PATRIOT NATIONAL BANCORP INC
Form 10-K
March 31, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PERSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Year Ended December 31, 2015

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Connecticut	06-1559137
(State of Incorporation)	(I.R.S. Employer Identification Number)

900 Bedford Street, Stamford, Connecticut 06901

(Address of principal executive offices)

(203) 324-7500

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act: Common Stock, par value $0.01 per share

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__X__

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__X__

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

Yes __X__ No____

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

Yes ____ No__X__

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

Yes __X__ No_____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer ____ Accelerated Filer ____ Non-Accelerated Filer____ Smaller Reporting Company __X__

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes _____ No __X__

Aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2015 based on the last sale price as reported on the NASDAQ Global Market:$7.5 million

Number of shares of the registrant's Common stock, $0.01 par value per share, 4,067,642 shares outstanding as of February 29, 2016.

Document Incorporated by Reference

Proxy or Information Statement for 2015 Annual Meeting of Shareholders. (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.

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

"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 repricing 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” or “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”). The Bank received its charter and commenced operations as a national bank on August 31, 1994. The Bank currently has eight branch offices in Connecticut. The Bank also has branch offices in Bedford and Scarsdale, both located in Westchester County, New York.

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 in turn used the proceeds to fund general operations.

On April 1, 2008, the Bank acquired a 20% interest in a de novo insurance agency. The impact on the Bank’s operations in 2011, 2012 and 2013 had been minimal. During the fourth quarter of 2013, the Bank sold its interest in the de novo insurance agency.

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. The par value of the common stock was changed to $0.01 per share. Also in connection with that sale, certain directors and officers of both the Company and the Bank resigned and were replaced with nominees of Holdings and Michael Carrazza became Chairman of the Board of the Company.

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 February 26, 2013, the Company announced the appointment of Kenneth T. Neilson as President and Chief Executive Officer of both the Company and the Bank effective March 18, 2013. This was following the departure of Christopher Maher, who resigned as President, CEO and director of the Company and the Bank for personal reasons. Mr. Neilson had served as a director of the Company since 2010.

On March 4, 2015, the Company affected a 1-for-10 reverse stock split. All common stock and per share data included in 2014 and 2013 financial statements have been restated to give effect to the reverse stock split.

During 2015, Mr. Michael Carrazza sold 325,000 shares of PNBK Holding LLC, to third party where the third party has sole voting rights and dispositive power for sold shares. Following this transaction it makes Mr. Carrazza's holdings in PNBK Holding LLC to 75.65% at December 31, 2015.

On September 28, 2015, the Bank changed its name from Patriot National Bank to Patriot Bank, N.A., and the strategic approach to the way it provides value to its customers, community, and the market place. The name change came after the Bank has reported eight consecutive quarters of increased earnings.

Business Operations

The Bank conducts business at its main office located in Stamford, Connecticut and at other Connecticut branch offices located in Darien, Fairfield, Greenwich, Milford, Norwalk, Trumbull, and Westport. In New York State, the Bank conducts business at branch offices located in Bedford and Scarsdale. The Bank also operates a loan origination office at 900 Bedford Street, Stamford, Connecticut.

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

In the normal course of business and subject to applicable government regulations, the Bank invests a portion of its assets in investment securities, which may include government securities. An objective of the Bank’s investment policy is to maintain a balance of high quality diversified investments to minimize risk while maintaining adequate levels of liquidity and limiting its exposure to interest rate movements and credit risk. Government agency issues currently comprise the majority of the Bank’s investment portfolio.

Employees

As of December 31, 2015, the Company had 95 full-time employees and 6 part-time employees. None of the employees of the Company 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 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 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 on 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, 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 along with service industries, professionals and related businesses which have been attracted to this area, as well as the individuals that reside in this area, represent current and potential customers of the Bank.

In recent years, intense market demands, economic pressures and significant legislative and regulatory actions have eroded banking industry classifications which were once clearly defined and have increased competition among banks, as well as other financial institutions including non-bank competitors. This increase in competition has caused banks and other financial service institutions to diversify their services and become more cost effective. The impact on banks and other financial institutions of market dynamics and legislative and regulatory changes has increased customer awareness of product and service differences among competitors and increased merger activity among banks and other financial 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 Board (the "Federal Reserve Board"). The Federal Reserve Board has established capital adequacy guidelines for bank holding companies that are similar of the Office of the Comptroller of the Currency ("OCC") capital guidelines applicable to the Bank. The Bank Holding Company Act of 1956, as amended (the "BHC Act"), limits the types of companies that a bank holding company may acquire or organize and the activities in which it or they may engage. In general, bank holding companies and their subsidiaries are only permitted to engage in, or acquire direct control of, any company engaged in banking or in a business so closely related to banking as to be a proper incident thereto. Federal legislation enacted in 1999 authorizes certain entities to register as financial holding companies. Registered financial holding companies are permitted to engage in businesses, including securities and investment banking businesses, which are prohibited to bank holding companies. The creation of financial holding companies has had no significant impact on the Company.

Under the BHC Act, the Company is required to file quarterly with the Federal Reserve Board a report of its operations. The Company, the Bank and any other subsidiaries are subject to examination by the Federal Reserve Board. In addition, the Company will be required to obtain the prior approval of the Federal Reserve Board to acquire, with certain exceptions, more than 5% of the outstanding voting stock of any bank or bank holding company, to acquire all or substantially all of the assets of a bank or to merge or consolidate with another bank holding company. Moreover, the Company, the Bank and any other subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit or provision of any property or services. The Bank is also subject to certain restrictions imposed by the Federal Reserve Act on issuing any extension of credit to 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 Federal Reserve Board as a financial holding company.

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

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

The Company is subject to capital adequacy rules and guidelines issued by the Federal Reserve Board and the Federal Deposit Insurance Corporation ("*FDIC*"), and the Bank is subject to capital adequacy rules and guidelines issued by the OCC. These substantially identical rules and guidelines require the Company to maintain certain minimum ratios of capital to adjusted total assets and/or risk-weighted assets. Under the provisions of the Federal Deposit Insurance Corporation Improvements Act of 1991, the Federal regulatory agencies are required to implement and enforce these rules in a stringent manner. 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.

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

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

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

The earnings and growth of the Company, the Bank and the banking industry are affected by the monetary and fiscal policies of the United States Government and its agencies, particularly the Federal Reserve Board. The Open Market

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

In addition to other laws and regulations, the Company and the Bank are subject to the Community Reinvestment Act ("CRA"), which requires the federal bank regulatory agencies, when considering certain applications involving the Company or the Bank, to consider the Company's and the Bank's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA was originally enacted because of concern over unfair treatment of prospective borrowers by banks and over unwarranted geographic differences in lending patterns. Existing banks have sought to comply with CRA in various ways; some banks have made use of more flexible lending criteria for certain types of loans and borrowers (consistent with the requirement to conduct safe and sound operations), while other banks have increased their efforts to make loans to help meet identified credit needs within the consumer community, such as those for home mortgages, home improvements and small business loans. Compliance may also include participation in various government insured lending programs, such as Federal Housing Administration insured or Veterans Administration guaranteed mortgage loans, Small Business Administration loans, and participation in other types of lending programs such as high loan-to-value ratio conventional mortgage loans with private mortgage insurance. To date, the market area from which the Bank draws much of its business is in the towns and cities in which the Bank has branch offices, which are characterized by a very diverse ethnic, economic and racial cross-section of the population. As the Bank expands further, the market areas served by the Bank will continue to evolve. 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, or the *USA Patriot Act,* was enacted to further strengthen domestic security following the September 11, 2001 attacks. This 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 Act also requires that financial institutions in the United States enhance already established anti-money laundering policies, procedures and audit functions and ensure that controls are reasonably designed to detect instances of money laundering through certain correspondent or private banking accounts. Verification of customer identification, maintenance of said verification records and cross checking names of new customers against government lists of known or suspected terrorists is also required. The Patriot Act was reauthorized and modified with the enactment of The USA Patriot Act Improvement and Reauthorization Act of 2005.

On July 20, 2002, the Sarbanes-Oxley Act of 2002 was enacted, the primary purpose of which is to protect investors through improved corporate governance and responsibilities of, and disclosures by, public companies. The Act contains provisions for the limitations of services that external auditors may provide as well as requirements for the credentials of Audit Committee members. In addition, the principal executive and principal financial officers are required to certify in quarterly and annual reports that they have reviewed the report; and based on the officers' knowledge, the reports accurately present the financial condition and results of operations of the Company and contain no untrue statement or omission of material fact. The officers also certify their responsibility for establishing and maintaining a system of internal controls, which insure that all material information is made known to the officers; this certification also includes the evaluation of the effectiveness of disclosure controls and procedures and their impact upon financial reporting. Section 404 of the Act, entitled Management Assessment of Internal Controls, requires that each annual report include an internal control report which states that it is the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting, as well as an assessment by management of the effectiveness of the internal control structure and procedures for financial reporting. This section further requires that the external auditors attest to, and report on, the

Company's internal controls over financial reporting. The Dodd-Frank Wall Street Reform and Consumer Protection Act enacted an exemption to the attestation and the reporting on the Company's internal controls over financial reporting by the external auditors for non-accelerated filers, those with public float of less than $75 million.

