutive. Potential common shares that *may* be issued by Patriot include any unvested restricted stock awards, stock options, and stock warrants and are determined using the treasury stock method.

Common stock shares held in treasury are *not* included in shares outstanding for purposes of computing basic or diluted earnings per share.

Share-based compensation plan

Incentive and compensatory share-based compensation granted to employees is accounted for at the grant date fair value of the award and recognized in the results of operations as compensation expense with an off-setting entry to equity on a straight-line basis over the requisite service period, which is the vesting period. Non-employee members of the Board of Directors are treated as employees for any share-based compensation granted in exchange for their service on the Board of Directors.

Patriot does *not* currently have, nor has it had in the past, any grants of share-based compensation to non-employees. However, should such awards exist in the future, the value of the goods or services received shall be measured at the grant date fair value of the award or the goods or services to be received, if determined to be a more reliable measurement of fair value. A liability will be recognized for the award, which will periodically be adjusted to reflect the then current fair value, and compensation expense will be recognized over the requisite period during which the goods or services are received, so that the fair value at the date of settlement is the compensation expense recognized.

The Compensation Committee of the Board of Directors establishes terms and conditions applicable to the vesting of restricted stock awards and stock options. Restricted stock grants generally vest in quarterly or annual installments over a three, *four* or *five* year period from the date of grant. All restricted stock awards are non- participating grants.

Treasury Stock

Common stock purchased and held in treasury is recorded at cost.

Comprehensive income

Accounting principles generally require that recognized revenues, 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 shareholders' equity in the Consolidated Balance Sheets, such items, along with net income, are components of comprehensive income.

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Segment reporting

Patriot’s only business segment is Community Banking. During the years ended *December 31,2017, 2016* and *2015,* this segment represented all the revenues and income of Patriot.

Fair value

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

Provided in these notes to the Consolidated Financial Statements is a detailed summary of Patriot’s application of fair value measurements and the effect on the assets and liabilities presented in the Consolidated Financial Statements.

Advertising Costs

Patriot's policy is to expense advertising costs in the period in which they are incurred.

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Notes to consolidated financial statements

Recently Adopted and Issued Accounting Standards

ASU *2014-09*

In *May 2014,* the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") *2014-09, Revenue from Contracts with Customers*. This update will replace all current U.S. GAAP related to revenue recognition and will eliminate all industry-specific guidance. During *2016,* the update was further clarified by ASU *2016-08 Revenue from Contracts with Customers: Principle versus Agent Considerations;* ASU *2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing* and ASU *2016-12 Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients.* In *July 2015,* the FASB affirmed its proposal to defer the effective date of this new standard. As a result, public companies will apply the new revenue standard to annual reporting periods beginning after *December 15, 2017*, including interim periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after *December 15, 2016,* including interim periods within that reporting period. The core principle of the new guidance is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The banking industry does *not* expect significant changes because major sources of revenue are from financial instruments that have been excluded from the scope of the new standard, (including loans, debt and equity securities, etc.). However, these new standards affect other fees charged by banks, such as asset management fees, credit card interchange fees, deposit account fees, etc. Adoption *may* be made on a full retrospective basis with practical expedients, or on a modified retrospective basis with a cumulative effect adjustment. As such management has evaluated revenue streams within noninterest income, specifically service charges on deposits, to assess applicability of this guidance, and adopted the amended guidance using a modified retrospective approach on *January 1, 2018.* This update did *not* have a material impact on the Company's Consolidated Financial Statements; however additional disclosures will be required.

ASU *2016-01*

In *January 2016,* the FASB issued ASU *2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU *2016-01* requires equity investments, excluding equity investments that are consolidated or accounted for under the equity method of accounting, to be measured at fair value with changes in fair value recognized in net income. The ASU simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, and a measurement of the investment at fair value only when impairment is qualitatively identified to exist. The standard is effective for fiscal years beginning after *December 15, 2017,* including interim periods within those fiscal years. Early adoption is *not* permitted. The Company does *not* anticipate this update will have a material impact on its Consolidated Financial Statements.

ASU *2016-02*

In *February 2016,* the FASB issued ASU *No. 2016-02, Leases.* This ASU increases transparency and comparability among organizations by requiring the recognition of leased assets and lease liabilities on the balance sheet, and the disclosure of key information about leasing arrangements. The new standard is effective for fiscal years beginning after *December 15, 2018,* including interim periods within those fiscal years. Management is currently evaluating the impact of the new standard on its Consolidated Financial Statements.

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ASU *2016-13*

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

ASU *2016-15*

In *August 2016,* the FASB issued ASU *2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments.* ASU *2016-15* addresses the classification of certain specific transactions presented on the Statement of Cash Flows, in order to improve consistency across entities. Debt prepayment or extinguishment, debt-instrument settlement, contingent consideration payments post-business combination, and beneficial interests in securitization transactions are specific items addressed by this ASU that *may* affect the Bank. Additionally, the ASU codifies the predominance principle for classifying separately identifiable cash flows. ASU *2016-15* is effective for fiscal years beginning after *December 15, 2017,* including interim periods within those fiscal years, with early adoption permitted. The Company does *not* anticipate this update will have a material impact on its Consolidated Financial Statements.

ASU *2016-18*

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

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ASU *2017-01*

In *January 2017,* the FASB issued ASU *2017-01, Business Combinations (Topic 805)*, *Clarifying the Definition of a Business*, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The update also provides a more robust framework to use in determining when a set of assets and activities is a business. The guidance in this ASU will become effective for reporting periods beginning after *December 15, 2017,* and should be applied prospectively on or after the effective date, with early adoption permitted. The Company does *not* anticipate this update will have a material impact on its Consolidated Financial Statements.

ASU *2017-08*

In *March 2017,* the FASB issued ASU *2017-08, Premium Amortization on Purchased Callable Debt Securities*, which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. The ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after *December 15, 2018.* For all other entities, the ASU is effective for fiscal years beginning after *December 15, 2019,* and interim periods within fiscal years beginning after *December 15, 2020.* Earlier application is permitted for all entities, including adoption in an interim period. If an entity early adopts the ASU in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The Company has *not* yet determined the impact the adoption of ASU *2017-08* will have on the consolidated financial statements.

ASU *2017-09*

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

ASU *2018-02*

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

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Note *2.* Restrictions on Cash and Due from Banks

Federal Reserve System regulations require depository institutions to maintain cash reserves against their transaction accounts, primarily interest-bearing and regular checking accounts. The required cash reserves can be in the form of vault cash and, if vault cash does *not* fully satisfy the required cash reserves, in the form of a balance maintained with Federal Reserve Banks. The Board of Governors of the Federal Reserve System generally makes annual adjustments to the tiered cash reserve requirements. Based on Patriot's deposits in transaction accounts, which were less than the exemption amount of *$16* million, the Bank was *not* subject to a reserve requirement as of *December 31, 2017* and *2016.*

Note *3.* Available-for-sale securities

At *December 31, 2017* and *2016,* the amortized cost, gross unrealized gains, gross unrealized losses and approximate fair value of available-for-sale securities was as follows:

(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
December 31, 2017:				
U. S. Government agency mortgage-backed securities	$ *7,330*	-	*(106*)	*7,224*
Corporate bonds	*14,000*	-	*(196*)	*13,804*
Subordinated notes	*4,500*	*48*	-	*4,548*
	$ *25,830*	*48*	*(302*)	*25,576*
December 31, 2016:				
U. S. Government agency mortgage-backed securities	$ *10,624*	*9*	*(192*)	*10,441*
Corporate bonds	*9,000*	-	*(39*)	*8,961*
Subordinated notes	*5,000*	*26*	-	*5,026*
	$ *24,624*	*35*	*(231*)	*24,428*

The following table presents available-for-sale securities' gross unrealized losses and fair value, aggregated by the length of time the individual securities have been in a continuous loss position as of *December 31, 2017* and *2016:*

(In thousands)	**Less than 12 Months**		**12 Months or More**		**Total**	
	Fair Value	**Unrealized (Loss)**	**Fair Value**	**Unrealized (Loss)**	**Fair Value**	**Unrealized (Loss)**
December 31, 2017:						
U. S. Government agency mortgage-backed securities	$*4,118*	*(13*)	*3,106*	*(93*)	*7,224*	*(106*)
Corporate bonds	*13,804*	*(196*)	-	-	*13,804*	*(196*)
	$*17,922*	*(209*)	*3,106*	*(93*)	*21,028*	*(302*)
December 31, 2016:						
U. S. Government agency mortgage-backed securities	$*5,969*	*(144*)	*3,356*	*(48*)	*9,325*	*(192*)
Corporate bonds	-	-	*5,961*	*(39*)	*5,961*	*(39*)
	$*5,969*	*(144*)	*9,317*	*(87*)	*15,286*	*(231*)

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At *December 31, 2017* and *2016, nine* out of *eleven* and *seven* out of *twelve* available-for-sale securities had unrealized losses with an aggregate depreciation of *1.4%* and *1.5%* from amortized cost, respectively.

Based on its quarterly reviews, management believes that *none* of the losses on available-for-sale securities noted above constitute an OTTI. The noted losses are considered temporary due to market fluctuations in available interest rates on U.S. Government agency debt, mortgage-backed securities issued by U.S. Government agencies, and corporate debt. Management considers the issuers of the securities to be financially sound, the corporate bonds are investment grade, and the collectability of all contractual principal and interest payments is reasonably expected. Since it is *not* more-likely-than-*not* that Patriot would be required to sell the investments before recovery of the amortized cost basis and does *not* intend to sell the securities at a loss, *none* of the available-for-sale securities noted are considered to be OTTI as of *December 31, 2017.*

At *December 31, 2017* and *2016,* available-for-sale securities of *$6.7* million and *$4.2* million, respectively, were pledged to the FRB of New York, primarily to secure municipal deposits.

