PATRIOT NATIONAL BANCORP INC
Form 10-Q/A
August 23, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No.1)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from ______ to ______

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

(203) 324-7500

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 No

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

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

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of August 8, 2018, there were 3,904,578 shares of the registrant's common stock outstanding.

EXPLANATORY NOTE

Patriot National Bancorp, Inc. (the "Company") originally filed its Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the "Original Filing") with the Securities and Exchange Commission ("SEC") on August 14, 2018. The Company is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q (the "Form 10-Q/A" and, together with the Original Filing, the "Form 10-Q") solely to correct certain inadvertent errors in the column of Three Months Ended June 30, 2018 in the Consolidated Statements of Comprehensive Income (Loss) (Unaudited) as follows:

(In thousands)	**Three Months Ended June 30, 2018 Reported in Original Filing**	**Corrected**
Net income	$1,036	1,036
Other comprehensive (loss) income		
Unrealized holding loss on securities	(710)	(403)
Income tax effect	191	108
Total other comprehensive loss	(519)	(295)
Comprehensive income	$517	741

Except as described above, this Form 10-Q/A does not amend, modify, update or change any other items or disclosures in the Original Filing, which continue to speak as of the date of the Original Filing (including, but not limited to, any forward-looking statements made in the Original Filing, which have not been revised to reflect events that occurred or facts that became known after the Original Filing, and such forward-looking statements should be read in their historical context). Accordingly, this Form 10-Q/A should be read in conjunction with the Original Filing and the Company's other filings made with the SEC subsequent to the Original Filing.

PART I- FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands, except share data)	**June 30, 2018**	**December 31, 2017**
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	$*4,589*	*3,582*
Interest bearing deposits	*81,052*	*45,659*
Total cash and cash equivalents	*85,641*	*49,241*
Investment securities:		
Available-for-sale securities, at fair value	*23,982*	*25,576*
Other investments, at cost	*4,450*	*4,450*
Total investment securities	*28,432*	*30,026*
Federal Reserve Bank stock, at cost	*2,564*	*2,502*
Federal Home Loan Bank stock, at cost	*5,807*	*5,889*
Loans receivable (net of allowance for loan losses: 2018: $6,525, 2017: $6,297)	*750,804*	*713,350*
Accrued interest and dividends receivable	*3,306*	*3,496*
Premises and equipment, net	*35,715*	*35,358*
Other real estate owned	*991*	-
Deferred tax asset	*11,085*	*10,397*
Goodwill	*2,100*	-
Core deposit intangible, net	*534*	-
Other assets	*3,256*	*1,821*
Total assets	$*930,235*	*852,080*
Liabilities		
Deposits:		
Noninterest bearing deposits	$*83,808*	*81,197*
Interest bearing deposits	*628,504*	*556,242*
Total deposits	*712,312*	*637,439*
Federal Home Loan Bank and correspondent bank borrowings	*110,000*	*120,000*
Senior notes, net	*11,740*	*11,703*
Subordinated debt, net	*9,576*	-
Junior subordinated debt owed to unconsolidated trust	*8,090*	*8,086*
Note payable	*1,484*	*1,580*

Advances from borrowers for taxes and insurance	*2,876*	*2,829*
Accrued expenses and other liabilities	*5,796*	*3,694*
Total liabilities	*861,874*	*785,331*
Commitments and Contingencies		
Shareholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding	**-**	**-**
Common stock, $.01 par value, 100,000,000 shares authorized; 2018: 3,978,319 shares issued; 3,904,578 shares outstanding. 2017: 3,973,416 shares issued; 3,899,675 shares outstanding	*40*	*40*
Additional paid-in capital	*106,982*	*106,875*
Accumulated deficit	*(36,808*)	*(38,832*)
Less: Treasury stock, at cost: 2018 and 2017, 73,741 and 73,741 shares, respectively	*(1,179*)	*(1,179*)
Accumulated other comprehensive loss	*(674*)	*(155*)
Total shareholders' equity	*68,361*	*66,749*
Total liabilities and shareholders' equity	$*930,235*	*852,080*