Recent Legislative Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Act”) was signed into law on July 21, 2010 and has had a major impact on the financial services industry, including the organization, financial condition and operations of banks and bank holding companies. Many of the provisions of the Act are aimed at financial institutions that are significantly larger than the Company and the Bank. Notwithstanding this, there are many other provisions that the Company and the Bank are subject to and have to comply with, including any applicable rules promulgated by the Bureau of Consumer Financial Protection. As rules and regulations are promulgated by the agencies responsible for implementing and enforcing the Act, the Company and the Bank will have to address each to ensure compliance with applicable provisions of the Act and compliance costs are expected to increase.

The Dodd-Frank Act broadened the base for Federal Deposit Insurance Corporation 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. This did not have a material impact on the Company.

On June 28, 2011, the Federal Reserve Board approved a final debit-card interchange rule. This primarily impacts larger banks and did not have a material impact on the Company.

It is difficult to predict at this time what specific impact yet to be implemented Dodd-Frank Act rules and regulations will have on the Company. Financial reform legislation and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and the Bank’s ability to conduct business. Management will have to apply resources to ensure compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may increase its costs of operations and adversely impact its earnings.

In July 2013, the FRB, the OCC and the FDIC approved final rules (the “New Capital Rules”) establishing a new comprehensive capital framework for U.S. Banking organizations. 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 the Company and the Bank, 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” in the Basel Committee's 2004 capital accords. In addition, the New Capital Rules implement certain provisions of the Dodd-Frank Act. The New Capital Rules became effective for the Company on January 1, 2015. The Company has not experienced any difficulties in complying with these new regulations.

Recent Developments with Regulators

In September 2014, the Bank's formal written agreement (the "Agreement") with the Office of the Comptroller of the Currency which had been entered into in February 2009 was terminated. The Agreement required the Bank to review, adopt and implement a number of policies and programs related to credit and operational issues.

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" and 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 Securities Exchange Act of 1934 as soon as practicable after we electronically file such reports with or furnish these 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, NE, Washington, DC 20549. Information about the Public Reference Room can be obtained by calling 1-800-SEC-0330.

ITEM 1A. Risk Factors

The Bank'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 Company's commercial real estate loan portfolio are material.

The Company's commercial real estate loan portfolio constitutes a material portion of the Bank's assets and generally have 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 Company'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 guarantors.

Real estate lending in the Company'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 the real estate is located. A significant portion of the Company'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 Company's business is subject to various lending and other economic risks that could adversely impact the Company's results of operations and financial condition.

Changes in economic conditions, particularly a continued economic slowdown in Fairfield County, Connecticut and the New York metropolitan area, could result in the following consequences, any of which may hurt the business of the Company materially:

- loan delinquencies may increase
- problem assets and foreclosures may increase
- demand for the Bank’s products and services may decline; and
- Assets and collateral associated with the Bank’s loans, especially real estate, may decline in value, thereby reducing a customer’s borrowing power.

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 2015 however, the economic climate improved gradually, contributing to decreases in the Bank’s non-performing assets.

The Company’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 these losses may exceed current estimates. Although the current economic environment has improved, conditions remain uncertain which may result in additional risk of loan losses.

Federal regulatory agencies, as an integral part of their examination process, review the Bank’s loans and assess the adequacy of the allowance for loan losses. The regulatory agencies may require us to change classifications or grades on loans, increase the allowance for loan losses with additional provisions for loan losses and to recognize further loan charge-offs based upon their judgments, which may differ from 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 the Company’s earnings and profitability.

The Company is subject to certain risks with respect to liquidity.

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

The Company’s primary sources of liquidity are the deposits it acquires organically through its branch network, borrowed funds, primarily in the form of wholesale borrowings, and the cash flows generated through the repayment of loans and securities. In addition, depending on current market conditions, the Company 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 it serve. Furthermore, changes to the underwriting guidelines for wholesale borrowings or lending policies may limit or restrict the Company's ability to borrow, and could therefore have a significant adverse impact on its liquidity. A decline in available funding could adversely impact the Company'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 Company's business is subject to interest rate risk and variations in interest rates may negatively affect the Company's financial performance.

The Company is unable to predict with 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 the Company's profits. The Company 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 the Company 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 the Company'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.

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

The Company's security portfolio is classified as available-for-sale, and is comprised primarily of debt and mortgage-backed securities, which are insured or guaranteed by U.S. government agencies, and corporate bonds. These securities are sensitive to interest rate fluctuations. Unrealized gains or losses in the available-for-sale portfolio for 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 maturity, or until payments are received on mortgage-backed securities, or until market conditions are favorable for a sale, could adversely affect the Company's earnings and profitability.

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

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

The Company’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 the services of several of such key personnel could adversely affect the Company’s growth and prospects to the extent it is unable to quickly replace such personnel. Competition for commercial lenders and retail bankers is strong, and the Company may not be successful in retaining or attracting such personnel.

A breach of information security could negatively affect the Company’s earnings.

The Company increasingly depends upon data processing, communications and information exchange on a variety of computing platforms and networks, and the internet to conduct its business. The Company cannot be certain that all of its systems are entirely free from vulnerability to attack, despite safeguards it has instituted. In addition, the Company 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 the Company or damages to others. These costs or losses could materially exceed the amount of insurance coverage, if any, which would have an adverse effect on the Company’s results of operations and financial condition. In addition, the Bank’s reputation could be harmed, which also could materially affect the Company’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 the Bank liable for remediation costs, as well as for personal injury and property damage. In addition, the Bank 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 Company 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 its 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, and all of the revenues the Company receives consist of dividends from the Bank. These dividends are the primary funding source for the interest and principal payments on its debt. 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 the liquidation or reorganization of a subsidiary may be subject to the prior claims of the subsidiary's creditors. If the Bank is unable to pay dividends to the Company, it may not be able to pay its obligations. The inability to receive dividends from the Bank could therefore have a material adverse effect on its business, its financial condition, and its results of operations, as well as its ability to pay cash dividends to its shareholders.

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 management or of securities analysts and investors;
- developments in the business or in the financial services sector generally;
- regulatory or legislative changes affecting the industry generally or the business and operations;
- operating and securities price performance of companies that investors consider to be 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 downturns in the U.S. economy, and particularly the local markets in which it operates in Connecticut and New York. During the financial crisis, declines in the housing market with falling home prices and increasing foreclosures, unemployment and under-employment, had negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored enterprises as well as major commercial and investment banks. These write-downs caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors reduced or ceased providing funding to borrowers, including other financial institutions. This market turmoil and the tightening of credit 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 have adversely affected The Company's business, financial condition and results of operations. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on the Company and other financial institutions. In particular:

Economic conditions may continue to affect market confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies, which could affect the Bank's charge-offs and provision for loan losses.

The ability to assess the creditworthiness of the Bank's customers or to estimate the values of collateral for loans may be impaired if the models and approaches 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 upon 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 additional special assessments that could adversely affect its earnings. The Bank is generally unable to control the amount of premiums that it is required to pay for FDIC insurance. If there are additional banks or financial institution failures, the Bank may be required to pay higher FDIC premiums than are currently assessed. These increases and any future increases or required prepayments in FDIC insurance premiums may materially adversely affect the results of operations.

The Company is subject to risks associated with taxation.

The amount of income taxes the Company is required to pay on its earnings is based on federal and state legislation and regulations. The Company 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. The Company may take tax return filing positions for which the final determination of tax is uncertain. The Company’s net income and earnings per share may be reduced if a federal, state, or local authority assesses additional taxes that have not been provided for in the consolidated financial statements. There can be no assurance that the Company will achieve its anticipated effective tax rate either due to a change in a tax law, a change in regulatory or judicial guidance, or an audit assessment which denies previously recognized tax benefits.

Risks associated with changes in technology.

Financial products and services have become increasingly technology-driven. The Bank's ability to meet the needs of its customers competitively, and 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 than the Bank does and may be better equipped to market new technology-driven products and services. The ability to keep pace with technological change is important, and the failure to do so on the part of the Bank could have a material adverse impact on its business and therefore on the financial condition and results of operations.

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

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

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

The Company is subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency as the Bank's chartering authority, by the FDIC, as insurer of its deposits, and by the Federal Reserve Board as regulator of the Company. Changes in state and federal banking laws and regulations or in federal monetary policies could adversely affect the Bank's ability to maintain profitability and continue to grow and, in light of recent economic conditions, such changes are expected but cannot be predicted. For example, new legislation or regulation could limit the manner in which the Company 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 the Company have been subject to significant, and sometimes retroactively applied, changes in recent years, and are likely to change significantly in the future.

Legislation proposing significant structural reforms to the financial services industry considered in the U.S. Congress has, among other things, created the Consumer Financial Protection Bureau, which gives broad authority to regulate financial service providers and financial products. In addition, the Federal Reserve Bank has passed guidance on incentive compensation at the banking organizations it regulates and the United States Department of the Treasury and the federal banking regulators have issued statements calling for higher capital and liquidity requirements for banking organization. Complying with any new legislative or regulatory requirements, and any programs established thereunder by federal and state governments could have an adverse impact on the results of operations and the ability to fill positions with the most qualified candidates available.