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

(In thousands)	**Amortized Cost**				**Fair Value**			
	Due Within 5 years	**Due After 5 years through 10 years**	**Due After 10 years**	**Total**	**Due Within 5 years**	**Due After 5 years through 10 years**	**Due After 10 years**	**Total**
December 31, 2017:								
Corporate bonds	$ -	*9,000*	*5,000*	*14,000*	-	*8,928*	*4,876*	*13,804*
Subordinated Notes	-	*4,500*	-	*4,500*	-	*4,548*	-	*4,548*
Available-for-sale securities with single maturity dates	-	*13,500*	*5,000*	*18,500*	-	*13,476*	*4,876*	*18,352*
U. S. Government agency mortgage-backed securities	-	*3,200*	*4,130*	*7,330*	-	*3,107*	*4,117*	*7,224*

	$ -	16,700	9,130	25,830	-	16,583	8,993	25,576
December 31, 2016:								
Corporate bonds	$ 9,000	-	-	9,000	8,961	-	-	8,961
Subordinated Notes	1,000	4,000	-	5,000	1,026	4,000	-	5,026
Available-for-sale securities with single maturity dates	10,000	4,000	-	14,000	9,987	4,000	-	13,987
U. S. Government agency mortgage-backed securities	-	2,132	8,492	10,624	-	2,106	8,335	10,441
	$ 10,000	6,132	8,492	24,624	9,987	6,106	8,335	24,428

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Note *4.* Loan Receivables and Allowance for Loan Losses

As of *December 31, 2017* and *2016,* loans receivable, net, consists of the following:

(In thousands)

Loan portfolio segment:	**December 31, 2017**	**December 31, 2016**
Commercial Real Estate	$ *299,925*	*271,229*
Residential Real Estate	*146,377*	*86,514*
Commercial and Industrial	*131,161*	*60,977*
Consumer and Other	*87,707*	*101,449*
Construction	*47,619*	*53,895*
Construction to permanent - CRE	*6,858*	*7,593*
Loans receivable, gross	*719,647*	*581,657*
Allowance for loan losses	*(6,297*)	*(4,675*)
Loans receivable, net	$ *713,350*	*576,982*

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

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

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

Commercial Real Estate Loans

In underwriting commercial real estate loans, Patriot evaluates both the prospective borrower's ability to make timely payments on the loan and the value of the property securing the loans. Repayment of such loans *may* be negatively impacted should the borrower default, the value of the property collateralizing the loan substantially decline, or there are declines in general economic conditions. Where the owner occupies the property, Patriot also evaluates the business' ability to repay the loan on a timely basis and *may* require personal guarantees, lease assignments, and/or the guarantee of the operating company.

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Residential Real Estate Loans

In *2013,* Patriot discontinued offering primary mortgages on personal residences. Repayment of residential real estate loans *may* be negatively impacted should the borrower have financial difficulties, should there be a significant decline in the value of the property securing the loan, or should there be declines in general economic conditions.

In *March 2017,* Patriot purchased $*73* million of residential real estate loans, including a premium of *$985,000* over the book value of the loans.

Commercial and Industrial Loans

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

Consumer and Other Loans

Patriot offers individual consumers various forms of credit including installment loans, credit cards, overdraft protection, and reserve lines of credit. Repayments of such loans are generally dependent on the personal income of the borrower, which *may* be negatively impacted by adverse changes in economic conditions. The Company does *not* place a high emphasis on originating these types of loans.

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

Construction Loans

Construction loans are of a short-term nature, generally of *eighteen*-months or less, that are secured by land intended for commercial, residential, or mixed-use development. Loan proceeds *may* be used for the acquisition of or improvements to the land under development and funds are generally disbursed as phases of construction are completed.

Included in this category are loans to construct single family homes where *no* contract of sale exists, based upon the experience and financial strength of the builder, the type and location of the property, and other factors. Construction loans tend to be personally guaranteed by the principal(s). Repayment of such loans *may* be negatively impacted by an inability to complete construction, a downturn in the market for new construction, by a significant increase in interest rates, or by decline in general economic conditions.

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Construction to Permanent – CRE

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

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

Allowance for Loan Losses

The following tables summarize the activity in the allowance for loan losses, allocated to segments of the loan portfolio, for each year in the *three*-year period ended *December 31, 2017:*

(In thousands)	**Commercial Real Estate**	**Residential Real Estate**	**Commercial and Industrial**	**Consumer and Other**	**Construction**	**Construction to Permanent [CRE]**	**Unallocated**	**Total**
As of and for the year ended December 31, 2017								
Allowance for loan losses:								
December 31, 2016	$ *1,853*	*534*	*740*	*641*	*712*	*69*	*126*	*4,675*
Charge-offs	-	-	*(265)*	*(39)*	-	-	-	*(304)*
Recoveries	*10*	-	*2,769*	*4*	-	-	-	*2,783*
Provisions (credits)	*349*	*425*	*(1,221)*	*(38)*	*(231)*	*(15)*	*(126)*	*(857)*
December 31, 2017	$ *2,212*	*959*	*2,023*	*568*	*481*	*54*	-	*6,297*
As of and for the year ended December 31, 2016								

Allowance for loan losses:								
December 31, 2015	$ 1,970	740	1,027	677	486	123	219	5,242
Charge-offs	-	(190)	(2,977)	(13)	-	-	-	(3,180)
Recoveries	80	1	66	2	-	-	-	149
Provisions (credits)	(197)	(17)	2,624	(25)	226	(54)	(93)	2,464
December 31, 2016	$ 1,853	534	740	641	712	69	126	4,675
As of and for the year ended December 31, 2015								
Allowance for loan losses:								
December 31, 2014	$ 1,204	949	1,753	638	49	179	152	4,924
Charge-offs	-	(16)	-	(16)	-	-	-	(32)
Recoveries	35	-	49	11	-	5	-	100
Provisions (credits)	731	(193)	(775)	44	437	(61)	67	250
December 31, 2015	$ 1,970	740	1,027	677	486	123	219	5,242

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The following tables summarize, by loan portfolio segment, the amount of loans receivable evaluated individually and collectively for impairment as of *December 31, 2017* and *2016:*

(In thousands)	**Commercial Real Estate**	**Residential Real Estate**	**Commercial and Industrial**	**Consumer and Other**	**Construction**	**Construction to Permanent [CRE]**	**Unallocated**	**Total**
December 31, 2017								
Allowance for loan losses:								
Individually evaluated for impairment	$ -	-	*251*	*2*	-	-	-	*253*
Collectively evaluated for impairment	*2,212*	*959*	*1,772*	*566*	*481*	*54*	-	*6,044*
Total allowance for loan losses	$ *2,212*	*959*	*2,023*	*568*	*481*	*54*	-	*6,297*
Loans receivable, gross:								
Individually evaluated for impairment	$ *1,977*	*3,336*	*748*	*692*	-	-	-	*6,753*
Collectively evaluated for impairment	*297,948*	*143,041*	*130,413*	*87,015*	*47,619*	*6,858*	-	*712,894*
Total loans receivable, gross	$ *299,925*	*146,377*	*131,161*	*87,707*	*47,619*	*6,858*	-	*719,647*

(In thousands)	**Commercial Real Estate**	**Residential Real Estate**	**Commercial and Industrial**	**Consumer and Other**	**Construction**	**Construction to Permanent [CRE]**	**Unallocated**	**Total**
December 31, 2016								
Allowance for loan losses:								
Individually evaluated for	$ -	-	*231*	-	-	-	-	*231*

impairment								
Collectively evaluated for impairment	*1,853*	*534*	*509*	*641*	*712*	*69*	*126*	*4,444*
Total allowance for loan losses	$ *1,853*	*534*	*740*	*641*	*712*	*69*	*126*	*4,675*
Loans receivable, gross:								
Individually evaluated for impairment	$ *6,267*	*1,911*	*231*	*542*	-	-	-	*8,951*
Collectively evaluated for impairment	*264,962*	*84,603*	*60,746*	*100,907*	*53,895*	*7,593*	-	*572,706*
Total loans receivable, gross	$ *271,229*	*86,514*	*60,977*	*101,449*	*53,895*	*7,593*	-	*581,657*

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

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

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

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

Sub-standard: An asset is classified "sub-standard" if it is *not* adequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Sub-standard assets have well defined weaknesses based on objective evidence and are characterized by the distinct possibility that the Company will sustain some loss, if noted deficiencies are *not* corrected.
Doubtful: Assets classified as "doubtful" have all of the weaknesses inherent in those classified as "sub-standard", with the added characteristic that the identified weaknesses make collection or liquidation-in-full improbable, on the basis of currently existing facts, conditions, and values.

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

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

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

In *March 2017,* the Bank reached a settlement agreement with its insurance carrier for a loss recognized in *2016,* related to a single Commercial and Industrial loan, resulting in cash receipts of *$2.8* million, net of related deductibles and other amounts excluded pursuant to the insurance policy.