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(In thousands, except per share amounts)	**Three Months Ended June 30, 2018**	**2017**	**Six Months Ended June 30, 2018**	**2017**
Interest and Dividend Income				
Interest and fees on loans	$ *9,201*	*7,591*	*17,975*	*14,198*
Interest on investment securities	*291*	*242*	*557*	*413*
Dividends on investment securities	*128*	*93*	*249*	*175*
Other interest income	*270*	*19*	*421*	*83*
Total interest and dividend income	*9,890*	*7,945*	*19,202*	*14,869*
Interest Expense				
Interest on deposits	*1,997*	*1,129*	*3,654*	*2,118*
Interest on Federal Home Loan Bank borrowings	*502*	*183*	*759*	*261*
Interest on senior debt	*228*	*228*	*457*	*457*
Interest on subordinated debt	*112*	*89*	*211*	*174*
Interest on note payable	*10*	*8*	*17*	*17*
Total interest expense	*2,849*	*1,637*	*5,098*	*3,027*
Net interest income	*7,041*	*6,308*	*14,104*	*11,842*
Provision (Credit) for Loan Losses	*50*	*260*	*235*	*(1,489*)
Net interest income after provision (credit) for loan losses	*6,991*	*6,048*	*13,869*	*13,331*
Non-interest Income				
Loan application, inspection and processing fees	*12*	*15*	*20*	*36*
Deposit fees and service charges	*132*	*146*	*266*	*295*
Gains on sale of loans	*66*	-	*66*	-
Rental Income	*83*	*91*	*167*	*185*
Loss on sale of investment securities	-	-	-	*(78*)
Other income	*93*	*97*	*189*	*188*
Total non-interest income	*386*	*349*	*708*	*626*
Non-interest Expense				
Salaries and benefits	*2,854*	*2,497*	*5,623*	*4,927*
Occupancy and equipment expense	*776*	*807*	*1,517*	*1,582*
Data processing expense	*322*	*326*	*639*	*446*
Professional and other outside services	*457*	*550*	*1,029*	*1,202*
Merger and tax initiative project expenses	*592*	-	*1,115*	-
Advertising and promotional expense	*59*	*111*	*137*	*185*

Loan administration and processing expense	*30*	*14*	*43*	*23*
Regulatory assessments	*298*	*163*	*550*	*342*
Insurance expense	*53*	*56*	*108*	*115*
Communications, stationary and supplies	*110*	*103*	*223*	*190*
Other operating expense	*410*	*387*	*768*	*696*
Total non-interest expense	*5,961*	*5,014*	*11,752*	*9,708*
Income before income taxes	*1,416*	*1,383*	*2,825*	*4,249*
Provision for Income Taxes	*380*	*579*	*724*	*1,715*
Net income	$*1,036*	*804*	*2,101*	*2,534*
Basic earnings per share	$*0.27*	*0.21*	*0.54*	*0.65*
Diluted earnings per share	$*0.26*	*0.21*	*0.54*	*0.65*

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)

(In thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
Net income	$ *1,036*	*804*	*2,101*	*2,534*
Other comprehensive income				
Unrealized holding (loss) gain on securities	*(403*)	*48*	*(710*)	*287*
Income tax effect	*108*	*(18*)	*191*	*(111*)
Reclassification for realized losses on sale of investment securities	-	-	-	*(78*)
Income tax effect	-	-	-	*30*
Total other comprehensive (loss) income	*(295*)	*30*	*(519*)	*128*
Comprehensive income	$ *741*	*834*	*1,582*	*2,662*

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

(In thousands, except shares)	**Number of Shares**	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Total**
Balance at December 31, 2017	*3,899,675*	$ *40*	*106,875*	*(38,832)*	*(1,179)*	*(155)*	*66,749*
Comprehensive income:							
Net income	-	-	-	*2,101*	-	-	*2,101*
Unrealized holding loss on available-for-sale securities, net of tax	-	-	-	-	-	*(519)*	*(519)*
Total comprehensive income	-	-	-	*2,101*	-	*(519)*	*1,582*
Common stock dividends				*(77)*			*(77)*
Share-based compensation expense	-	-	*107*	-	-	-	*107*
Vesting of restricted stock	*4,903*	-	-	-	-	-	-
Balance at June 30, 2018	*3,904,578*	$ *40*	*106,982*	*(36,808)*	*(1,179)*	*(674)*	*68,361*
Balance at December 31, 2016	*3,891,897*	$ *40*	*106,729*	*(42,902)*	*(1,177)*	*(120)*	*62,570*
Comprehensive income:							
Net income	-	-	-	*2,534*	-	-	*2,534*
Unrealized holding gain on available-for-sale securities, net of tax	-	-	-	-	-	*128*	*128*
Total comprehensive income	-	-	-	*2,534*	-	*128*	*2,662*
Share-based compensation expense	-	-	*68*	-	-	-	*68*
Vesting of restricted stock	*2,231*	-	-	-	-	-	-
Balance at June 30, 2017	*3,894,128*	$ *40*	*106,797*	*(40,368)*	*(1,177)*	*8*	*65,300*