Changing regulation of corporate governance and public disclosure.

The Company is subject to Laws, regulations and standards relating to corporate governance and public disclosure, SEC regulations and NASDAQ rules. These laws, regulations and standards are subject to varying interpretations, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could make compliance more difficult and result in higher costs. The Company is committed to maintaining high standards of corporate governance and public disclosure. As a result, the Company'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. The Company'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, the Company's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes and the strength of the U.S. economy and the local economies in which it operates, all of which are beyond the Company's control. In recent years, the banking world has experienced unprecedented upheaval, including the failure of some of the leading financial institutions in the world. Further deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the Bank's products and services, among other things, any of which could have a material adverse impact on the Company's results of operations and financial condition and for which the Company cannot currently predict or implement plans to combat.

The Company is a "controlled company" within the meaning of the NASDAQ rules and, as a result, the Company qualifies for, and relies on, exemptions from certain corporate governance requirements.

PNBK Holdings LLC 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, 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:

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 Company's corporate headquarters and main branch banking office is located at 900 Bedford Street in Stamford, Connecticut. The Bank purchased a building at 999 Bedford Street, Stamford, CT in November 2014, and intends to move the main branch banking office to this location by December 2016. The Bank purchased the current Stamford and Greenwich branch buildings in 2013. During 2014, the Bank purchased the Milford branch building and new locations for the Darien and Westport branches. During 2015, the Bank moved its corporate offices to 900 Bedford Street in Stamford, Connecticut, leaving some operational departments at the old leased location. The Bank also moved its Darien Branch to newly renovated location. The Bank intends to move from its existing branch in Westport upon completion of the new facility. At December 31, 2015, five branches were owned, another two owned buildings were in the process of becoming branch facilities, and the Bank's seven other branch banking offices and a small administrative office space was leased. The Bank also leases space at its main office for additional parking. Lease commencement dates for office locations range from January 2006 to July 2015 and lease expiration dates fall between March 2016 and July 2017. Most of the leases contain rent escalation provisions, as well as renewal options for one or more periods.

The Bank has leased excess space in two of its locations to four independent parties. For additional information regarding the Bank's lease obligations, see Note 8 to the Consolidated Financial Statements.

All leased properties are in good condition.

ITEM 3. Legal Proceedings

Neither the Company nor the Bank has any pending legal proceedings, other than ordinary routine litigation incidental to its business, 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 December 31, 2015, the last sale price for the Company's Common Stock was $16.40.

The following table sets forth the high and low sales prices of the Company's Common Stock for the last two fiscal years of each quarter adjusted for a 1-for-10 reverse stock split. No cash dividends were declared during this time.

	2015			**2014**		
	Sales Price		**Cash Dividends**	**Sales Price**		**Cash Dividends**
Quarter Ended	**High**	**Low**	**Declared**	**High**	**Low**	**Declared**
March 31	$15.60	$15.00	$ -	$14.00	$9.60	$ -
June 30	$16.05	$13.60	-	17.40	12.00	-
September 30	$18.68	$15.15	-	23.80	13.40	-
December 31	$17.49	$14.55	-	19.40	15.80	-

Holders

There were approximately 182 shareholders of record of the Company's Common Stock as of December 31, 2015. 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. The Federal Reserve Bank has also imposed dividend restrictions on the Company.

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.

Recent Sales of Unregistered Securities

During the fourth quarter of 2015, 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 yearly percentage change in the Company's cumulative total shareholder return on its common stock over the last five fiscal years to the cumulative total return of the S&P 500 Index and the NASDAQ Bank Index. Total shareholder return is measured by dividing the sum of the cumulative amount of dividends for the measurement period (assuming dividend reinvestment) and the difference between the Company's share price at the end and the beginning of the measurement period, by the share price at the beginning of the measurement period.

	Period Ending					
Index	**12/31/2010**	**12/31/2011**	**12/31/2012**	**12/31/2013**	**12/12014**	**12/31/2015**

Patriot National Bancorp	**100.0**	**112.9**	**80.6**	**67.1**	**105.8**	**93.9**
Nasdaq Bank Index	**100.0**	**98.0**	**113.5**	**157.6**	**162.1**	**172.8**
S&P 500	**100.0**	**112.8**	**127.9**	**165.8**	**184.6**	**183.3**

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ITEM 6. Selected Financial Data

At or for the year ended December 31,	2015	2014	2013	2012	2011
(Dollars in thousands, except per share data)					
Balance Sheet Data:					
Cash and due from banks	$85,400	$73,258	$34,866	$70,303	$54,716
Federal funds sold	-	-	-	-	-
Short-term investments	-	-	-	711	710
Investment securities	42,472	46,818	47,738	51,293	76,185
Loans, net	479,127	471,984	418,148	458,794	501,227
Total assets (2)	653,531	632,624	541,248	617,855	665,816
Total deposits (1)	447,047	443,033	430,204	497,283	544,909
Total borrowings	142,187	128,248	65,248	65,248	65,248
Total shareholders' equity	61,464	58,735	41,841	49,568	50,550
Operating Data:					
Interest and dividend income	$23,741	$20,368	$21,654	$25,216	$28,332
Interest expense	2,690	2,970	4,854	7,419	8,510
Net interest income	21,051	17,398	16,800	17,797	19,822
Provision for loan losses	250	-	970	(2,379)	7,464
Non-interest income	1,551	1,832	2,426	3,274	3,411
Non-interest expense	18,851	18,271	28,554	23,986	31,228
Provision (benefit) for income taxes	1,358	(14,750)	(339)	-	-
Net income (loss)	2,143	15,709	(7,289)	(536)	(15,459)
Per Share Data:					
Basic income (loss) per share (3)	0.55	4.08	(1.90)	(0.14)	(4.00)
Diluted income (loss) per share (3)	0.55	4.05	(1.90)	(0.14)	(4.00)
Key Performance Ratios:					
Return on average assets	0.34 %	2.81 %	(1.28%)	(0.08%)	(2.29%)
Return on average equity	3.55 %	32.94 %	(16.43%)	(1.05%)	(27.64%)
Dividend payout ratio	N/A	N/A	N/A	N/A	N/A
Average equity to average assets	9.65 %	8.53 %	7.80 %	7.96 %	8.28 %

(1) Includes $24.7 million of deposits held for sale at December 31, 2012.

(2) Includes $88,000 of branch assets held for sale at December 31, 2012.

(3) 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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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Critical Accounting Policies

The preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates. Management has identified accounting for the allowance for loan losses, the analysis and valuation of its investment securities and the valuation of deferred tax assets, as the Company's most critical accounting policies and estimates in that they are important to the portrayal of the Company's financial condition and results. They require management's most subjective and complex judgment as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The Company's significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in this 2015 Annual Report on Form 10-K.

The Company has adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America (U.S. GAAP) and that are consistent with general practices within the banking industry in the preparation of its financial statements. Certain accounting policies involve significant judgments and assumptions by the Company that have a material impact on the carrying value of certain assets and liabilities. The Company considers these accounting policies to be critical accounting policies. The judgment and assumptions used are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions management makes, actual results could differ from these judgments and estimates, which could have a material impact on the carrying values of the Company's assets and liabilities and results of operations.

Allowance for Loan Losses. The Company maintains an allowance for loan losses 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 allowance 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. 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, or 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 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 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. Debt securities available for sale consist primarily of mortgage-backed securities issued by U.S. government-sponsored agencies. 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 an 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.The unrealized losses associated with available-for-sale debt securities were not considered to be other-than-temporarily impaired as of December 31, 2015 and 2014 because the unrealized losses were related to changes in interest rates and did not affect the expected cash flows of the underlying collateral or issuer. The unrealized losses associated with the equity investments were also not considered other-than-temporarily impaired as of December 31, 2015 and 2014. Management concluded that the decline in fair value was temporary and would recover by way of increases in market price or positive changes in foreign currency exchange rates.

Deferred Income Taxes. The Company provides for deferred income taxes on the liability method whereby tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. 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.

Summary

During 2015, the Company achieved net income, second consecutive year since 2007, primarily as a result of balance sheet and operational restructuring initiatives implemented during 2013, 2014 and 2015 by new executive management.

The following were among the Company’s notable achievements in 2015:

Net interest margin (NIM) of 3.60%
The amount of classified assets outstanding continues to decline and the overall risk rating for the portfolio has improved
Average non-interest bearing deposits increased $13.0 million.
As compared to December 31, 2014

- Total cash and cash equivalents growth of $12.1 million or 16.6%
- Improved Tier 1 to average assets capital ratios
- Increase in total interest and dividend income of $3.4 million or 16.6%
- Increase in income before taxes of $2.5 million or 265.0%

FINANCIAL CONDITION

Assets

The Company’s total assets increased $20.9 million, or 3.3%, from $632.6 million at December 31, 2014 to $653.5 million at December 31, 2015 as generation of income and increased in the Bank’s borrowings.