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The following tables summarize non-performing (i.e., non-accruing) loans by aging category and status, within the applicable loan portfolio segment as of *December 31, 2017* and *2016:*

(In thousands)	**Non-accruing Loans**					
	30 - 59 Days Past Due	**60 - 89 Days Past Due**	**90 Days or Greater Past Due**	**Total Past Due**	**Current**	**Total Non-accruing Loans**
As of December 31, 2017:						
Loan portfolio segment:						
Residential Real Estate:						
Sub-standard	$ -	-	*3,028*	*3,028*	-	*3,028*
Commercial and Industrial:						
Sub-standard	-	-	*748*	*748*	-	*748*
Consumer and Other						
Sub-standard	-	-	*2*	*2*	-	*2*
Total non-accruing loans	$ -	-	*3,778*	*3,778*	-	*3,778*
As of December 31, 2016:						
Loan portfolio segment:						
Residential Real Estate:						
Sub-standard	$ -	-	*1,590*	*1,590*	-	*1,590*
Commercial and Industrial:						
Sub-standard	-	-	*231*	*231*	-	*231*
Total non-accruing loans	$ -	-	*1,821*	*1,821*	-	*1,821*

If non-accruing loans had been performing in accordance with the original contractual terms, additional interest income of *$209,000, $79,000,* and *$39,000* would have been recognized in income for the years ended *December 31, 2017, 2016,* and *2015,* respectively.

Additionally, certain loans for which the borrower cannot demonstrate sufficient cash flow to continue loan payments in the future and certain troubled debt restructurings (“TDRs”) are placed on non-accrual status. During the years ended *December 31, 2017* and *2016,* and *2015, no* interest income was collected and recognized on non-accruing loans.

The accrual of interest on loans is discontinued at the time the loan is *90* days past due for payment unless the loan is well-secured and in process of collection. Consumer installment loans are typically charged off *no* later than *180* days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual status or charged-off, at an earlier date, if collection of principal or interest is considered doubtful. All interest accrued, but *not* collected for loans that are placed on non-accrual status or charged off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, future payments are reasonably assured, and there is *six* months of performance. Management considers all non-accrual loans and troubled debt restructurings to be impaired. In most cases, loan payments that are past due less than *90* days, based on contractual terms, are considered collection delays and *not* an indication of loan impairment. The Bank considers consumer installment loans to be pools of smaller homogeneous loan balances, which are collectively evaluated for impairment.

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The following tables summarize performing and non-performing loans receivable by portfolio segment, by aging category, by delinquency status as of *December 31, 2017.*

(In thousands)	**Performing (Accruing) Loans**							
As of December 31, 2017:	**30 - 59 Days Past Due**	**60 - 89 Days Past Due**	**90 Days or Greater Past Due**	**Total**	**Current**	**Total Performing Loans**	**Non-accruing Loans**	**Loans Receivable Gross**
Loan portfolio segment:								
Commercial Real Estate:								
Pass	$ -	-	-	-	*286,428*	*286,428*	-	*286,428*
Special Mention	-	*1,121*	-	*1,121*	*9,317*	*10,438*	-	*10,438*
Substandard	-	*1,688*	-	*1,688*	*1,371*	*3,059*	-	*3,059*
	-	*2,809*	-	*2,809*	*297,116*	*299,925*	-	*299,925*
Residential Real Estate:								
Pass	*1,068*	*255*	-	*1,323*	*140,497*	*141,820*	-	*141,820*
Special Mention	-	*1,529*	-	*1,529*	-	*1,529*	-	*1,529*
Substandard	-	-	-	-	-	-	*3,028*	*3,028*
	1,068	*1,784*	-	*2,852*	*140,497*	*143,349*	*3,028*	*146,377*
Commercial and Industrial:								
Pass	-	*2,000*	*375*	*2,375*	*127,057*	*129,432*	-	*129,432*
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	*981*	*981*	-	*981*	*748*	*1,729*
	-	*2,000*	*1,356*	*3,356*	*127,057*	*130,413*	*748*	*131,161*
Consumer and Other:								
Pass	*498*	-	-	*498*	*87,207*	*87,705*	-	*87,705*
Substandard	-	-	-	-	-	-	*2*	*2*
	498	-	-	*498*	*87,207*	*87,705*	*2*	*87,707*
Construction:								
Pass	-	-	-	-	*47,619*	*47,619*	-	*47,619*
Construction to permanent - CRE:								
Pass	-	-	-	-	*6,858*	*6,858*	-	*6,858*
Total	$*1,566*	*6,593*	*1,356*	*9,515*	*706,354*	*715,869*	*3,778*	*719,647*
Loans receivable, gross:								
Pass	$*1,566*	*2,255*	*375*	*4,196*	*695,666*	*699,862*	-	*699,862*

Special Mention	-	*2,650*	-	*2,650*	*9,317*	*11,967*	-	*11,967*
Substandard	-	*1,688*	*981*	*2,669*	*1,371*	*4,040*	*3,778*	*7,818*
Loans receivable, gross	$*1,566*	*6,593*	*1,356*	*9,515*	*706,354*	*715,869*	*3,778*	*719,647*

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The following tables summarize performing and non-performing loans receivable by portfolio segment, by aging category, by delinquency status as of *December 31, 2016.*

(In thousands)	**Performing (Accruing) Loans**							
As of December 31, 2016:	**30 - 59 Days Past Due**	**60 - 89 Days Past Due**	**90 Days or Greater Past Due**	**Total**	**Current**	**Total Performing Loans**	**Non-accruing Loans**	**Loans Receivable Gross**
Loan portfolio segment:								
Commercial Real Estate:								
Pass	$ -	-	-	-	*265,246*	*265,246*	-	*265,246*
Special Mention	-	-	-	-	*4,531*	*4,531*	-	*4,531*
Substandard	-	-	-	-	*1,452*	*1,452*	-	*1,452*
	-	-	-	-	*271,229*	*271,229*	-	*271,229*
Residential Real Estate:								
Pass	*131*	*9*	*1,449*	*1,589*	*83,335*	*84,924*	-	*84,924*
Substandard	-	-	-	-	-	-	*1,590*	*1,590*
	131	*9*	*1,449*	*1,589*	*83,335*	*84,924*	*1,590*	*86,514*
Commercial and Industrial:								
Pass	*47*	*4*	-	*51*	*60,692*	*60,743*	-	*60,743*
Substandard	-	-	-	-	*3*	*3*	*231*	*234*
	47	*4*	-	*51*	*60,695*	*60,746*	*231*	*60,977*
Consumer and Other:								
Pass	*75*	-	*3*	*78*	*101,371*	*101,449*	-	*101,449*
Construction:								
Pass	-	-	-	-	*53,895*	*53,895*	-	*53,895*
Construction to permanent - CRE:								
Pass	-	-	-	-	*7,593*	*7,593*	-	*7,593*
Total	$ *253*	*13*	*1,452*	*1,718*	*578,118*	*579,836*	*1,821*	*581,657*
Loans receivable, gross:								
Pass	$ *253*	*13*	*1,452*	*1,718*	*572,132*	*573,850*	-	*573,850*
Special Mention	-	-	-	-	*4,531*	*4,531*	-	*4,531*
Substandard	-	-	-	-	*1,455*	*1,455*	*1,821*	*3,276*
Loans receivable, gross	$ *253*	*13*	*1,452*	*1,718*	*578,118*	*579,836*	*1,821*	*581,657*

Troubled Debt Restructurings ("TDR")

On a case-by-case basis, Patriot *may* agree to modify the contractual terms of a borrower's loan to assist customers who *may* be experiencing financial difficulty. If the borrower is experiencing financial difficulties and a concession has been made, the loan is classified as a TDR.

There were *no* loans modified as TDRs during either year ended *December 31, 2017* or *2016* and *no* defaults of TDRs during any of the years in the *three*-year period ended *December 31, 2017.* At *December 31, 2017* and *2016,* there were *no* commitments to advance additional funds under TDRs.

Substantially all TDR loan modifications involve lowering the monthly payments on such loans through either a reduction in interest rate below market rate, an extension of the term of the loan, or a combination of adjusting these *two* contractual attributes. TDR loan modifications *may* result in the forgiveness of principal or accrued interest. In addition, when modifying commercial loans, Patriot frequently obtains additional collateral or guarantor support. If the borrower has performed under the existing contractual terms of the loan and Patriot's underwriters determine that the borrower has the capacity to continue to perform under the terms of the TDR, the loan continues accruing interest. Non-accruing TDRs *may* be returned to accrual status when there has been a sustained period of performance (generally *six* consecutive months of payments) and both principal and interest are reasonably assured of collection.

Impaired Loans

Impaired loans *may* consist of non-accrual loans and/or performing and non-performing TDRs. As of *December 31, 2017* and *2016,* based on the on-going monitoring and analysis of the loan portfolio, impaired loans of *$6.8* million and *$8.9* million were identified, for which *$253,000* and *$231,000* specific reserves were established, respectively. Loans *not* requiring specific reserves had sufficient collateral values, less costs to sell, supporting the carrying amount of the loans. In some cases, there *may* be *no* specific reserves due to the carrying amount of the loan having been charged off. Once a borrower is in default, Patriot is under *no* obligation to advance additional funds on unused commitments.

At *December 31, 2017* and *2016,* exposure to the impaired loans was related to *12* and *9* borrowers, respectively. In all cases, appraisal reports of the underlying collateral, if any, have been obtained from independent licensed appraisal firms. For non-performing loans, the independently determined appraised values were reduced by an estimate of the costs to sell the assets, in order to estimate the potential loss, if any, that *may* eventually be realized. Performing loans are monitored to determine when, if at all, additional loan loss reserves *may* be required for a loss of underlying collateral value.