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)	**Six Months Ended June 30, 2018**	**2017**
Cash Flows from Operating Activities:		
Net income	$2,101	2,534
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums, net	25	53
Amortization and accretion of purchase loan premiums and discounts	352	260
Amortization of debt issuance costs	41	41
Provision (credit) for loan losses	235	(1,489)
Depreciation and amortization	716	590
Amortization of core deposit intangible	18	-
Loss on sales of available-for-sale securities	-	78
Share-based compensation	107	68
(Increase) decrease in deferred income taxes	(497)	1,339
Changes in assets and liabilities:		
Decrease (increase) in accrued interest and dividends receivable	190	(482)
Decrease (increase) in other assets	871	(184)
Increase (decrease) in accrued expenses and other liabilities	230	(1,061)
Net cash provided by operating activities	4,389	1,747
Cash Flows from Investing Activities:		
Proceeds from sales on available-for-sale securities	35,532	13,848
Principal repayments on available-for-sale securities	859	1,244
Purchases of available-for-sale securities	-	(15,567)
Purchases of Federal Reserve Bank stock	(62)	(315)
Redemptions (purchases) of Federal Home Loan Bank stock	82	(224)
Increase in net originations of loans receivable	(16,436)	(21,911)
Purchase of loan pools receivable	-	(73,022)
Purchase of premises and equipment	(1,067)	(2,302)
Escrow deposit for pending acquisition	(500)	-
Net cash used in business combination	(4,736)	-
Net cash provided by (used in) investing activities	13,672	(98,249)
Cash Flows from Financing Activities:		
Increase in deposits, net	28,689	32,715
Repayments of FHLB and correspondent bank borrowings	(19,800)	(18,000)
Proceeds from issuance of subordinated debt, net	9,576	-
Principal repayments of note payable	(96)	(94)
Decrease in advances from borrowers for taxes and insurance	47	435

Dividends paid on common stock	(77)	-
Net cash provided by financing activities	*18,339*	*15,056*
Net Increase (decrease) in cash and cash equivalents	*36,400*	*(81,446)*
Cash and cash equivalents at beginning of period	*49,241*	*92,289*
Cash and cash equivalents at end of period	$*85,641*	*10,843*
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$*4,205*	*2,974*
Cash paid for income taxes	$*1,243*	*375*
Business Combination Non-Cash Disclosures		
Assets acquired in business combination (net of cash received)	$*60,492*	-
Liabilities acquired in business combination	$*56,095*	-
Contingent liability assumed in business combination	$*1,761*	-

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note *1:* Basis of Financial Statement Presentation

The accompanying unaudited condensed consolidated financial statements of Patriot National Bancorp, Inc. (the “Company”) or (“Patriot”) and its wholly-owned subsidiaries including Patriot Bank, N.A. (the “Bank”) (collectively, “Patriot”), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) have been omitted. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included on the Form *10*-K for the year ended *December 31, 2017.*

The Consolidated Balance Sheet at *December 31, 2017* presented herein has been derived from the audited consolidated financial statements of the Company at that date, but does *not* include all of the information and footnotes required by US GAAP for complete financial statements.

On *May 10, 2018* the Bank completed its acquisition of Prime Bank, a Connecticut bank headquartered in Orange, CT (“Prime Bank”). The closing of the transaction added a new Patriot branch located in the Town of Orange, New Haven County, Connecticut. The results of Prime Bank’s operations were included in the Company’s Consolidated Financial Statements from the date of acquisition.

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

The information furnished reflects, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of the results for the interim periods presented. The results of operations for the *three* months ended

June 30, 2018 are *not* necessarily indicative of the results of operations that *may* be expected for the remainder of *2018.*

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note *2*: Accounting Policies

New Accounting Policy

Please refer to the summary of Significant Accounting Policies included in the Company's *2017* Annual Report on Form *10*-K for a list of all policies in effect as of *December 31, 2017.* The below summary is intended to provide updates or new policies required as a result of a new accounting standard or a change to the Company's operations or assets that require a new or amended policy.

Acquired Loans

Acquired loans are initially recorded at their acquisition date fair values. The carryover of allowance for loan losses is prohibited as any credit losses in the acquired loans are included in the determination of the fair value of the loans at the acquisition date. Fair values for acquired loans are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, prepayment risk, liquidity risk, default rates, loss severity, payment speeds, collateral values and discount rate.