Cash and cash equivalents increased $12.1 million primarily due to the Bank’s efforts to increase liquidity.
Net loans increased $7.1 million as originations exceeded payments of loan principal.
Premises and equipment net increased by $7.1 million. The increase was primarily due to the purchase of $6.0 million in owned premises, including the purchase of a branch property previously leased and the construction of a new branch in a town where the Company has leased space historically. Equipment increased by $1.0 million, net of depreciation and dispositions, as the Company invested in its network infrastructure, its website and communications-related technology.
Deferred tax assets of $13.8 million were reported at December 31, 2015.

Investments

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

(in thousands)	**2015**	**2014**	**2013**
U.S. Government Agency bonds	$4,954	$7,409	$7,079
U.S. Government Agency mortgage- backed securities	13,413	17,337	21,752
Corporate bonds	9,010	8,936	8,870
Subordinate bonds	2,000	-	-
Federal Reserve Bank stock	2,075	2,058	1,444
Federal Home Loan Bank stock	6,570	6,628	4,143
Other investments	4,450	4,450	4,450
Total Investments	$42,472	$46,818	$47,738

Total investments decreased $4.3 million, or 9.3%, primarily due to principal payments of $3.8 million on the government agency mortgage-backed securities and proceeds of $2.5 million from maturities of government sponsor agency bonds, partially offset by purchases of Subordinated notes of $2.0 million. In addition, the Bank’s unrealized loss on available for sale securities decreased $205,000 from $453,000 at December 31, 2014 to $248,000 for year ending December 31, 2015.

The following table presents the maturity distribution of available-for-sale investment securities at December 31, 2015 and the weighted average yield of the amortized cost of such securities. The weighted average yields were calculated on the amortized cost and effective yields to maturity of each security. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be repaid without any penalties.

(dollars in thousands)	One year or less	Over one through five years	Over five through ten years	Over ten years	Total	Weighted Average Yield
U. S. Government Agency bonds	$ -	$ -	$5,000	$-	$5,000	2.07 %
U. S. Government Agency mortgage-backed securities	-	-	2,905	10,720	13,625	2.17 %
Corporate bonds	-	-	9,000	-	9,000	1.68 %
Subordinated Notes	-	-	2,000	-	2,000	6.00 %
Total	$ -	$ -	$18,905	$10,720	$29,625	3.25 %
Weighted average yield	-	-	2.36 %	2.18 %	3.25 %	

The following table presents a summary of available for sale investments for any issuer that exceeds 10% of shareholders' equity at December 31, 2015:

(in thousands)	Amortized Cost	Fair Value
Available for sale securities:		
U. S. Government Agency mortgage-backed securities and bonds	$ 9,173	$9,006

Loans

The following tables provide a summary of the Company's loan portfolio at December 31 for each of the years shown:

(in thousands)

	2015	**2014**	**2013**	**2012**	**2011**
Commercial	$59,752	$53,973	$35,137	$36,436	$31,810
Commercial real estate	273,850	254,505	222,772	246,998	215,019
Construction	15,551	3,096	260	4,998	12,293
Construction to permanent	4,880	10,627	11,372	4,908	10,018
Residential	82,815	108,543	106,968	119,864	189,383
Consumer	47,521	46,164	47,320	51,606	52,089
Total Loans	484,369	476,908	423,829	464,810	510,612
Allowance for loan losses	(5,242)	(4,924)	(5,681)	(6,016)	(9,385)
Loans receivable, net	$479,127	$471,984	$418,148	$458,794	$501,227

The Company's net loan portfolio increased $7.1 million, or 1.5%, to $479.1 million at December 31, 2015 from $472.0 million at December 31, 2014 as a result of originations in excess of significant loan payoffs. Increases in the portfolio included a $19.3 million increase in commercial real estate loans, and $6.7 million increase in all construction loans, which are off set by a decrease of $25.7 million in residential loans.

At December 31, 2015, the net loan to deposit ratio was 107% and the net loan to asset ratio was 73%. At December 31, 2014, the net loan to deposit ratio was 107%, and the net loan to asset ratio was 75%.

Loan Concentrations

The Bank has no concentrations of loans other than those disclosed in the summary below. Commercial real estate plus all construction represents 60.8% of total loans, up from 56.2% at December 31, 2014.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents the maturities of loans in the Company's portfolio at December 31, 2015, by type of loan:

(in thousands)	**Due in one year or less**	**Due after one year through five years**	**Due after five years**	**Total**
Commercial real estate	$39,261	$49,238	$185,351	$273,850
Residential real estate	-	-	82,815	82,815
Construction loans	12,762	2,789	-	15,551
Construction to permanent loans	-	-	4,880	4,880
Commercial loans	19,574	26,643	13,535	59,752
Consumer	992	2,924	43,605	47,521
Total	$72,589	$81,594	$330,186	$484,369
Fixed rate loans	$26,898	$48,889	$25,217	$101,004
Variable rate loans	45,691	32,705	304,969	383,365
Total	$72,589	$81,594	$330,186	$484,369

Allowance for Loan Losses

The allowance for loan losses increased $318,000 from December 31, 2014 to December 31, 2015 mostly due to an increase in the provision in 2015 relating to growth in the loan portfolio. 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, 2015, management believes the allowance for loan losses of $5.2 million, which represents 1.08% of gross loans outstanding, is adequate under prevailing economic conditions to absorb existing losses in the loan portfolio. At December 31, 2014, the allowance for loan losses was $4.9 million, or 1.03%, of gross loans outstanding.

Analysis of Allowance for Loan Losses

(in thousands)	**2015**	**2014**	**2013**	**2012**	**2011**
Balance at beginning of period	$4,924	$5,681	$6,016	$9,385	$15,374
Charge-offs:					
Commercial real estate	-	(297)	(403)	(50)	(2,941)
Residential real estate	(16)	(195)	(919)	(85)	(1,458)
Construction	-	(260)	(205)	(101)	(3,305)
Commercial	-	(49)	(63)	(48)	(375)
Consumer	(16)	(66)	(78)	(786)	(174)
Total charge-offs	(32)	(867)	(1,668)	(1,070)	(8,253)
Recoveries	100	110	363	80	854
Net Recoveries/ (charge-offs)	68	(757)	(1,305)	(990)	(7,399)
Additions charged to operations	250	-	970	(2,379)	7,464
Transferred to held-for-sale	-	-	-	-	(6,054)
Balance at end of period	$5,242	$4,924	$5,681	$6,016	$9,385
Ratio of net (recoveries)/ charge-offs during the period to average loans outstanding during the period	-0.01 %	0.18 %	0.29 %	0.20 %	1.52 %
Ratio of ALLL / Gross Loans	1.08 %	1.03 %	1.34 %	1.29 %	1.84 %

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Allocation of the Allowance for Loan Losses

(dollars in thousands)	**2015 Allowance for loan losses**	**% of loans**		**2014 Allowance for loan losses**	**% of loans**		**2013 Allowance for loan losses**	**% of loans**		**2012 Allowance for loan losses**	**% of loans**		**2011 Allowance for loan losses**	**% of loans**	
Commercial Real Estate	$2,164	56.5	%	$1,419	53.4	%	$1,585	52.6	%	$3,509	53.1	%	$4,019	42.1	%
Residential	546	17.1		831	22.8		795	25.2		897	25.8		2,551	37.1	
Construction	486	3.2		63	0.6		260	0.1		311	1.1		867	2.4	
Construction to permanent	123	1.0		215	2.2		25	2.7		19	1.1		547	2.0	
Commercial	1,027	12.3		1,918	11.3		2,285	8.3		942	7.8		882	6.2	
Consumer	677	9.8		478	9.7		534	11.2		217	11.1		459	10.2	
Unallocated	219	N/A		-	N/A		197	N/A		121	N/A		60	N/A	
Total	$5,242	100.0	%	$4,924	100.0	%	$5,681	100.0	%	$6,016	100.0	%	$9,385	100.0	%

Non-Accrual, Past Due and Restructured 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 6 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 the related loans are not considered to be impaired. The Bank considers consumer installment loans to be pools of smaller balance homogeneous loans, which are collectively evaluated for impairment.

The following table is a summary of non-accrual and accruing loans which were past due by over 90 days at the end of each of the last five years.

(dollars in thousands)	**2015**	**2014**	**2013**	**2012**	**2011**
Loans past due over 90 days still accruing	$2,046	$279	$866	$2,234	$9,461
Non accrual loans	1,593	866	12,337	23,810	20,683
Total	$3,639	$1,145	$13,203	$26,044	$30,144
% of Total Loans	0.75 %	0.24 %	2.77 %	6.14 %	6.49 %
% of Total Assets	0.56 %	0.18 %	2.09 %	4.22 %	4.53 %
Additional income on non-accrual loans if recognized on an accrual basis	$83	$23	$545	$1,172	$2,275

Non-accrual loans increased from $0.9 million at December 31, 2014 to $1.6 million at December 31, 2015. The $1.6 million of non-performing loans was comprised of 3 borrowers at December 31, 2015, compared to 4 borrowers at December 31, 2014. One loan of $0.3 million which had been non-accrual at December 31, 2014 subsequently paid off in February 2015.

Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The recorded balance of these nonaccrual loans was $1.6 million and $866,000 at December 31, 2015, and December 31, 2014 respectively. Generally, loans are placed on non-accruing status when they become 90 days or more delinquent, and remain on non-accrual status until they are brought current, have six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exist. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent and still be on a non-accruing status. Additionally, certain loans that cannot demonstrate sufficient global cash flow to continue loan payments in the future and certain troubled debt restructures (TDRs) are placed on non-accrual status.

Loans past due ninety days or more, and still accruing interest, were $2.0 million and $279,000 at December 31, 2015, and December 31, 2014 respectively. Loans over 90 days past due were comprised of eight loans as of December 31, 2015. Four loans were commercial loans with matured lines of credit with acceptable risk ratings awaiting renewal. Two loans were residential real estate loans and remaining two were credit card loans with acceptable risk rating. Loans over 90 days past due were comprised of four commercial loans as of December 31, 2014. All four loans were matured lines of credit with acceptable risk ratings awaiting renewal. These loans were past the loan’s maturity date and were current within 60 days as to interest payments.

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Other Real Estate Owned

There was no other real estate owned at December 31, 2015 and December 31, 2014. During the twelve months ended December 31, 2015, there was no OREO activity. During the twelve months ended December 31, 2014, one OREO property was foreclosed, and subsequently sold.

Deferred Taxes

The determination of the amount of deferred tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. The valuation allowance is analyzed quarterly for changes affecting the deferred tax asset. In September 2014, the Company released $16.8 million, or 96.7%, of the valuation allowance previously recorded on its net deferred tax asset. After weighing all the evidence, management determined that it was more likely than not that the Bank would be able to realize substantially all of its deferred tax asset and, therefore, the valuation allowance on that portion was no longer required.

The positive evidence that outweighed the negative evidence in Management's assessment included, but was not limited to, the following:

- Strong positive trend in financial performance over the last eight quarters
- Forecasted taxable income for 2016 and future periods
- Net operating loss carry-forwards that do not begin to expire until 2029
- A significant improvement in the quality of the loan portfolio
- Favorable changes in operations which permanently reduce operating expenses.

Deferred tax assets decreased $1.1 million from $14.9 million at December 31, 2014 to $13.8 million at December 31, 2015. This decrease was primarilty due to the utilization of net operating loss carry forwards applied to the tax liability on current year taxable income, in addition to a reduction in the deferred taxes on net unrealized security losses.

The Company will continue to evaluate its ability to realize its net deferred tax asset. If future evidence suggests that it is more likely than not that a portion of the deferred tax asset will not be realized, the valuation allowance may be increased.

Other Assets

During the fourth quarter of 2014, the Company’s Bank Owned Life Insurance (“BOLI”) policy of $22.4 million was liquidated and adjustable rate residential mortgage loans were purchased with the proceeds. The loans purchased had a composite yield of approximately 300 basis points higher than the existing crediting rate on the BOLI policy. In addition, the tax-exempt feature of the BOLI held no value for The Company due to the significant amount of net operating loss (“NOL”) carry forwards in the Company’s deferred tax assets.

Premises and equipment net increased $7.1 million from $22.4 million at December 31, 2014 to $29.4 million at December 31, 2015. The increase was primarily due to the purchase of $6.0 million in owned premises, including the purchase of a branch property previously leased and the construction of a new branch in a town where the Company has leased space historically. Equipment increased by $1.0 million, net of depreciation and dispositions, as the Company invested in its network infrastructure, its website and communications-related technology. The additional increase was in furniture and fixtures, as the Company purchased furniture for its new headquarters.

Deposits

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

(in thousands)	**2015**	**2014**	**2013**
Non-interest bearing	$85,065	$63,398	$55,358
Interest bearing			
NOW	28,684	26,269	28,618
Savings	108,658	93,790	80,983
Money market	19,522	24,650	29,310
Time certificates, less than $250,000	139,455	187,256	217,326
Time certificates, $250,000 or more	17,509	16,960	18,609
Brokered Deposits	48,154	30,710	-
Total interest bearing	361,982	379,635	374,846
Total Deposits	$447,047	$443,033	$430,204

Total deposits increased $4.0 million, or 0.9%, to $447.0 million at December 31, 2015.

Non-interest bearing deposits increased $21.7 million, or 34.2%, to $85.1 million.

Interest bearing deposits decreased $17.7 million, or 4.6%, to $362.0 million primarily due to decreases in certificates of deposit of $47.3 million, or 46.2% partially offset by a increase in brokered deposits of $17.4 million and savings accounts of $14.9 million when compared to last year. Brokered deposits of approximately $30.0 million were obtained in December 2014 to fund anticipated loan growth. The decrease in time deposits was primarily the result of strategic pricing initiatives intended to reduce higher cost deposits. The increase in savings balances was primarily due to promotional rates and shift in balances from other deposit products.

As of December 31, 2015, the Bank’s maturities of time deposits were:

(in thousands)	**Less than $250,000**	**$250,000 or more**	**Totals**

Three months or less	$ 59,785	$ 9,898	$ 69,683
Four to six months	53,304	2,479	55,783
Seven months to one year	56,958	3,128	60,086
Over one year	17,562	2,004	19,566
Total	$ 187,609	$ 17,509	$ 205,118

Borrowings

Borrowings increased to $142.2 million at December 31, 2015 as compared to $128.2 million at December 31, 2014. Borrowings at December 31, 2015 were comprised of $132.0 million in Federal Home Loan Bank Advances, $8.2 million in junior subordinated debentures and a note payable of $1.9 million. Borrowings at December 31, 2014 were comprised of $120.0 million in Federal Home Loan Bank Advances, and $8.2 million in junior subordinated debentures. The increase in FHLB borrowings of $12.0 million in 2015 was primarily to fund loans.

All FHLB borrowings at December 31, 2015 and December 31, 2014 had maturities of less than one year.

Shareholders' Equity

Shareholders' equity increased $2.8 million from $58.7 million at December 31, 2014 to $61.5 million at December 31, 2015. This is primarily the result of net income of $2.1 million, share based compensation of $461,000 and a decrease in accumulated other comprehensive loss of $125,000.

<u>Average Balances</u>

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

Average Balance Sheet
Net Interest income- Rate and Volume Variance Analysis

(dollars in thousands)	2015 Average Balance	2015 Interest Income/ Expense	2015 Average Rate	2014 Average Balance	2014 Interest Income/ Expense	2014 Average Rate	2013 Average Balance	2013 Interest Income/ Expense	2013 Average Rate
Interest earning assets:									
Loans	$492,245	$22,879	4.65 %	$427,032	$19,601	4.59 %	$454,849	$20,706	4.55 %
Cash equivalents	48,248	102	0.21 %	42,405	67	0.16 %	32,022	60	0.19 %
Investments	44,427	760	1.71 %	46,544	700	1.50 %	49,070	888	1.81 %
Total interest earning assets	$584,920	$23,741	4.06 %	$515,981	$20,368	3.95 %	$535,941	$21,654	4.04 %
Cash and due from banks	2,623			1,863			3,337		
Allowance for loan losses	(5,148)			(5,277)			(5,813)		
Other assets	43,238			46,636			35,328		
Total Assets	$625,633			$559,203			$568,793		
Interest bearing liabilities:									
Time certificates	$224,806	$1,513	0.67 %	$221,659	$2,016	0.91 %	$253,714	$3,422	1.35 %
Savings accounts	100,517	489	0.49 %	88,008	330	0.37 %	87,676	350	0.40 %
Money market accounts	22,481	10	0.04 %	27,144	14	0.05 %	35,268	41	0.11 %
NOW accounts	29,027	4	0.02 %	26,226	4	0.02 %	29,337	9	0.03 %
Borrowings	105,348	368	0.35 %	79,216	181	0.23 %	45,678	748	1.64 %
Subordinated debt	8,248	294	3.56 %	8,248	425	5.15 %	8,248	284	3.44 %
Subordinated note	529	12	2.27 %	-	-	0.00 %	-	-	0.00 %
Total interest bearing liabilities	$490,956	$2,690	0.55 %	$450,501	$2,970	0.66 %	$459,921	$4,854	1.06 %
Demand deposits	71,222			57,850			59,892		

Other liabilities	3,060				3,158				4,606		
Shareholder's equity	60,395				47,694				44,374		
Total liabilities and equity	$625,633				$559,203				$568,793		
Net interest income		$21,051				$17,398				$16,800	
Interest margin			3.60	%			3.37	%			3.13 %
Interest spread			3.51	%			3.29	%			2.98 %

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The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-earning assets and interest-bearing liabilities:

	2015 vs. 2014 Increase (decrease) due to		Total	2014 vs. 2013 Increase (decrease) due to		Total
(dollars in thousands)	Volume	Rate	Increase (decrease)	Volume	Rate	Increase (decrease)
Interest earning assets:						
Loans	$2,958	$320	$ 3,278	$(1,256)	$151	$ (1,105)
Cash equivalents	8	27	35	17	(10)	7
Investments	(32)	92	60	(44)	(144)	(188)
Total interest earning assets	2,934	439	3,373	(1,283)	(3)	(1,286)
Interest bearing liabilities:						
Time certificates	$29	$(532)	$ (503)	$(393)	$(1,013)	$ (1,406)
Savings accounts	42	117	159	1	(21)	(20)
Money market accounts	(2)	(2)	(4)	(8)	(19)	(27)
NOW accounts	-	-	-	(1)	(4)	(5)
Borrowings	48	139	187	332	(899)	(567)
Subordinated debt	-	(131)	(131)	-	141	141
Subordinated note	-	12	12	-	-	-
Total interest bearing liabilities	117	(409)	(280)	(69)	(1,815)	(1,884)

RESULTS OF OPERATIONS

Comparison of Results of Operations for the years 2015 and 2014

For the year ended December 31, 2015, the Company recorded net income of $2.1 million ($.55 per share) compared to a net income of $15.7 million ($4.08 per share) for the year ended December 31, 2014.