The following summarizes the investment in, outstanding principal balance of, and the related allowance, if any, for impaired loans as of *December 31, 2017* and *2016:*

(In thousands)

	Balance as of December 31,					
	2017			2016		
	Recorded Investment	Principal Outstanding	Related Allowance	Recorded Investment	Principal Outstanding	Related Allowance
With no related allowance recorded:						
Commercial Real Estate	$ *1,977*	*2,425*	-	*6,267*	*6,721*	-
Residential Real Estate	*3,336*	*3,369*	-	*1,911*	*2,915*	-
Commercial and Industrial	*497*	*683*	-	-	-	-
Consumer and Other	*690*	*818*	-	*542*	*631*	-
	6,500	*7,295*	-	*8,720*	*10,267*	-
With a related allowance recorded:						
Commercial Real Estate	-	-	-	-	-	-
Residential Real Estate	-	-	-	-	-	-
Commercial and Industrial	*251*	*251*	*251*	*231*	*231*	*231*
Consumer and Other	*2*	*2*	*2*	-	-	-
	253	*253*	*253*	*231*	*231*	*231*
Impaired Loans, Total:						

Commercial Real Estate	*1,977*	*2,425*	-	*6,267*	*6,721*	-
Residential Real Estate	*3,336*	*3,369*	-	*1,911*	*2,915*	-
Commercial and Industrial	*748*	*934*	*251*	*231*	*231*	*231*
Consumer and Other	*692*	*820*	*2*	*542*	*631*	-
Impaired Loans, Total	$*6,753*	*7,548*	*253*	*8,951*	*10,498*	*231*

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For each year in the *three*-year period ended *December 31, 2017,* the average recorded investment in and interest income recognized on impaired loans without and with a related allowance, by loan portfolio segment, was as follows:

(In thousands)	**Year ended December 31,**					
	2017		**2016**		**2015**	
	Average Recorded Investment	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:						
Commercial Real Estate	$*5,832*	*102*	*6,929*	*312*	*8,001*	*373*
Residential Real Estate	*2,016*	*11*	*4,318*	*9*	*3,512*	*126*
Commercial and Industrial	*197*	-	*265*	-	-	-
Consumer and Other	*593*	*22*	*544*	*19*	*550*	*18*
	8,638	*135*	*12,056*	*340*	*12,063*	*517*
With a related allowance recorded:						
Commercial Real Estate	-	-	*65*	-	-	-
Residential Real Estate	-	-	-	-	-	-
Commercial and Industrial	*243*	-	*2,138*	-	-	-
Consumer and Other	-	-	*2*	-	*3*	-
	243	-	*2,205*	-	*3*	-
Impaired Loans, Total:						
Commercial Real Estate	*5,832*	*102*	*6,994*	*312*	*8,001*	*373*
Residential Real Estate	*2,016*	*11*	*4,318*	*9*	*3,512*	*126*
Commercial and Industrial	*440*	-	*2,403*	-	-	-
Consumer and Other	*593*	*22*	*546*	*19*	*553*	*18*
Impaired Loans, Total	$*8,881*	*135*	*14,261*	*340*	*12,066*	*517*

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Note *5.* Premises and Equipment

At *December 31, 2017* and *2016,* premises and equipment consisted of the following:

(In thousands)	**Balance as of December 31,**	
	2017	**2016**
Land	$*12,714*	*12,283*
Buildings	*17,431*	*11,491*
Leasehold Improvements	*3,883*	*3,455*
Furniture, equipment, and software	*10,488*	*9,328*
Construction-in-progress	*2,225*	*6,359*
Premises and equipment, gross	*46,741*	*42,916*
Accumulated depreciation and amortization	*(11,383*)	*(10,157*)
Premises and equipment, net	$*35,358*	*32,759*

For the years ended *December 31, 2017, 2016* and *2015,* depreciation and amortization expense related to premises and equipment totaled *$1.2* million, *$1.2* million, and *$1.0* million respectively.

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Notes to consolidated financial statements

Note *6.* Other Real Estate Owned ("OREO")

As of *December 31, 2017* and *December 31, 2016,* Patriot recorded OREO of *$0* and *$851,000* on the Consolidated Balance Sheet, respectively. The *2016* OREO balance consisting of a single undeveloped property (i.e., raw land) zoned for multi-use construction. The carrying amount was comprised of *$840,000* representing the value of the loan receivable due from the mortgagor of the foreclosed property and a gain of *$11,000* recognized upon taking possession of the property in *May 2016.* The gain was the excess of the fair value of the property at the date of possession over the loan receivable's carrying amount, after deducting an estimate of costs to liquidate the property. In *December 2017,* Patriot sold the OREO and recognized a loss of *$9,000.*

Note *7.* Deposits

The following table presents the balance of deposits held, by category, and the related weighted average stated interest rate as of *December 31, 2017* and *2016.*

(In thousands)	**December 31, 2017**			**2016**		
	Balance	**Weighted Avg. Stated Interest Rate**		**Balance**	**Weighted Avg. Stated Interest Rate**	
Non-interest bearing	$*81,197*	-		$*76,772*	-	
<u>Interest bearing:</u>						
NOW	*25,476*	*0.0399*	%	*29,912*	*0.0312*	%
Savings	*135,975*	*0.8645*	%	*131,429*	*0.6439*	%
Money market	*16,575*	*0.0394*	%	*15,593*	*0.0359*	%
Certificates of deposit, less than $250,000	*173,221*	*1.1375*	%	*160,609*	*0.8899*	%
Certificates of deposit, $250,000 or greater	*66,866*	*1.5225*	%	*51,077*	*1.3714*	%
Brokered deposits	*138,129*	*1.3366*	%	*63,932*	*0.3436*	%
Interest bearing, Total	*556,242*	*0.9455*	%	*452,552*	*0.7095*	%

Total Deposits	$*637,439*	*0.8250*	%	$*529,324*	*0.6166*	%

The following table presents interest expense, by deposit category, and the related weighted average effective interest rate for each of the years in the *three*-year period ended *December 31, 2017.*

(In thousands)	**Year ended December 31,**								
	2017			**2016**			**2015**		
	Interest Expense	**Weighted Avg. Effective Interest Rate**		**Interest Expense**	**Weighted Avg. Effective Interest Rate**		**Interest Expense**	**Weighted Avg. Effective Interest Rate**	
NOW	$*7*	*0.0272*	%	$*8*	*0.0293*	%	$*5*	*0.0182*	%
Savings	*1,160*	*0.8069*	%	*778*	*0.6196*	%	*489*	*0.4929*	%
Money market	*5*	*0.0367*	%	*7*	*0.0365*	%	*9*	*0.0389*	%
Certificates of deposit, less than $250,000	*1,875*	*1.0499*	%	*888*	*0.6460*	%	*1,150*	*0.7111*	%
Certificates of deposit, $250,000 or greater	*912*	*1.4577*	%	*215*	*0.9722*	%	*147*	*0.8456*	%
Brokered deposits	*989*	*1.2417*	%	*346*	*0.2579*	%	*216*	*0.1930*	%
	$*4,948*	*0.9878*	%	$*2,242*	*0.5533*	%	$*2,016*	*0.5477*	%

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

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As of *December 31, 2017,* contractual maturities of Certificates of Deposit ("CDs"), excluding brokered deposits that are short-term in nature (e.g., less than *one* year), and the related weighted average stated interest rate by maturity is summarized as follows:

(In thousands)	**CDs less than $250,000**	**Weighted Avg. Stated Interest Rate**	**CDs $250,000 or greater**	**Weighted Avg. Stated Interest Rate**	**Total Certificates of deposit**	**Weighted Avg. Stated Interest Rate**
1 year or less	$ *152,420*	*1.0906* %	*60,358*	*1.4959* %	*212,778*	*1.2056* %
More than 1 year through 2 years	*18,556*	*1.5755* %	*6,508*	*1.7689* %	*25,064*	*1.6257* %
More than 2 years through 3 years	*1,315*	*0.7947* %	-	*0.0000* %	*1,315*	*0.7947* %
More than 3 years through 4 years	*308*	*0.5419* %	-	*0.0000* %	*308*	*0.5419* %
More than 4 years through 5 years	*622*	*0.5770* %	-	*0.0000* %	*622*	*0.5770* %
	$ *173,221*	*1.1375* %	$ *66,866*	*1.5225* %	$ *240,087*	*1.2447* %

Note *8*. Borrowings

Federal Home Loan Bank borrowings

Borrowings from the FHLB are limited to a percentage of the value of qualified collateral, as defined on the FHLB Statement of Products Policy. Qualified collateral, as defined, primarily consists of mortgage-backed securities and loans receivable that are required to be free and clear of liens and encumbrances, and *may not* be pledged for any other purposes. As of *December 31, 2017,* the Bank had *$46.1* million of available borrowing capacity from the FHLB.

FHLB advances are typically obtained at discounted rates during "loan sale" periods and are structured to facilitate the Bank's management of its balance sheet and liquidity requirements. At *December 31,2017* and *2016,* outstanding advances from the FHLB aggregated *$120.0* million and *$123.0* million, respectively. The advances outstanding at *December 31, 2017* bore fixed rates of interest ranging from *0.33%* to *1.4%* with maturities ranging from *169* days to *4.58* years. At *December 31, 2017,* collateral for FHLB borrowings consisted of a mixture of real estate loans and securities with book value of *$269.7* million.