Acquired Impaired Loans- Purchase Credit Impaired "PCI" Loans

Acquired loans that exhibit evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments are accounted for as PCI loans under Accounting Standards Codification ("ASC") *310-30.* The excess of undiscounted cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is accreted into interest income over the remaining life of the loans using the interest method. The difference between contractually required payments at acquisition and the undiscounted cash flows expected to be collected at acquisition is referred to as the non-accretable discount. The non-accretable discount represents estimated future credit losses and other contractually required payments that the Company does *not* expect to collect. Subsequent decreases in expected cash flows are recognized as impairments through a charge to the provision for loan losses resulting in an increase in the allowance for loan losses. Subsequent improvements in expected cash flows result in a recovery of previously recorded allowance for loan losses or a reversal of a corresponding amount of the nonaccretable discount, which the Company then reclassifies as an accretable discount that is accreted into interest income over the remaining life of the loans using the interest method.

PCI loans are initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, the associated allowance for credit losses related to these loans is *not* carried over at the acquisition date.

Acquired loans that met the criteria for non-accrual of interest prior to acquisition were *not* considered performing upon acquisition. When the customers resume payments, to make the nonaccrual loans current, the loans *may* return to accrual status, including the impact of any accretable discounts, if the Company can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Acquired Non-impaired Loans

Acquired loans that do *not* meet the requirements under ASC *310-30* are considered acquired non-impaired loans. The difference between the acquisition date fair value and the outstanding balance represents the fair value adjustment for a loan and includes both credit and interest rate considerations. Fair value adjustments *may* be discounts (or premiums) to a loan's cost basis and are accreted (or amortized) to net interest income (or expense) over the loan's remaining life in accordance with ASC *310-20.* Fair value adjustments for revolving loans are accreted (or amortized) using a straight line method. Term loans are accreted (or amortized) using the constant effective yield method.

Subsequent to the purchase date, the methods used to estimate the allowance for loan losses for the acquired non-impaired loans are consistent with the policy for allowance for loan losses described in Note *5*.

Intangible Assets

Intangible assets include core deposit intangibles and goodwill arising from acquisitions. The initial and ongoing carrying value of intangible assets is based upon modeling techniques that require management to make estimates regarding the amount and timing of expected future cash flows. It also requires use of a discount rate that reflects the current return requirements of the market in relation to present risk-free interest rates, required equity market premiums, peer volatility indicators, and company-specific risk indicators.

Core deposit intangibles are amortized on straight-line basis over a *10*-year period because that is managements' conservative estimate of the period Patriot will benefit from Prime Bank's stable deposit base comprised of funds associated with long term customer relationships.

The Company will evaluate goodwill for impairment on an annual basis, or more often if events or circumstances indicate there *may* be impairment. The annual impairment test will be conducted as of *November* annually. The implied fair value of a reporting unit's goodwill is compared to its carrying amount and the impairment loss is measured by the excess of the carrying value over fair value. The fair value of each reporting unit is compared to the carrying amount of such reporting unit in order to determine if impairment is indicated.

Contingent Consideration

Contingent consideration represents an estimate of the additional amount of purchase price consideration and is measured based on the probability that certain loans are restructured in accordance with the agreement. Resolution of the contingent consideration will result in a cash payment and will be reflected in the financial statements as a measurement period adjustment as they are finalized. Changes will be recognized as an increase or decrease to goodwill, the valuation of the related loans and the contingent consideration/purchase price.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

New Accounting Standards

Accounting Standards Adopted During 2018

Effective *January 1, 2018,* the following new Accounting Standards Updates (ASUs) were adopted by the Company:

ASU *2014-09*

ASU *No. 2014-09,* Revenue from Contracts with Customers (Topic *606*) including subsequent ASUs issued to clarify this Topic. The ASU, and subsequent related updates, establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most previous revenue recognition guidance, including industry-specific guidance. The ASUs are intended to increase comparability across industries. The core principle of the revenue model is that a company will recognize revenue when it transfers control of goods or services to customers, at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services.

The Company adopted the ASU on *January 1, 2018* on a modified retrospective transition approach. The adoption of this guidance did *not* have a material impact on the Company's Consolidated Financial Statements, and there was *no* cumulative effect adjustment to opening retained earnings as *no* material changes were identified in the timing of revenue recognition.