Income before income tax expense was $3.5 milllion, an increase of $2.5 million compared to income before income tax expense of $1.0 million in 2014.

- Net interest income increased $3.7 million
- Provision for loan losses increased $250,000
- Non-interest income decreased $281,000
- Non-interest expense increased $580,000

The positive results for 2015 were the Company's second consecutive year of net profitability since 2007 and was primarily due to balance sheet and operational restructuring initiatives implemented during 2013, 2014 and 2015 by the new executive management team. These initiatives included:

- Prepayment of high cost borrowings and replacement with borrowings at significantly lower rates.
- Strategic repricing of deposits
- Streamlining of branch and back office operations and exiting the Residential Lending business, resulting in non-interest expense reductions.
- Negotiating vendor price concessions.
- Purchasing three branch buildings where the cost of the leases exceeded the cost to own the properties.

The Company's improved earnings and balance sheet resulting from the initiatives noted and continued drive for efficiencies enabled the Company to recognize a $16.8 million income tax benefit in the third quarter of 2014 via reversal of most of the valuation allowance against its Deferred Tax Asset ("DTA"). Recognition of the DTA increased regulatory capital, enabling The Company to increase its asset base.

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 $3.7 million from $17.4 million for the year ended December 31, 2014 to $21.1 million for the year ended December 31, 2015.

Total interest and dividend income increased $3.4 million, or 16.6%, primarily as a result of higher average loan balances.

- o Average loan balances were $65.2 million higher in 2015 than in 2014, including a increase in the average commercial and commercial real estate loan balance of $57.7 million. The increase in average loan balances resulted in higher interest income of $3.3 million.
- o Average yields on loans increased to 4.65% from 4.59% in 2014. This benefitted interest income by $320,000 and was largely derived from loan mix as lower yielding residential loans constituted a smaller portion of the average loan portfolio in 2015.
- o Average yields on investments increased to 1.71% from 1.50% in 2014 resulting in higher interest income of $61,000. The increase in yields was primarily due to the purchase of a subordinated bond during 2015.

Total interest expense decreased $280,000 from $3.0 million for the year ended December 31, 2014 to $2.7 million for the year ended December 31, 2015 as average deposit and debt rates were lower in 2015.

- Deposit expense decreased $348,000 primarily due to the maturity and roll off of higher rate time deposits and replacement of these with lower rates. The average rate on these interest bearing Time Certificates deposits decreased from 0.91% to 0.67% in 2015, resulting in a $532,000 decrease in interest expense, off set by increase in Savings accounts by $159,000. Average time deposits were $3.2 million higher than 2014.
- Interest expense on borrowings increased $187,000 from 2014. The average rate on borrowings increased from 0.23% to 0.35% in 2015, resulting in a $0.2 million increase in interest expense. Average borrowings increased $26.1 million from 2014.
- Interest expense on subordinated debt decreased $131,000 from 2014, primarily due to incremental expense of $117,000 related to deferred interest payments from prior years.
- Additionally, interest expense on subordinated note increased interest expense by $12,000.

Management regularly reviews loan and deposit rates and strives to price The Company's products competitively. The Company 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

During 2015, the Company recorded a $250,000 provision for loan losses in the first quarter due to the growth of the loan portfolio. As the year progressed, loan originations were partial offset by loan payoffs. Overall, the credit quality of the loan portfolio continues to improve as the amount of classified assets outstanding has declined and the overall risk rating for the portfolio has improved which has enabled the Company to maintain its loan loss reserve level with no additional provision requirements for the remainder of 2015.

During 2014, The Company did not make any additional provisions for loan losses due to continued improvement in asset quality. During the fourth quarter of 2014 management implemented changes to the methodology for calculating the allowance for the loan losses by updating our study of the Loss Emergence Period ("LEP"). A more detailed description of the change is presented under the discussion entitled "Allowance for Loan Losses"("ALL") within the significant accounting policies section of Note 1 to the consolidated financial statements.

Non-interest income

Non-interest income decreased by $281,000, or 15.3%, from $1.8 million in 2014 to $1.6 million in 2015. Non-interest income for 2014 included a $455,000 loss on disposition of the Bank's BOLI policy, off set by $439,000 earnings on cash surrender value of the Bank's Policy. Lower deposit fees and service charges of $284,000 in 2015 is primarily due to lower overdraft fees as a result of closing frequently overdrawn accounts due to credit risk reasons.

Partially offsetting the noted changes was incremental rental income of approximately $47,000.

Non-interest expense

Non-interest expense increased $580,000, or 3.2%, from $18.3 million for the year ended December 31, 2014 to $18.9 million for the year ended December 31, 2015. Non-interest expense in 2014 included expense of $437,000 related to tax penalty for disposition of the BOLI policy. Non- interest expense in 2015 included the following differences:

- Salaries and benefits were increased by $1.2 million, primarily due to personnel increases to support the Company's growth.
- Professional and other outside services decreased $656,000 primarily due to lower legal fees resulting from improved asset quality, renegotiation of several vendor contracts and reduced consultant usage.
- Regulatory assessments reduction of $276,000 primarily due to improved ratings.
- Advertising and promotional expense increased $339,000 primarily due to the Company changing its overall business strategy and focus as the Bank changed its name and redefined its approach to the way it provides value to its customers, community and the market place.
- Year ended 2015, also includes a $133,000 non-cash charge, primarily associated with the abandonment of leasehold improvements in conjuction with the purchase of the Company's Fairfield branch building.

Comparison of Results of Operations for the years 2014 and 2013

For the year ended December 31, 2014, The Company recorded net income of $15.7 million ($4.08 per share) compared to a net loss of $7.3 million ($1.90 per share) for the year ended December 31, 2013.

Income before income tax expense was $1.0 million, an increase of $8.6 million compared to a loss before income tax expense of $7.6 million in 2013.

Net interest income increased $0.6 million
Provision for loan losses decreased $1.0 million
Non-interest income decreased $0.6 million
Non-interest expense decreased $7.6 million

The positive results for 2014 created the Company's first year of net profitability since 2007 and was primarily due to balance sheet and operational restructuring initiatives implemented during 2013 and 2014 by new executive management. These initiatives included:

Prepayment of high cost borrowings and replacement with borrowings at significantly lower rates.
Strategic repricing of deposits
Streamlining of branch and back office operations and exiting the Residential Mortage business, resulting in non-interest expense reductions.
Negotiating vendor price concessions
Purchasing three branch buildings where the cost of the leases exceeded the cost to own the properties.

The Company's improved earnings and balance sheet resulted from the initiatives noted along with continued efficiencies during 2014 enabled the Company to recognize a $16.8 million income tax benefit in the third quarter of 2014.

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 $0.6 million from $16.8 million for the year ended December 31, 2013 to $17.4 million for the year ended December 31, 2014.

Total interest and dividend income decreased $1.3 million, or 6.0%, primarily as a result of lower average loan balances. Increased yields on loans were offset by lower yields on investments.

- o Average loan balances were $27.8 million lower in 2014 than in 2013, including a decrease in the average residential real estate loan balance of $27.7 million. The decrease in average loan balances resulted in lower interest income of $1.3 million.
- o Average yields on loans increased to 4.59% from 4.55% in 2013. This benefitted interest income by $151,000 and was largely derived from loan mix as lower yielding residential loans constituted a smaller portion of the average loan portfolio in 2014.
- o Average yields on investments decreased to 1.50% from 1.81% in 2013 resulting in lower interest income of $144,000. The decrease in yields was primarily due to bonds repricing lower during 2013, in addition to increased prepayments and resulting premium amortization on mortgage-backed-securities.

Total interest expense decreased $1.9 million from $4.9 million for the year ended December 31, 2013 to $3.0 million for the year ended December 31, 2014 as average deposit and borrowing rates were significantly lower in 2014.

- Deposit expense decreased $1.5 million primarily due to strategic pricing initiatives which reduced dependence upon high cost term deposits as a funding source. The average rate on interest bearing deposits decreased from 0.94% to 0.65% in 2014, resulting in a $1.1 million decrease in interest expense. The remaining $0.4 million reduction in deposit expense was primarily due to shift in funding mix from higher rate time deposits to FHLB borrowings. Average time deposits were $32.1 million lower than in 2013. Average borrowings increased $33.5 million from 2013.
- Interest expense on borrowings decreased $0.6 million from 2014. The average rate on borrowings decreased from 1.64% to 0.23% in 2014, resulting in a $0.9 million decrease in interest expense. Higher average balances due to the previously noted shift from time deposits resulted in incremental expense of $0.3 million.
- Interest expense on subordinated debt increased $141,000 from 2013, primarily due to incremental expense of $117,000 related to deferred interest payments from prior years.