In addition, Patriot has a *$2.0* million revolving line of credit with the FHLB. At *December 31, 2017* and *2016, no* funds had been borrowed under the line of credit.

Correspondent Bank - Line of Credit

Effective *July 2016,* Patriot entered into a Federal funds sweep and Federal funds line of credit facility agreement (the "Correspondent Bank Agreement") with ZB, N.A. ("Zions Bank"). The purpose of the agreement is to provide a credit facility intended to satisfy overnight Fed account balance requirements and to provide for daily settlement of FRB, ACH, and other clearinghouse transactions.

The Correspondent Bank Agreement provides for up to *$16* million in funds of which *no* funds were outstanding as of *December 31, 2017* and *$15.0* were outstanding at December *31, 2016.* The Correspondent Bank Agreement is unsecured, currently requires a compensating balance of *$250,000* to remain on account with Zions Bank at all times, pays interest on funds on account (e.g., Fed funds sweep, compensating balance) at variable rates depending on the total deposit, and charges interest on advances at Zions Bank's daily Fed funds rate, which is variable. Interest expenses incurred for the year ended *December 31, 2017* and *2016* were *$2,000* and *$3,000,* respectively.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements

Senior notes

On *December 22, 2016,* the Company issued *$12* million of senior notes bearing interest at *7%* per annum and maturing on *December 22, 2021 (*the “Senior notes”). Interest on the Senior notes is payable semi-annually on *June 22* and *December 22* of each year beginning on *June 22, 2017.*

In connection with the issuance of the Senior notes, the Company incurred *$374,000* of costs, which are being amortized over the term of the Senior notes to recognize a constant rate of interest expense. At *December 31, 2017* and *2016, $297,000* and *$372,000* of unamortized debt issuance costs have been netted against the face amount of the Senior notes included in the Consolidated Balance Sheet.

For the year ended *December 31, 2017* and *2016,* the Company recognized interest expense of *$915,000* and *$25,000,* respectively, at an effective rate of *7.62%,* which amount is greater than the stated interest rate on the Senior notes due to debt issuance cost amortization expense of *$75,000* and *$2,000,* respectively. As of *December 31, 2017* and *2016, $23,000* of interest has been included in the Consolidated Balance Sheet in Accrued expenses and other liabilities.

The Senior Notes contain affirmative covenants that require the Company to: maintain its and its subsidiaries’ legal entity and tax status, pay its income tax obligations on a timely basis, and comply with SEC and FDIC reporting requirements. The *7%* Senior Notes are unsecured, rank equally with all other senior obligations of the Company, are *not* redeemable nor *may* they be put to the Company by the holders of the notes, and require *no* payment of principal until maturity.

Junior subordinated debt owed to unconsolidated trust

In *2003,* the Trust, which has *no* independent assets and is wholly-owned by the Company, issued *$8.0* million of trust preferred securities. The proceeds, net of a *$240,000* placement fee, were invested in junior subordinated debentures issued by the Company, which invested the proceeds in the Bank. The Bank used the proceeds to fund its operations.

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 junior subordinated debentures are unsecured obligations of the Company. The debentures are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. In addition to its obligations under the junior subordinated debentures and in conjunction with the Trust, the Company issued an unconditional guarantee of the trust preferred securities.

The junior subordinated debentures bear interest at *three*-month LIBOR plus *3.15%* (*4.82%* at *December 31, 2017*) and mature on *March 26, 2033,* at which time the principal amount borrowed will be due. Beginning in the *second* quarter of *2009,* the Company opted to defer payment of quarterly interest on the junior subordinated debentures for *20* consecutive quarters. In *June* of *2014,* the Company brought the debt current by paying approximately *$1.7* million of interest in arrears to the holders of the junior subordinated debentures. On bringing the debt current and, as permitted under the terms of the junior subordinated debentures, the Company again opted to defer payment of quarterly interest through *September 2016,* when a *$0.7* million payment was made to bring the debt current.

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The placement fee of *$240,000* is amortized and included as a component of the periodic interest expense on the junior subordinated debentures, in order to produce a constant rate of interest expense. For the years ended *December 31, 2017* and *2016, $7,000* of debt placement fee amortization has been included in interest expense recognized of *$360,000* and *$334,000,* respectively. As of *December 31, 2017* and *2016,* the unamortized placement fee deducted from the face amount of the junior subordinated debt owed to the unconsolidated trust amounted to *$162,000* and *$169,000*, respectively, and accrued interest on the junior subordinated debentures was *$6,000* and *$6,000,* respectively.

At its option, exercisable on a quarterly basis, the Company *may* redeem the junior subordinated debentures from the Trust, which would then redeem the trust preferred securities.

Note Payable

In *September 2015*, the Bank purchased the property in which its Fairfield, Connecticut branch is located for approximately *$2.0* million, a property it had been leasing until that date. The purchase price was primarily satisfied by issuing the seller a *$2.0* million, *nine*-year, promissory note bearing interest at a fixed rate of *1.75%* per annum. As of *December 31, 2017* and *2016,* the note had a balance outstanding of *$1.6* million and *$1.8* million, respectively. The note matures in *August 2024* and requires a balloon payment of approximately *$234,000.* The note is secured by a *first* Mortgage Deed and Security Agreement on the purchased property.

Maturity of borrowings

At *December 31, 2017,* the contractual maturities of the Company's borrowings in future periods were as follows:

(In thousands)

Year ending December 31,	**FHLB Borrowings**	**Correspondent Bank**	**Senior Notes**	**Subordinated Note**	**Note Payable**	**Total**
2018	$ *30,000*	-	-	-	*192*	*30,192*
2019	-	-	-	-	*195*	*195*
2020	*25,000*	-	-	-	*199*	*25,199*

2021	-	-	*12,000*	-	*202*	*12,202*
2022	*65,000*	-	-	-	*206*	*65,206*
Thereafter	-	-	-	*8,248*	*586*	*8,834*
Total contractual maturities of borrowings	*120,000*	-	*12,000*	*8,248*	*1,580*	*141,828*
Unamortized debt issuance costs	-	-	*(297*)	*(162*)	-	*(459*)
Balance of borrowings at December 31, 2017	$ *120,000*	-	*11,703*	*8,086*	*1,580*	*141,369*

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Notes to consolidated financial statements

Note *9.* Commitments and Contingencies

Operating leases

Patriot has *eight* non-cancelable operating leases, including *five* Bank branch locations and *three* for administrative and operational space. The leases expire on various dates through *2024.* Most of the leases contain rent escalation provisions, as well as renewal options for *one* or more periods. The last potential year the leases can be extended through is *2024.* Certain leases require Patriot to reimburse the lessors for a proportion of property operating costs such as insurance and property taxes. The Company also leases certain equipment under a single non-cancelable contract.

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

(In thousands)

Year ending December 31,	***Amount***
2018	$ *376*
2019	*321*
2020	*299*
2021	*300*
2022	*259*
thereafter	*1,077*
Total minimum payments required*	$ *2,632*

* Minimum payments have *not* been reduced by minimum sublease rentals of *$1.4* million due in the future under non-cancelable subleases.

Rent expense for operating leases is recognized in earnings on a straight-line basis over the base term of the respective lease and is included in the Statement of Income as a component of Occupancy and Equipment expense. For each of the years in the *three*-year period ended *December 31, 2017,* total rent expense for cancellable and non-cancellable operating leases was *$953,000, $1.1* million, and *$1.1* million, respectively.

For each of the years in the *three*-year period ended *December 31, 2017,* Patriot recognized gross rental income of *$399,000, $414,000,* and *$402,000* offset by rental costs of *$5,000, $5,000,* and *$4,000,* respectively. As of *December 31, 2017,* future minimum rentals to be received under non-cancelable leases were *$1.4* million.

Employment Agreements

The Company has a severance agreement for each of the Executive Vice Presidents that provides for severance equal to *12* months of current salary, if the EVP is terminated within *12* months of a change of control of Patriot.

Legal Matters

Patriot does *not* have any pending legal proceedings, other than ordinary routine litigation, incidental to its business, to which Patriot is a party or any of its property is subject. Management and Patriot's legal counsel are of the opinion that the ultimate disposition of these routine legal matters will *not* have a material adverse effect on the consolidated financial condition, results of operations, or liquidity of Patriot.

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Notes to consolidated financial statements

Note *10.* Income Taxes

Following is a summary of the components of the federal and state income tax expense (benefit) for each of the years in the *three*-year period ended *December 31, 2017.*

(In thousands)	**Year ended December 31,**		
	2017	**2016**	**2015**
Current:			
Federal	$*252*	*12*	*313*
State	*365*	*84*	*(38*)
	617	*96*	*275*
Deferred:			
Federal	*2,067*	*983*	*789*
State	*191*	*128*	*294*
	2,258	*1,111*	*1,083*
Income tax expense	$*2,875*	*1,207*	*1,358*

For each of the years in the *three*-year period ended *December 31, 2017,* the difference between the federal statutory income tax rate and Patriot's effective income tax rate reconciles as follows:

(In thousands)	**Year ended December 31,**		
	2017	**2016**	**2015**
Income taxes at statutory Federal rate	$*2,387*	*1,066*	*1,190*
State taxes, net of Federal benefit	*377*	*140*	*169*
Nondeductible expenses	*11*	*10*	*10*
Deferred tax adjustment resulting from tax rate change	*2,809*	-	-
Benefit of change in Sec 382 classification	*(2,774*)	-	-
Other	*65*	*(9*)	*(11*)
Income tax expense	$*2,875*	*1,207*	*1,358*

The effective tax rate for each of the years in the *three*-year period ended *December 31, 2017* was *41.1%, 38.5%,* and *38.8%,* respectively.