ASU *2016-01* and ASU *2018-03*

ASU *No. 2016-01,* Financial Instruments - Overall (Subtopic *825-10*) - Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU *No. 2018-03,* Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic *825-10*). The ASUs included targeted amendments in connection with the recognition, measurement, presentation, and disclosure of financial instruments. The main provisions require investments in equity securities to be measured at fair value through net income, unless they qualify for a practical expedient, and require fair value changes arising from changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option to be recognized in other comprehensive income. The provisions also emphasized the existing requirement to use exit prices to measure fair value for disclosure purposes. The Company adopted the ASUs on *January 1, 2018* on a modified retrospective basis. In connection with the adoption of ASU *2016-01* on *January 1,* *2018,* we refined our methodology to estimate the fair value of our loan portfolio using an exit price notion resulting in prior-periods *no* longer being comparable.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

ASU *2016-15*

In *August 2016,* the FASB issued ASU *2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments.* ASU *2016-15* addresses the classification of certain specific transactions presented on the Statement of Cash Flows, in order to improve consistency across entities. Debt prepayment or extinguishment, debt-instrument settlement, contingent consideration payments post-business combination, and beneficial interests in securitization transactions are specific items addressed by this ASU that *may* affect the Bank. Additionally, the ASU codifies the predominance principle for classifying separately identifiable cash flows. ASU *2016-15* is effective for fiscal years beginning after *December 15, 2017,* including interim periods within those fiscal years, with early adoption permitted. As of *June 30, 2018,* Patriot did *not* have any debt prepayment or extinguishment, debt-instrument settlement, contingent consideration payments post-business combination, and beneficial interests in securitization transactions. In the future, if Patriot's such transactions warrant present, management does *not* envision any difficulties implementing the requirements of ASU *2016-15,* as applicable.

ASU *2016-18*

In *November 2016,* the FASB issued ASU *2016-18, Statement of Cash Flows: Restricted Cash.* The purpose of the standard is to improve consistency and comparability among companies with respect to the reporting of changes in restricted cash and cash equivalents on the Statement of Cash Flows. The ASU requires the Statement of Cash Flows to include all changes in total cash and cash equivalents, including restricted amounts, and to the extent restricted cash and cash equivalents are presented in separate line items on the Balance Sheet, disclosure reconciling the change in total cash and cash equivalents to the amounts shown on the Balance Sheet are required. ASU *2016-18* is effective for fiscal years beginning after *December 15, 2017,* including interim periods within those fiscal years, with early adoption permitted. As of *June 30, 2018* and *December 31, 2017,* Patriot did *not* have restricted cash and cash equivalents separately disclosed on its Balance Sheet. In the future, if Patriot's activities warrant presenting separate line items on its Balance Sheet for restricted cash and cash equivalents, management does *not* envision any difficulties implementing the requirements of ASU *2016-18,* as applicable.

ASU *2017-09*

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

ASU *2018-04*

ASU *2018-04* - Investments - Debt Securities (Topic *320*) and Regulated Operations (Topic *980*): The amendment in this ASU adds, amends and supersedes various paragraphs that contain SEC guidance in ASC *320,* Investments-Debt Securities and ASC *980,* Regulated Operations. The amendments in this ASU are effective when a registrant adopts ASU *2016-01,* which for Patriot, was *January 1, 2018.* This amendment did *not* have an impact on the Company's Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Accounting Standards Issued But Not Yet Adopted

ASU *2016-02*

In *February 2016,* the FASB issued ASU *No. 2016-02, Leases.* This ASU was issued to improve the financial reporting of leasing activities and provide a faithful representation of leasing transactions and improve understanding and comparability of a lessee's financial statements. Under the new accounting guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than *12* months. This ASU will require both finance and operating leases to be recognized on the balance sheet. This ASU will affect all companies and organizations that lease real estate. The FASB issued an update in *January 2018 (*ASU *2018-01*) providing an optional transition practical expedient to *not* evaluate under Topic *842* land easements that exist or expired before the entity's adoption of Topic *842.* This ASU will become effective for interim and annual reporting periods beginning after *December 15, 2018.* The Company will adopt this new accounting guidance as required. Management is currently evaluating the impact of the new standard on its Consolidated Financial Statements.

ASU *2016-13*

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

ASU *2017-04*

In *January 2017,* the FASB issued ASU *2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment:* The objective of this guidance is to simplify an entity's required test for impairment of goodwill by eliminating Step *2* from the goodwill impairment test. In Step *2* an entity measured a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. In computing the implied fair value of goodwill, an entity had to determine the fair value at the impairment date of its assets and liabilities, including any unrecognized assets and liabilities, following a procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under this Update, an entity should perform its annual or quarterly goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount and record an impairment charge for the excess of the carrying amount over the reporting unit's fair value. The loss recognized should *not* exceed the total amount of goodwill allocated to the reporting unit and the entity must consider the income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. This guidance is effective for a public business entity that is an SEC filer for its annual or any interim goodwill impairment tests in fiscal years beginning after *December 15, 2019.* The adoption of this standard is *not* expected to have a material impact on the Company's Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

ASU *2017-08*

In *March 2017,* the FASB issued ASU *2017-08, Premium Amortization on Purchased Callable Debt Securities*, which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. The ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after *December 15, 2018.* For all other entities, the ASU is effective for fiscal years beginning after *December 15, 2019,* and interim periods within fiscal years beginning after *December 15, 2020.* Earlier application is permitted for all entities, including adoption in an interim period. If an entity early adopts the ASU in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. Management is currently evaluating the impact the adoption of ASU *2017-08* will have on its Consolidated Financial Statements.