Management regularly reviews loan and deposit rates and strives to price The Company’s products competitively. The Company tracks its mix of asset and liability maturities and manages its balance sheet in an effort to maintain a reasonable match.

Provision for loan losses

During 2014, The Company did not make any additional provisions for loan losses due to continued improvement in asset quality. During 2013 The Company recorded a provision of $1.0 million as a specific reserve for one impaired loan. Net charge-offs decreased to $757,000 as compared to $1.3 million in 2013. In addition, criticized assets decreased by $15.2 million to $13.0 million at December 31, 2014 from $28.2 million at December 31, 2013. The Company continues to maintain conservative underwriting standards including minimum loan to value ratios.

During the fourth quarter of 2014 management implemented changes to the methodology for calculating the allowance for the loan losses by updating our study of the Loss Emergence Period (“LEP”). A more detailed description of the change is presented under the discussion entitled “Allowance for Loan Losses”(“ALL”) within the significant accounting policies section of Note 1 to the consolidated financial statements.

Non-interest income

Non-interest income decreased by $594,000, or 24.5%, from $2.4 million in 2013 to $1.8 million in 2014. Non-interest income for 2014 included a $455,000 loss on disposition of the Bank's BOLI policy. Excluding this loss non-interest income was $139,000, or 5.7%, lower than in 2013. Other significant reductions included:

- Lower mortgage banking fees of $231,000 primarily due to the decision during 2013 to discontinue originating and selling residential mortgage loans
- No branch or portfolio loan sales in 2014 as compared to combined proceeds of $79,000 for both in 2013.
- Decrease in BOLI income of $84,000 primarily due to lower crediting rates during 2014

Partially offsetting the noted reductions were increased loans and deposit fees totaling $118,000 and incremental rental income of approximately $275,000.

Non-interest expense

Non-interest expense decreased $7.6 million, or 29.4%, from $25.9 million for the year ended December 31, 2013 to $18.3 million for the year ended December 31, 2014. Non-interest expense in 2013 included prepayment penalties on borrowings of $4.1 million and restructuring charges of $522,000. Non-interest expense in 2014 included expense of $437,000 related to disposition of the BOLI policy. Excluding these non-recurring expenses, non-interest expense decreased by $3.4 million, or 16.1%, and included the following differences:

- Salaries and benefits were reduced by $1.6 million, primarily due to savings from employment reductions in addition to reduced expense resulting from changing health benefit providers.
- Occupancy and equipment expense decreased $354,000 primarily due to purchasing three branches from May 2013 to June 2014 which had formerly been leased, in addition to closing a branch in 2013.
- Professional and other outside services decreased $524,000 primarily due to lower legal fees resulting from improved asset quality, renegotiation of several vendor contracts and reduced consultant usage.
- Regulatory assessments reduction of $281,000 primarily due to rating improved. Other real estate operations ("OREO") reduction of $200,000. As a result of decreased OREO holdings during 2014.

LIQUIDITY

The Company's liquidity position was 16.4% and 15.7% at December 31, 2015 and 2014, respectively. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets as described in the accompanying consolidated balance sheets are considered liquid assets: cash and due from banks, federal funds sold, short-term investments and available-for-sale securities which have not been pledged. Liquidity is a measure of the Company's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover increases in its loan portfolio and downward fluctuations in deposit accounts. Management believes the Company's short-term assets provide sufficient liquidity to satisfy loan demand, cover potential fluctuations in deposit accounts and to meet other anticipated cash requirements.

At December 31, 2015, cash and cash equivalents and unpledged available-for-sale securities were $85.4 million and $21.9 million, respectively. In addition to Federal Home Loan Bank advances outstanding at December 31, 2015, the Bank had the ability to borrow an additional $13.9 million from the Federal Home Loan Bank of Boston, which included a $2.0 million overnight line of credit. At December 31, 2015, the Bank had $132.0 million in Federal Home Loan Bank advances, none of which were under the overnight line of credit. The Bank also has the ability to borrow from the Federal Reserve Bank.

At December 31, 2014, cash and cash equivalents and unpledged available-for-sale securities were $73.3 million and $26.2 million, respectively.

The following table presents The Company's contractual obligations as of December 31, 2015:

(in thousands)	**Total**	**Less than one year**	**One to three years**	**Three to five years**	**Over five years**
Certificates of deposit	$157,798	$138,232	$15,518	$4,048	-
Brokered deposits	48,324	48,324	-	-	-
Junior subordinated debt owed to unconsolidated trust	8,248	-	-	-	8,248
FHLB Advances	132,032	132,032	-	-	-
Note Payable	1,971	202	381	394	994
Operating lease obligations	1,910	932	516	200	262
Total contractual obligations	$350,283	$319,722	$16,415	$4,642	$9,504

OFF-BALANCE SHEET ARRANGEMENTS

The following table presents The Company's off-balance sheet commitments as of December 31, 2015. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon or are contingent upon the customer adhering to the terms of the agreements, the total commitment amounts do not necessarily represent future cash requirements.

(in thousands)	**2015**
Commitments to extend credit:	
Future loan commitments	**$14,912**
Home equity lines of credit	**25,588**
Unused lines of credit	**22,497**
Undisbursed construction loans	**21,337**
Financial standby letters of credit	**1,882**
	$86,216

REGULATORY CAPITAL REQUIREMENTS

The following tables illustrate the Company's and the Bank's regulatory capital ratios at December 31, 2015 and December 31, 2014 respectively:

Patriot National Bancorp, Inc.

	December 31, 2015	December 31, 2014
Tier 1 Leverage Capital	9.77%	9.62%
Common Equity Tier 1 Capital	10.04%	N/A
Tier 1 Risk-based Capital	11.60%	12.98%
Total Risk-based Capital	12.62%	14.08%

Patriot Bank, N.A.

	December 31, 2015	December 31, 2014
Tier 1 Leverage Capital	9.83%	9.63%
Common Equity Tier 1 Capital	11.72%	N/A
Tier 1 Risk-based Capital	11.72%	12.98%

Total Risk-based Capital	12.74%	14.08%

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.

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 Company’s market risk is primarily limited to interest rate risk.

The Company’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 Company’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 Company’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 table below sets forth examples of changes in estimated net interest income and the estimated net portfolio value based on projected scenarios of interest rate increases and decreases. The analyses indicate the rate risk embedded in the Company'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.

Net Interest Income and Economic Value
Summary Performance

(dollars in thousands)

	December 31, 2015					
	Net Interest Income			Net Portfolio Value		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+ 200	21,502	545	2.6 %	82,588	(3,456)	-4.0 %
+ 100	21,319	362	1.7 %	84,303	(1,741)	-2.0 %
BASE	20,957	-	-	86,044	-	-
- 100	20,653	(304)	-1.5 %	89,085	3,041	3.5 %
- 200	20,506	(451)	-2.2 %	92,546	6,502	7.6 %

	December 31, 2014					
	Net Interest Income			Net Portfolio Value		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+ 200	19,986	(104)	-0.5 %	74,830	(8,854)	-10.6 %
+ 100	20,152	62	0.3 %	79,390	(4,294)	-5.1 %
BASE	20,090	-	-	83,684	-	-
- 100	20,552	462	2.3 %	91,063	7,379	8.8 %
- 200	20,408	318	1.6 %	95,939	12,255	14.6 %

Impact of Inflation and Changing Prices

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

Consolidated Balance Sheets as of December 31, 2015 and 2014

Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013

Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2015, 2014 and 2013

Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013

Notes to Consolidated Financial Statements

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

The following table presents quarterly results of operations (unaudited) to the consolidated financial statements:

(in thousands)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
2015:				
Interest income	$ 5,748	$ 6,120	$ 6,109	$ 5,764
Interest expense	671	671	665	683
Net interest income	5,077	5,449	5,444	5,081
Provision for loan losses	250	-	-	-
Non-interest income	394	451	362	344
Non-interest expense	4,731	4,759	4,753	4,608
Income before income taxes	490	1,141	1,053	817
Provision for income taxes	201	452	420	285
Net income	$ 289	$ 689	$ 633	$ 532
Net income per common share:				
Basic	$ 0.07	$ 0.18	$ 0.16	$ 0.14
Diluted	$ 0.07	$ 0.18	$ 0.16	$ 0.14

(in thousands)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter (2)**
2014:				
Interest income	$ 4,879	$ 4,856	$ 4,977	$ 5,656
Interest expense	870	722	691	687
Net interest income	4,009	4,134	4,286	4,969
Provision for loan losses	-	-	-	-
Non-interest income	593	623	587	29
Non-interest expense	4,283	4,232	4,424	5,332
Income (Loss) before income taxes	319	525	449	(334)
(Benefit) provision for income taxes	-	-	(16,812)	2,062
Net income (loss)	$ 319	$ 525	$ 17,261	$ (2,396)
Net (loss) income per common share:				
Basic (1)	$ 0.08	$ 0.14	$ 4.48	$ (0.62)
Diluted (1)	$ 0.08	$ 0.14	$ 4.45	$ (0.62)

(1) All common stock and per share data has been restated to give effect to the reverse stock split of 1-for-10 effective March 4, 2015.