The effective tax rate for the year ended *December 31, 2017* was impacted by *two* significant and mostly offsetting items:

- The provision increased by *$2.8* million as a result of a reduction in value of the Company's deferred tax asset due to a change in the Federal corporate tax rate to *21%* enacted in *December 2017.*

- In the same period, the income tax provision was reduced by *$2.8* million, as a result of the recognition of deferred tax benefits due to a change in the classification of certain net operating loss carryforwards that were previously deemed to have been subject to IRC section *382* limitations. The change in treatment from *one* acceptable tax method to another more beneficial tax method was recognized in the *fourth* quarter of *2017* in conjunction with the filing of amended tax returns for the *two* preceding years, and the completion of a *third* party study, which concluded it is more likely than *not* that the tax method change is in accordance with IRS regulations.

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Deferred Tax Assets and Liabilities

The significant components of Patriot's net deferred tax assets at *December 31,2017* and *2016* are presented below.

(In thousands)	**Year ended December 31, 2017**	**2016**
Deferred tax assets (liabilities):		
Federal NOL Carryforward Benefit	$ *7,810*	*15,590*
NOL Write-off for Sec 382 Limit	*(4,698*)	*(10,382*)
State NOL Carryforward Benefit	*3,566*	*3,199*
Allowance for Loan Loss	*1,695*	*1,821*
Non-accrual Interest	*1,089*	*1,560*
Share Based Compensation	*157*	*200*
Accrued Expenses	*233*	*173*
Federal AMT benefit	*360*	*166*
Depreciation of Premises and Equipment	*52*	*161*
Unrealized Loss AFS	*68*	*76*
OREO Write-down	*41*	*63*
Other	*24*	*5*
Net deferred tax assets	$ *10,397*	*12,632*

At *December 31, 2017,* the Bank had *$37.2* million of Federal net operating loss carryforwards ("NOLs") and *$60.4* million of State NOLs to offset future taxable income. The NOLs expire over various periods beginning with tax year *2029* through tax year *2032.*

Valuation Allowance against net Deferred Tax Assets

At *December 31, 2017* and *2016,* there was *no* need for a valuation allowance. Patriot management believes *no* valuation allowance is needed based on consideration of various factors including improvements in and historical and prospective results of operations, improvements in quality of the loan portfolio, general financial, economic and market data, and the period over which the NOLs are available to offset taxable income. Management continues to monitor circumstances to determine if it is more likely than *not* to realize the NOL benefits or if the valuation allowance *may* be required to be increased.

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Notes to consolidated financial statements

Note *11.* Share-based Compensation

The Company maintains the Patriot National Bancorp, Inc. *2012* Stock Plan (the "Plan") to provide an incentive to directors and employees of the Company by the grant of restricted stock awards ("RSA"), options, or phantom stock units. Since *2013,* the Company's practice is to grant RSAs; as of *December 31,2017,* there are *no* options or phantom stock units outstanding or that have been exercised.

The Plan provides for the issuance of up to *3,000,000* shares of the Company's common stock subject to certain Plan limitations. As of *December 31, 2017, 2,887,032* shares of stock remain available for issuance under the Plan. In accordance with the terms of the Plan, the vesting of RSAs and options *may* be accelerated at the discretion of the Compensation Committee of the Board of Directors. The Compensation Committee sets the terms and conditions applicable to the vesting of RSAs and stock option grants. RSAs granted to directors and employees generally vest in quarterly or annual installments over a three, *four* or *five* year period from the date of grant. During the years ended *December 31, 2017, 2016,* and *2015,* the Company granted *0, 52,200,* and *5,000* restricted shares to employees and *5,084, 5,884,* and *7,700* restricted shares to directors, respectively. Additionally, during the year ended *December 31, 2017, 7,878* shares of restricted stock became vested, *6,600* shares of restricted stock forfeited. All RSAs are non-participating grants.

The Company recognizes compensation expense for all director and employee share-based compensation awards on a straight-line basis over the requisite service period, which is equal to the vesting schedule of each award, for each vesting portion of an award equal to its grant date fair value. For the years ended *December 31, 2017, 2016* and *2015,* the Company recognized share-based compensation expense of *$146,000, $161,000,* and *$461,000,* respectively.

For the years ended *December 31, 2017, 2016* and *2015,* share-based compensation attributable to employees of Patriot amounted to *$68,000, $100,000,* and *$415,000,* respectively.

Included in share-based compensation expense for the years ended *December 31, 2017, 2016* and *2015* is *$78,000, $61,000,* and *$46,000* attributable to Patriot's external Directors, who received total compensation of *$318,000, $302,000,* and *$243,000* for each of those years, respectively, which amounts are included in Other Operating Expenses in the Consolidated Statements of Income.

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The following is a summary of the status of the Company's restricted share awards as of and for each of the years in the *three*-year period ended *December 31, 2017.*

	Number of Shares Awarded	Weighted Average Grant Date Fair Value
Unvested at December 31, 2014	*79,208*	*$12.79*
Granted	*12,700*	*$16.85*
Vested	*(32,015*)	*$13.14*
Forfeited	*(4,039*)	*$14.36*
Unvested at December 31, 2015	*55,854*	*$12.83*
Granted	*58,084*	*$15.25*
Vested	*(8,161*)	*$14.79*
Forfeited	*(70,513*)	*$14.67*
Unvested at December 31, 2016	*35,264*	*$12.84*
Granted	*5,084*	*$15.05*
Vested	*(7,878*)	*$14.31*
Forfeited	*(6,600*)	*$15.50*
Unvested at December 31, 2017	*25,870*	*$12.15*

Compensation expense attributable to the unvested restricted shares outstanding as of *December 31, 2017* amounts to *$279,000,* which amount is expected to be recognized over the weighted average remaining life of the awards of *2.18* years.

RSA Grant - Non-executive Employees

On *January 4, 2016,* the Company granted *100* restricted shares to *eighty-seven* full- and part-time non-executive employees as of *December 31, 2015.* The total number of shares granted was *8,700* at a grant date fair value of *$15.50* per share. The shares granted vest on *January 2, 2019* and are non-participating during the vesting period.

As of *December 31, 2017, 2,400* of the shares granted have been forfeited. The remaining *6,300* shares continue to vest and *$33,000* of compensation expense is expected to be recognized through the *January 2019* vesting date.

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Note *12.* Shareholders' Equity

Common Stock

On *December 16, 2009,* the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with PNBK Holdings, LLC, a limited liability company controlled by Michael Carrazza ("Holdings"). Pursuant to the Securities Purchase Agreement, on *October 15, 2010,* the Company issued *3.36* million shares of common stock to Holdings at *$15.00* per share, for an aggregate issuance value of *$50.4* million. The shares issued to Holdings represented *87.6%* of the Company's then issued and outstanding common stock. In connection with the equity interest obtained by Holdings, Michael Carrazza became Patriot's Chairman of the Board and nominees of Holdings replaced certain directors and officers who resigned.

Additionally, the Company reduced the par value of its common stock from *$2* to *$0.01* per share, increased the number of its authorized common shares to *100* million, and entered into a Registration Rights Agreement with Holdings. The Registration Rights Agreement provides Holdings with customary demand, shelf, and piggyback registration rights.

Stock Repurchase Program

On *July 26, 2016,* the Company authorized a stock repurchase program whereby management *may* repurchase up to *500,000* shares of common stock. The authorization expired on *July 31, 2017,* unless extended, suspended, or otherwise modified. The program authorizes the Company's chairman to direct management to repurchase shares on the open-market or in private transactions, in accordance with applicable security laws and regulations. Share repurchases, if any, are anticipated to be funded from available cash-on-hand.

During the year ended *December 31, 2016, 72,471* shares of common stock were repurchased in a combination of open market and private transactions at an average cost of *$14.04* per share. In *August 2017,* after the Program closed, *one* shareholder elected to sell *100* shares back to the Company at a cost of *$17.10* per share. This transaction was accepted and executed on the same terms as those executed during the Program.

Dividends

On *July 17, 2017,* the Company announced its intention to begin making quarterly cash dividend payments. For the year ended *December 31, 2017,* the Company paid cash dividends of *$77,000. No* dividend was declared and paid for the years ended *December 31, 2016* and *2015.*

Earnings per Share

The Company is required to present basic earnings per share and diluted earnings per share in its Consolidated Statements of Income. Basic earnings per share amounts are 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 potentially dilutive common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that *may* be issued by the Company relate to the outstanding unvested RSAs granted to directors and employees. The dilutive effect resulting from these potential shares is determined using the treasury stock method. The Company is also required to provide a reconciliation of the numerator and denominator used in the computation of both basic and diluted earnings per share.

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The computation of basic and diluted earnings per share for each of the years in the *three*-year period ended *December 31, 2017* follows.