ASU *2018-02*

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

ASU *2018-05*

ASU *2018-05* - *Income Taxes (Topic 740)*: Amendment to clarify situations where a registrant does *not* have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting under ASC *740* for certain income tax effects of the Tax Cuts and Jobs Act for the reporting period. As of *December 31, 2017,* the Company partially completed the accounting for the tax effects of enactment of the Tax Cuts and Jobs Act, and management made reasonable estimates of the effects of a reduced federal corporate income tax rate on its existing deferred tax balances. The Company will continue to make and refine its calculations during the *one*-year re-measurement period as additional analysis is completed. In addition, these estimates *may* be affected as management gains a more thorough understanding of the new tax reform legislation.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note *3:* Business Combinations

Generally, acquisitions are accounted for under the acquisition method of accounting in accordance with ASC *805,* Business Combinations. Both the purchased assets and liabilities assumed are recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities, especially the loan portfolio, is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to *one* year after the closing date of the acquisition as additional information regarding fair values becomes available.

Acquisition of Prime Bank

On *May 10, 2018* the Company completed its acquisition of Prime Bank, a Connecticut bank headquartered in Orange, CT. The closing of the transaction added a new Patriot branch located in the Town of Orange, New Haven County, Connecticut. On the acquisition date, Prime Bank had assets with a carrying value of approximately *$65* million, including investment securities with a carrying value of *$36* million, loans outstanding with a carrying value of approximately *$23* million, as well as deposits with a carrying value of approximately *$46* million. The results of Prime Bank's operations were included in the Company's Consolidated Statement of Income from the date of acquisition.

The acquisition will enable Patriot to expand its consumer and small business relationships, lending operations, and community presence, all of which will improve key operating metrics. The goodwill recognized results from the expected synergies and potential earnings from this combination, including some future cost savings related to the operations of Prime Bank. Patriot incurred *$383,000* acquisition costs, charged to operations in the *first* half of *2018.*

The assets acquired and liabilities assumed from Prime Bank were recorded at their fair value as of the closing date of the merger. Goodwill of *$2.1* million was recorded at the time of the acquisition. The goodwill is all deductible for income taxes over *15* years.

Patriot engaged independent consultants recognized as experts in the field of valuations and fair value measurements for acquisition and merger transactions. Fair values were defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

Loans were evaluated on an individual basis, considering the loan's underlying characteristics, types, remaining terms, annual interest rates, current market rates, loan to value ratios (LTV), loss exposure and remaining balances. The independent consultants utilized a discounted cash flow model to estimate the fair value of the loans using assumptions for probability of defaults, loss given defaults / recovery rates and foreclosure / recovery lags. ASC *310-30* Purchase Credit Impaired Loans were separately addressed with specific discount rates adjusted for an illiquidity premium.

To estimate the core deposit customer relationships intangible the consultants *first* identified the core deposits and utilized assumptions regarding the account retention rate, growth rate and float and reserve percentages. Retention rates were based on historical attrition rates based on previous transactions, the growth rate assumed *no* new accounts, and *3%* increase in existing account balances, while the floats and reserve percentage assumed the market participant would most likely be subject to a reserve requirement given the current level of core deposits.

The fair value of time deposits included segmenting into certificate of deposits (“CDs”) and IRA CDs and CDs less than *$100,000* and those *$100,000* and above. The methodology entailed discounting the contractual cash flows of the instruments over their remaining contractual lives at prevailing market rates.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table summarizes the consideration paid by the Company in the merger with Prime Bank and the estimated fair values of the assets acquired and liabilities assumed recognized at the acquisition date:

(In thousands)	**Prime Bank**
Consideration Paid	
Cash consideration	$*5,596*
Contingent consideration	*1,761*
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$*1,152*
Securities	*35,532*
Loans, net of allowance	*21,605*
Premises and equipment, net	*6*
Other real estate owned	*991*
Core deposit intangibles	*552*
Other assets	*1,514*
Total assets acquired	**$*61,352***
Deposits	*46,184*
Borrowings	*9,800*
Other liabilities	*111*
Total liabilities assumed	**$*56,095***
Identifiable net assets acquired	**$*5,257***
Goodwill resulting from acquisition	**$*2,100***

All securities acquired in the transaction with Prime Bank were sold at the fair value at acquisition date with *no* recorded gain or loss. Fair value adjustments to assets acquired and liabilities assumed will be amortized on a straight-line basis over periods consistent with the average life, useful life/ or contractual term of related assets and liabilities. The core deposit intangible will be amortized over a *10*-year period using the straight-line method.