(2) Fourth quarter results were significantly impacted by the liquidation of the Company's BOLI policy. Excluding the BOLI transaction, the following are the fourth quarter results: net interest income and provision for loan losses-unchanged; non-interest income-$484; non-interest expense-$4,895; income before taxes-$558; provison for income

taxes-$217 and net income-$341.

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

The Company has agreed to indemnify and hold KPMG, LLP (KPMG) harmless against and from any and all legal costs and expenses incurred by KPMG in successful defense of any legal action or proceeding that arises as a result of KPMG's consent to the inclusion (or incorporation by reference) of its audit report on the Company's past financial statements included (or incorporated by reference) in this registration statement.

ITEM 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Based on an evaluation of the effectiveness of the Company’s disclosure controls and procedures performed by the Company’s management, with the participation of the Company’s Chief Executive Officer and its Chief Financial Officer as of the end of the period covered by this report, management concluded that the Company’s disclosure were not effective as of December 31, 2015. Notwithstanding a material weakness identified as of December 31, 2015, (described below), management has concluded that the consolidated financial statements included in this 10-K present fairly the financial position, results of operations and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

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

In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute assurance of achieving the desired objectives. Furthermore, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered 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.

(b) Management's Annual Report on Internal Control Over Financial Reporting

The management of the Company, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in rules 13a-15(f) and 15d-15f under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed so as to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

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

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

The Company did not have effective policies, procedures and review controls over the accounting for loan prepayment fees receivable which resulted in improper revenue recognition in December 2015 related to one non-routine transaction. No restatement of prior period financial statements and no change in previously released financial results were required as a result of this finding, as the error was corrected prior to the issuance of our annual financial statement.

To remediate the material weakness identified, management has initiated compensating controls in the near term and is enhancing and revising the design of existing controls to ensure loan prepayment fees are recorded on a cash basis.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control – Integrated Framework (2013)*. Based on that assessment, management believes that, as of December 31, 2015, as a result of the material weakness in internal controls over financial reporting described above, the Company's internal control over financial reporting was not effective.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Our management's report of the effectiveness of the design and operation of our internal controls and procedures was not subject to attestation by the Company's independent registered public accounting firm in accordance with the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

(c) Changes in Internal Control Over Financial Reporting

Except for as disclosed herein, there were no significant changes in our internal control over financial reporting during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

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 2016 Annual Meeting of Shareholders, to be filed within 120 days following December 31, 2015.

The Company has adopted a Code of Conduct for its senior financial officers. The information required by Item 406 is contained in Exhibit 14 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: Neil M. McDonnell, 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, 2015.

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, 2015.

The table below provides information as of December 31, 2015, with respect to the compensation plan under which equity securities of the Company are authorized for issuance to directors, officers or employees.

Plan Category	# of common shares to be issued upon vesting of restricted shares	Weighted average grant date fair value	# of common shares available for issuance under the Plan excluding unvested
Equity Compensation plans approved by security holders	55,854	12.83	2,873,084
Equity Compensation plans not approved by security holders	-	-	-
Total	**55,854**	**12.83**	**2,873,084**

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, 2015.

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, 2015.

Part IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) 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 Patiort 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)(23)	Extension of Employment Agreement with Kenneth T. Neilson, (incorporated by reference Item 5.02 (e) to the Company's Current Report on Form 8K, dated January 4, 2016, (Commission File No. 000-29599))
10(a)(24)	Appointment of Neil M. McDonnell, (EVP/CFO) (incorporated by reference Item 5.02 (c) to the Company's Current Report on Form 8K, dated January 4, 2016, (Commission File No. 000-29599))
14	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)).

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 KPMG, 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

<u>No</u>. <u>Description</u>

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

Board of Directors and Shareholders

Patriot National Bancorp, Inc.

Stamford, CT

We have audited the accompanying consolidated balance sheet of Patriot National Bancorp, Inc. and Subsidiary (the Company) as of December 31, 2015 and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Patriot National Bancorp, Inc. and Subsidiary at December 31, 2015, and the results of their operations and their cash flows for the year then ended**,** in conformity with accounting principles generally accepted in the United States of America.

/s/BDO USA, LLP

Philadelphia, Pennsylvania

March 30, 2016

The Board of Directors and Shareholders

Patriot National Bancorp, Inc.

Stamford, CT

We have audited the accompanying consolidated balance sheet of Patriot National Bancorp, Inc. and subsidiary (the Company) as of December 31, 2014, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Patriot National Bancorp, Inc. and subsidiary as of December 31, 2014, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/KPMG, LLP

Stamford, Connecticut

March 31, 2015

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
	($ in thousands, except shares data)	
ASSETS		
Cash and due from banks (Note 2):		
Noninterest bearing deposits and cash	**$2,588**	$2,095
Interest bearing deposits	**82,812**	71,163
Total cash and cash equivalents	**85,400**	73,258
Securities:		
Available for sale securities, at fair value (Note 3)	**29,377**	33,682
Other Investments	**4,450**	4,450
Federal Reserve Bank stock, at cost	**2,075**	2,058
Federal Home Loan Bank stock, at cost	**6,570**	6,628
Total securities	**42,472**	46,818
Loans receivable (net of allowance for loan losses: 2015: $5,242, 2014: $4,924) (Notes 4 and 16)	**479,127**	471,984
Accrued interest and dividends receivable	**2,010**	1,918
Premises and equipment, net (Notes 5 and 8)	**29,421**	22,357
Deferred tax asset (Note 9)	**13,763**	14,926
Other assets	**1,338**	1,363
Total assets	**$653,531**	$632,624
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Notes 6 and 16):		
Noninterest bearing deposits	**$85,065**	$63,398
Interest bearing deposits	**361,982**	379,635
Total deposits	**447,047**	443,033
Federal Home Loan Bank borrowings (Note 7)	**132,000**	120,000
Junior subordinated debt owed to unconsolidated trust (Note 7)	**8,248**	8,248
Note Payable (Note 7)	**1,939**	-
Accrued expenses and other liabilities	**2,833**	2,608
Total liabilities	**592,067**	573,889
Commitments and Contingencies (Notes 7, 8 and 13)		
Shareholders' equity (1)(Notes 11 and 15)		
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; 2015: 3,957,377 shares issued; 3,956,207 shares outstanding. 2014: 3,925,362 shares issued; 3,924,192 shares outstanding	**40**	39
Additional paid-in capital	**106,568**	106,108
Accumulated deficit	**(44,832)**	(46,975)
Less: Treasury stock, at cost: 2015 and 2014, 1,170 shares	**(160)**	(160)
Accumulated other comprehensive loss	**(152)**	(277)
Total shareholders' equity	**61,464**	58,735
Total liabilities and shareholders' equity	**$653,531**	$632,624

(1) On March 4, 2015, the Company affected a 1-for-10 reverse stock split. All common stock data included in these financial statements for year 2014 has been restated to give effect to the reverse stock split.

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2015, 2014 and 2013

	2015	2014	2013
Interest and Dividend Income	*(in thousands, except per share amounts)*		
Interest and fees on loans	**$22,879**	$19,601	$20,706
Interest on investment securities	**473**	528	775
Dividends on investment securities	**287**	172	113
Other interest income	**102**	67	60
Total interest and dividend income	**23,741**	20,368	21,654
Interest Expense			
Interest on deposits	**2,016**	2,364	3,822
Interest on Federal Home Loan Bank borrowings	**368**	181	666
Interest on subordinated debt	**294**	425	284
Interest on other borrowings	**12**	-	82
Total interest expense	**2,690**	2,970	4,854
Net interest income	**21,051**	17,398	16,800
Provision for Loan Losses (Note 4)	**250**	-	970
Net interest income after provision for loan losses	**20,801**	17,398	15,830
Non-interest Income			
Loan application, inspection and processing fees	**185**	239	504
Deposit fees and service charges	**612**	896	744
Gain on sale of loans	**-**	-	28
Gain on sale of branch assets and deposits	**-**	-	51
Earnings on cash surrender value of bank owned life insurance	**-**	439	523
Rental Income	**402**	355	-
Other income (loss)	**352**	(97)	576
Total non-interest income	**1,551**	1,832	2,426
Non-interest Expense			
Salaries and benefits (Notes 8,11 and 13)	**9,247**	8,097	9,702
Occupancy and equipment expense	**3,462**	3,556	3,911
Data processing expense	**1,226**	1,115	1,296
Professional and other outside services	**1,656**	2,312	2,836
Advertising and promotional expense	**591**	252	217
Loan administration and processing expense	**50**	65	220
Regulatory assessments	**603**	879	1,159
Insurance expense	**304**	349	315
Other real estate operations	**-**	12	212
Material and communications	**427**	376	