(Net income in thousands)	**Year ended December 31,**		
	2017	**2016**	**2015**
Basic earnings per share:			
Net income attributable to Common shareholders	$*4,147*	*1,930*	*2,143*
Divided by:			
Weighted average shares outstanding	*3,894,222*	*3,953,281*	*3,924,618*
Basic earnings per common share	$*1.06*	*0.49*	*0.55*
Diluted earnings per share:			
Net income attributable to Common shareholders	$*4,147*	*1,930*	*2,143*
Weighted average shares outstanding	*3,894,222*	*3,953,281*	*3,924,618*
Effect of potentially dilutive restricted common shares	*2,963*	-	-
Divided by:			
Weighted average diluted shares outstanding	*3,897,185*	*3,953,281*	*3,924,618*
Diluted earnings per common share	$*1.06*	*0.49*	*0.55*

Note *13. 401*(k) Savings Plan

Patriot offers employees participation in the Patriot Bank, N.A. *401*(k) Savings Plan (the *"401*(k) Plan") under Section *401*(k) of the Internal Revenue Code, along with the ROTH feature to the Plan. The *401*(k) Plan covers substantially all employees who have completed *one* month 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. At its discretion, Patriot *may* match eligible participating employee contributions at the rate of *50%* of the *first 6%* of the participants' salary contributed to the *401*(k) Plan. Eligibility for matching contributions is dependent on an employee's completing *6* consecutive month(s) of service or *500* hours of employment. Participants immediately vest in Patriot's matching contributions, if applicable. During the years ended *December 31,2017, 2016,* and *2015,* Patriot made matching contributions to the *401*(k) Plan of *$173,000, $169,000,* and *$143,000,* respectively.

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Note *14.* Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Bank 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, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet. The contractual amounts of these instruments reflect the extent of involvement Patriot has in particular classes of financial instruments.

The contractual amounts of commitments to extend credit and standby letters of credit represent the maximum amount of potential accounting loss should: the contract be fully drawn upon; the customer default; and the value of any existing collateral becomes worthless. Patriot applies its credit policies to entering commitments and conditional obligations and, as with its lending activities, evaluates each customer's creditworthiness on a case-by-case basis. Management believes that it effectively mitigates the credit risk of these financial instruments through its credit approval processes, establishing credit limits, monitoring the on-going creditworthiness of recipients and grantees, and the receipt of collateral as deemed necessary.

At *December 31, 2017* and *2016,* financial instruments with credit risk are as follows:

(In thousands)

	As of December 31,	
	2017	**2016**
<u>Commitments to extend credit:</u>		
Unused lines of credit	$*63,760*	*39,063*
Undisbursed construction loans	*7,930*	*21,224*
Home equity lines of credit	*19,727*	*20,846*
Future loan commitments	*24,675*	*15,755*
Financial standby letters of credit	*1,133*	*1,482*
	$*117,225*	*98,370*

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 upon extending credit, is based on management's credit evaluation of the customer. Collateral held varies, but *may* include commercial property, residential property, deposits, and securities. The Bank has established a reserve for credit loss of *$5,000* as of *December 31, 2017* and *2016,* respectively.

Standby letters of credit are written commitments issued by the Bank to guarantee the performance of a customer to a *third* party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. Guarantees that are *not* derivative contracts are recorded at fair value and included in the Consolidated Balance Sheet.

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Note *15.* Regulatory and Operational Matters

Federal and State regulatory authorities have adopted standards requiring financial institutions to maintain increased levels of capital. Effective *January 1, 2015,* Federal banking agencies imposed *four* minimum capital requirements on community bank's risk-based capital ratios consisting of Total Capital, Tier *1* Capital, Common Equity Tier *1* (*"CET1"*) Capital, and a Tier *1* Leverage Capital ratio. The risk-based capital ratios measure the adequacy of a bank's capital against the riskiness of its on- and off-balance sheet assets and activities. Failure to maintain adequate capital is a basis for "prompt corrective action" or other regulatory enforcement action. In assessing a bank's capital adequacy, regulators also consider other factors such as interest rate risk exposure, liquidity, funding and market risks, quality and level of earnings, concentrations of credit, quality of loans and investments, nontraditional activity risk, policy effectiveness, and management's overall ability to monitor and control risk.

Capital adequacy is *one* of the most important factors used to determine the safety and soundness of individual banks and the banking system. Under the instituted regulatory framework, to be considered "well capitalized", a financial institution must generally have a Total Capital ratio of at least *10%,* a Tier *1* Capital ratio of at least *8.0%,* a *CET1* Capital ratio at least *6.5%,* and a Tier *1* Leverage Capital ratio of at least *5.0%.* However, regardless of a financial institution's ratios, the OCC *may* require increased capital ratios or impose dividend restrictions based on the other factors it considers in assessing a bank's capital adequacy.

Management continuously assesses the adequacy of the Bank's capital in order to maintain its "well capitalized" status.

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The Company's and the Bank's regulatory capital amounts and ratios at *December 31*, *2017* and *2016* are summarized as follows:

(In thousands)	**Patriot National Bancorp, Inc.**				**Patriot Bank, N.A.**			
	December 31, 2017		**December 31, 2016**		**December 31, 2017**		**December 31, 2016**	
	Amount ($)	**Ratio (%)**	**Amount ($)**	**Ratio (%)**	**Amount ($)**	**Ratio (%)**	**Amount ($)**	**Ratio (%)**
Total Capital (to risk weighted assets):								
Actual	*74,264*	*10.092*	*66,254*	*10.603*	*83,711*	*11.406*	*74,303*	*11.928*
To be Well Capitalized[1]	-	-	-	-	*73,393*	*10.000*	*62,292*	*10.000*
For capital adequacy with Capital Buffer[2]	-	-	-	-	*67,889*	*9.250*	*53,727*	*8.625*
For capital adequacy	*58,868*	*8.000*	*49,989*	*8.000*	*58,715*	*8.000*	*49,834*	*8.000*
Tier 1 Capital (to risk weighted assets):								
Actual	*67,959*	*9.235*	*61,571*	*9.854*	*77,407*	*10.547*	*69,620*	*11.176*
To be Well Capitalized[1]	-	-	-	-	*58,715*	*8.000*	*49,834*	*8.000*
For capital adequacy with Capital Buffer[2]	-	-	-	-	*53,210*	*7.250*	*41,269*	*6.625*
For capital adequacy	*44,151*	*6.000*	*37,491*	*6.000*	*44,036*	*6.000*	*37,375*	*6.000*
Common Equity Tier 1 Capital (to risk weighted assets):								
Actual	*59,959*	*8.148*	*53,571*	*8.573*	*77,407*	*10.547*	*69,620*	*11.176*
To be Well Capitalized[1]	-	-	-	-	*47,706*	*6.500*	*40,490*	*6.500*
For capital adequacy with Capital Buffer[2]	-	-	-	-	*42,201*	*5.750*	*31,925*	*5.125*
For capital adequacy	*33,113*	*4.500*	*28,119*	*4.500*	*33,027*	*4.500*	*28,031*	*4.500*
Tier 1 Leverage Capital (to average assets):								
Actual	*67,959*	*8.219*	*61,571*	*9.296*	*77,407*	*9.360*	*69,620*	*10.518*
To be Well Capitalized[1]	-	-	-	-	*41,351*	*5.000*	*33,096*	*5.000*
For capital adequacy	*33,072*	*4.000*	*26,494*	*4.000*	*33,081*	*4.000*	*26,477*	*4.000*

[1] Designation as "Well

Capitalized" does *not* apply to bank holding companies - - the Company. Such categorization of capital adequacy only applies to insured depository institutions - - the Bank.

(2) The Capital Conservation Buffer implemented by the FDIC began to be phased in beginning *January 1, 2016.* It was *not* applicable to periods prior to that date and does *not* apply to bank holding companies - - the Company.

Under the final capital rules that became effective on *January 1, 2015,* there is a requirement for a *CET1* Capital conservation buffer of *2.5%* of risk-weighted assets, which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do *not* maintain this required capital buffer become subject to progressively more stringent limitations on the percentage of earnings that *may* be distributed to shareholders or used for stock repurchases and on the payment of discretionary bonuses to senior executive management.

The capital buffer requirement is being phased in over *three* years beginning in *2016.* The *0.625%* capital conversation buffer for *2016* has been included in the minimum capital adequacy ratios in the *2016* column in the table above. The capital conversation buffer increased to *1.25%* for *2017,* which has been included in the minimum capital adequacy ratios in the *2017* column above.

The capital buffer requirement effectively raises the minimum required Total Capital ratio to *10.5%,* the Tier *1* Capital ratio to *8.5%,* and the *CET1* Capital ratio to *7.0%* on a fully phased-in basis, which will be effective beginning on *January 1, 2019.* Management believes that, as of *December 31, 2017,* Patriot satisfies all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis, as if all such requirements were currently in effect.

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Note *16.* 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. There was *$139,000* of loans outstanding as of *December 31, 2017* and *2016.*

As of *December 31, 2017* and *2016,* deposits by related parties aggregated *$1.3* million and *$255,000,* respectively.

For the years ended *December 31, 2017* and *2016,* referral fees and commissions paid to affiliates of members of the Board of Directors aggregated *$0* and *$25,000,* respectively.

Note *17.* Fair Value and Interest Rate Risk

Patriot measures the carrying value of certain financial assets and liabilities at fair value, as required by its policies as a financial institution and by US GAAP. The carrying values of certain assets and liabilities are measured at fair value on a recurring basis, such as available-for-sale securities; while other assets and liabilities are measured at fair value on a non-recurring basis due to external factors requiring management's judgment to estimate potential losses of value resulting in asset impairments or the establishment of valuation reserves. Measuring assets and liabilities at fair value *may* result in fluctuations to carrying value that have a significant impact on the results of operations or other comprehensive income for the period and period over period.