Under the terms of the agreement, the transaction is accounted for as an asset sale. As a result, tax basis to Prime Bank is *not* carried over to Patriot and deferred tax assets on Prime Bank's books have been written off as part of the purchase accounting adjustments.

The cash consideration is based on the initial calculation of Prime Bank tangible book value in accordance with the agreement. The initial cash payment made totaled *$5.89* million and *$1.0* million of this amount remains with the escrow agent pending resolution of the final closing tangible book value calculation.

Pursuant to a letter agreement, Patriot will make an additional payment (contingent consideration) with the amount to be determined based on the curing of certain loan deficiencies. The maximum amount payable under the letter agreement is *$2.858* million and the liability under the agreement is currently estimated to be *$1.761* million. This estimate has been measured based on Patriot's assessment of the probability that certain loans are cured in accordance with the agreement.

The initial accounting for the business combination includes certain provisional amounts associated with the resolution of the purchase price consideration noted above. In addition, certain other provisional amounts have been included in the determination of the fair value of the acquired assets and liabilities and changes to those underlying estimates will be reflected as measurement period adjustments within the *one*-year measurement period. Those provisional amounts relate to the valuation of loans, other real estate owned, deposits, tax and other accrued liabilities of the acquired company.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Pending Acquisition

Definitive Purchase Agreement

On *February 6, 2018,* the Company, Hana Small Business Lending, Inc. (“Hana SBL”), a wholly-owned subsidiary of Hana Financial, Inc. (“Hana Financial”), and *three* wholly-owned subsidiaries of Hana SBL entered into a definitive purchase agreement (“Purchase Agreement”) pursuant to which Patriot will acquire Hana SBL's small business administration (“SBA”) lending business.

Hana SBL is a fully integrated national SBA origination and servicing platform. It has originated nearly *$1* billion of SBA *7*(a) loans since its inception in *2006.*

The transaction includes the purchase of approximately *$120* million of SBA *7*(a) loans and servicing rights relating to a pool of *$370* million in loans, and the assumption of *two* loan securitization vehicles, currently rated “AA+” (Hana SBL Loan Trust *2014*) and “A-” (Hana SBL Loan Trust *2016*) by Standard and Poor’s. Total cash consideration is approximately *$83* million with the assumption of approximately *$41* million of liabilities. The transaction is subject to the satisfactory completion of certain due diligence requirements, purchase price adjustments at closing and the receipt of required governmental and regulatory approvals.

On *August 2, 2018,* the Company, Hana SBL and *three* wholly-owned subsidiaries of Hana SBL, entered into an amendment (the “Amendment”) to the Purchase Agreement. Pursuant to the Amendment, the closing date of the above referenced transaction has been extended from *August 2, 2018* to *August 1, 2019.*

As a result of the proximity of the definitive purchase to the date these consolidated financial statements are being issued, Patriot is still evaluating the estimated fair values of the assets to be acquired and the liabilities to be assumed. Accordingly, the amount of any goodwill and other intangible assets to be recognized in the connection with this transaction, as well as acquisition costs incurred and expected to be incurred, are also yet to be determined. The Company incurred *$313,000* of merger and acquisition expenses related to the Hana SBL acquisition for the *three* months ended *June 30, 2018.* Due to the proximity of the announced amendment the Company is now in process of determining the costs to be incurred under the amended agreement.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note *4*: Available-for Sale Securities

The amortized cost, gross unrealized gains and losses and approximate fair values of available-for-sale securities at *June 30, 2018* and *December 31, 2017* are as follows:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2018:				
U. S. Government agency mortgage-backed securities	$ *6,446*	-	*(217*)	*6,229*
Corporate bonds	*14,000*	-	*(799*)	*13,201*
Subordinated notes	*4,500*	*52*	-	*4,552*
	$ *24,946*	*52*	*(1,016*)	*23,982*
December 31, 2017:				
U. S. Government agency mortgage-backed securities	$ *7,330*	-	*(106*)	*7,224*
Corporate bonds	*14,000*	-	*(196*)	*13,804*
Subordinated notes	*4,500*	*48*	-	*4,548*
	$ *25,830*	*48*	*(302*)	*25,576*

The following table presents the available-for-sale securities' gross unrealized losses and fair value, aggregated by the length of time the individual securities have been in a continuous loss position as of *June 30, 2018* and *December 31, 2017:*