Following is a detailed summary of the guidance provided by US GAAP regarding the application of fair value measurements and Patriot's application thereof. Additionally, the following information includes detailed summaries of the effects fair value measurements have on the carrying amounts of asset and liabilities presented in the Consolidated Financial Statements.

The objective of fair value measurement is to value an asset that *may* be sold or a liability that *may* be transferred at the estimated value which might be obtained in a transaction between unrelated parties under current market conditions. US GAAP establishes a framework for measuring assets and liabilities at fair value, as well as certain financial instruments classified in equity. The framework provides a fair value hierarchy, which prioritizes quoted prices in active markets for identical assets and liabilities and minimizes unobservable inputs, which are inputs for which market data are *not* available and that are developed by management using the best information available to develop assumptions about the value market participants might place on the asset to be sold or liability to be transferred.

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The *three* levels of the fair value hierarchy consist of:

Fair Value **<u>Hierarchy</u>**	
Level *1*	Unadjusted quoted market prices for identical assets or liabilities in active markets that the entity has the ability to access at the measurement date (such as active exchange-traded equity securities and certain U.S. and government agency debt securities).
Level *2*	Observable inputs other than quoted prices included in Level *1,* such as: – Quoted prices for similar assets or liabilities in active markets (such as U.S. agency and government sponsored mortgage-backed securities) – Quoted prices for identical or similar assets or liabilities in less active markets (such as certain U.S. and government agency debt securities, and corporate and municipal debt securities that trade infrequently) – Other inputs that are observable for substantially the full term of the asset or liability (i.e. interest rates, yield curves, prepayment speeds, default rates, etc.).
Level *3*	Valuation techniques that require unobservable inputs that are supported by little or *no* market activity and are significant to the fair value measurement of the asset or liability (such as pricing and discounted cash flow models that typically reflect management's estimates of the assumptions a market participant would use in pricing the asset or liability).

A description of the valuation methodologies used for assets and liabilities recorded at fair value, and for estimating fair value for financial and non-financial instruments *not* recorded at fair value, is set forth below.

<u>Cash and due from banks, federal funds sold, short-term investments, and accrued interest receivable and payable</u>

The carrying amount is a reasonable estimate of fair value and accordingly these are classified as Level *1.* These financial instruments are *not* recorded at fair value on a recurring basis.

<u>Available-for-sale securities</u>

The fair value of securities available-for-sale (carried at fair value) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level *1*), matrix pricing (Level *2*), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted prices, or using unobservable inputs employing various techniques and assumptions (Level *3*).

Other Investments

The Bank's investment portfolio includes the Solomon Hess SBA Loan Fund totaling *$4.5* million. This investment is utilized by the Bank to satisfy its Community Reinvestment Act ("CRA") lending requirements. As this fund operates as a private fund, shares in the fund are *not* publicly traded but may be redeemed with *60* days notice at cost. For that reason the carrying amount was considered comparable to fair value at both December *31, 2017* and December *31, 2016.*

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Loans

For variable rate loans, which periodically reprice with *no* apparent change in credit risk, carrying values, adjusted for credit losses inherent in the loan portfolio, are a reasonable estimate of fair value.

The fair value of fixed rate loans is estimated by discounting the future cash flows using the period end rates, estimated by using local market data, at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the loan portfolio.

Since individual loans do *not* trade on an open market and transfer of individual loans are private transactions that are *not* publicized, the fair value of the loan portfolio is classified within Level *3* of the fair value hierarchy. Patriot does *not* record loans at fair value on a recurring basis; however, from time to time, nonrecurring fair value adjustments to collateral-dependent impaired loans are recorded to reflect the net realizable value expected to be collected on default by the borrower based upon observable market inputs or current appraised values of collateral held. Fair values estimated in this manner do *not* fully incorporate an exit-price approach, but instead are based on a comparison to current market rates for comparable loans, adjusted by management based on the best information available.

Other Real Estate Owned

The fair value of OREO the Bank *may* obtain is based on current appraised property value less estimated costs to sell. When fair value is based on unadjusted current appraised value, OREO is classified within Level *2* of the fair value hierarchy. Patriot classifies OREO within Level *3* of the fair value hierarchy when unobservable inputs are used to determine adjustments to appraised values. Patriot does *not* record OREO at fair value on a recurring basis, but rather initially records OREO at fair value on a non recurring basis and then monitors property and market conditions that *may* indicate a change in value is warranted.

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, estimated using local market data, to a schedule of aggregated expected maturities on such deposits.

The Company does *not* record deposits at fair value on a recurring basis.

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Senior Notes and Junior Subordinated Debt

Patriot does *not* record senior notes at fair value on a recurring basis. At *December 31, 2017* the fair value of the senior notes was estimated by discounting future cash flows at rates at which similar notes would be made. The senior notes were issued in *December, 2016,* therefore the carrying value was considered comparable to fair value at *December 31, 2016.*

Patriot does *not* record Junior Subordinated Debt at fair value on a recurring basis. Junior subordinated debt reprices quarterly and, as a result, the carrying amount is considered a reasonable estimate of fair value.

Federal Home Loan Bank Borrowings

The fair value of FHLB advances is estimated using a discounted cash flow calculation that applies current FHLB interest rates for advances of similar maturity to a schedule of maturities of such advances. Patriot does *not* record FHLB advances at fair value on a recurring basis.

Off-balance sheet financial instruments

Off-balance sheet financial instruments are based on interest rate changes and fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Patriot off-balance sheet financial instruments (i.e., commitments to extend credit) are insignificant and are *not* recorded on a recurring basis.

The following tables detail the financial assets measured at fair value on a recurring basis and the valuation techniques utilized relative to the fair value hierarchy, as of *December 31, 2017* and *2016:*

(In thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**		**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
December 31, 2017:					
U. S. Government agency mortgage-backed securities	$	-	*7,224*	-	*7,224*
Corporate bonds		-	*13,804*	-	*13,804*
Subordinated notes		-	*4,548*	-	*4,548*
Available-for-sale securities	$	-	*25,576*	-	*25,576*
December 31, 2016:					
U. S. Government agency mortgage-backed securities	$	-	*10,441*	-	*10,441*
Corporate bonds		-	*8,961*	-	*8,961*
Subordinated notes		-	*3,026*	*2,000*	*5,026*
Available-for-sale securities	$	-	*22,428*	*2,000*	*24,428*

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During the year ended *December 31, 2017,* Patriot observed market activity in financial instruments similar to an available-for-sale subordinated note investment, and sufficient to justify transfer out of Level *3* into Level *2* of the fair value hierarchy. Management monitors the fair value used to measure financial assets and liabilities and, when changes in circumstances occur, such as volume change in market activity or an absence of identical or similar financial assets or liabilities due to a change in instrument terms or features, transfers of the fair value measurement hierarchy occur. *No* other significant activity occurred during *2017* related to Level *3* instruments.

The fair value of the subordinated note classified as Level *3* during the year ended *December 31, 2016* was determined using a present value approach. The discount rate assumed was determined relative to market rates of interest and considering the history and credit worthiness of the note's issuer. The resulting computations did *not* result in any change in to the fair value of the subordinated note classified as available-for-sale. Other than the subordinated note, there have been *no* transfers into or out of Level *3* of the fair value measurement hierarchy in years ended *December 31, 2017* and *2016.*

Patriot measures certain financial assets and financial liabilities at fair value on a non-recurring basis. When circumstances dictate (e.g., impairment of long-lived assets, other than temporary impairment of collateral value), the carrying values of such financial assets and financial liabilities are adjusted to fair value or fair value less costs to sell, as *may* be appropriate.

The following tables detail the financial assets measured at fair value on a non-recurring basis and the valuation techniques utilized relative to the fair value hierarchy, as of *December 31, 2017* and *2016:*

(In thousands)	**Fair Value**	**Valuation Methodology**	**Unobservable Inputs**	**Range of Inputs**
December 31, 2017:				
Impaired loans	$*6,500*	Real Estate Appraisals	Discount for appraisal type	*0%* - *8%*
December 31, 2016:				
OREO	*851*	Real Estate Appraisals	Discount for appraisal type	*21%*

Patriot discloses fair value information about financial instruments, whether or *not* recognized in the Consolidated Balance Sheet, for which it is practicable to estimate that value. Certain financial instruments are excluded from disclosure requirements and, accordingly, the aggregate fair value amounts presented do *not* necessarily represent the complete underlying value of financial instruments included in the Consolidated Financial Statements.

The estimated fair value amounts have been measured as of *December 31, 2017* and *December 31, 2016* and have *not* been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of the financial instruments measured *may* be different than if they had been subsequently valued.

The information presented should *not* be interpreted as an estimate of the total fair value of Patriot's assets and liabilities, since only a portion of Patriot's assets and liabilities are required to be measured at fair value for financial reporting purposes. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between Patriot's fair value disclosures and those of other bank holding companies *may not* be meaningful.

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The following table provides a comparison of the carrying amounts and estimated fair values of Patriot's financial assets and liabilities as of *December 31, 2017* and *2016:*

(In thousands)		**December 31, 2017**		**December 31, 2016**	
	Fair Value Hierarchy	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial Assets:					
Cash and noninterest bearing balances due from banks	Level 1	$*3,607*	*3,607*	*2,596*	*2,596*
Interest-bearing deposits due from banks	Level 1	*45,634*			