(In thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
June 30, 2018:						
U. S. Government agency mortgage-backed securities	$*3,513*	*(69*)	*2,716*	*(148*)	*6,229*	*(217*)
Corporate bonds	*7,489*	*(511*)	*5,712*	*(288*)	*13,201*	*(799*)

	$*11,002*	*(580*)	*8,428*	*(436*)	*19,430*	*(1,016*)
December 31, 2017:						
U. S. Government agency mortgage-backed securities	$*4,118*	*(13*)	*3,106*	*(93*)	*7,224*	*(106*)
Corporate bonds	*13,804*	*(196*)	-	-	*13,804*	*(196*)
	$*17,922*	*(209*)	*3,106*	*(93*)	*21,028*	*(302*)

At *June 30, 2018* and *December 31, 2017, ten* out of *twelve* and *nine* out of *eleven* available-for-sale securities had unrealized losses with an aggregate decline of *5.0%* and *1.4%* from the amortized cost of those securities, respectively.

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Based on its quarterly reviews, management believes that *none* of the losses on available-for-sale securities noted above constitute an other-than-temporary impairment ("OTTI"). The noted losses are considered temporary due to market fluctuations in available interest rates on U.S. Government agency debt, mortgage-backed securities issued by U.S. Government agencies, and corporate debt. Management considers the issuers of the securities to be financially sound, the corporate bonds are investment grade, and the collectability of all contractual principal and interest payments is reasonably expected. Since Patriot is *not* more-likely-than-*not* to be required to sell the investments before recovery of the amortized cost basis and does *not* intend to sell the securities at a loss, *none* of the available-for-sale securities noted are considered to be OTTI as of *June 30, 2018.*

At *June 30, 2018* and *December 31, 2017,* available-for-sale securities of *$6.2* million and *$6.7* million, respectively, were pledged to the Federal Reserve Bank of New York ("FRB"), primarily to secure municipal deposits.

The following summarizes, by class and contractual maturity, the amortized cost and estimated fair value of available-for-sale debt securities held at *June 30, 2018* and *December 31, 2017.* The mortgages underlying the mortgage-backed securities are *not* due at a single maturity date. Additionally, these mortgages often are and generally *may* be pre-paid without penalty, creating a degree of uncertainty that such investments can be held until maturity. For convenience, mortgage-backed securities have been included in the summary as a separate line item.

(In thousands)	**Amortized Cost**				**Fair Value**			
	Due Within 5 years	**Due After 5 years through 10 years**	**Due After 10 years**	**Total**	**Due Within 5 years**	**Due After 5 years through 10 years**	**Due After 10 years**	**Total**
June 30, 2018:								
Corporate bonds	$ -	*9,000*	*5,000*	*14,000*	-	*8,587*	*4,614*	*13,201*
Subordinated notes	-	*4,500*	-	*4,500*	-	*4,552*	-	*4,552*
Available-for-sale securities with single maturity dates	-	*13,500*	*5,000*	*18,500*	-	*13,139*	*4,614*	*17,753*
U. S. Government agency mortgage-backed securities	-	*2,864*	*3,582*	*6,446*	-	*2,716*	*3,513*	*6,229*
	$ -	*16,364*	*8,582*	*24,946*	-	*15,855*	*8,127*	*23,982*
December 31, 2017:								
Corporate bonds	$ -	*9,000*	*5,000*	*14,000*	-	*8,928*	*4,876*	*13,804*
Subordinated notes	-	*4,500*	-	*4,500*	-	*4,548*	-	*4,548*

Available-for-sale securities with single maturity dates	-	*13,500*	*5,000*	*18,500*	-	*13,476*	*4,876*	*18,352*
U. S. Government agency mortgage-backed securities	-	*3,200*	*4,130*	*7,330*	-	*3,107*	*4,117*	*7,224*
	$-	*16,700*	*9,130*	*25,830*	-	*16,583*	*8,993*	*25,576*

During the year to date period ended *June 30, 2018,* the Company sold *$35.5* million securities acquired in the transaction with Prime Bank, which were sold at the fair value at acquisition date with *no* recorded gain or loss. Other than that, there were *no* sales and purchases of the Bank's available-for-sale securities in the *six*-month period ended *June 30, 2018.* During the year to date period ended *June 30, 2017,* there were *$13.8* million sales and *$15.6* million purchases of available-for-sale securities. A loss on the sale of available-for-sale securities of *$78,000* was recorded during the *six* months ended *June 30, 2017.*

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note *5*: Loans Receivable and Allowance for Loan Losses

Loans acquired in connection with the Prime Bank merger in *May 2018* are referred to as "acquired" loans as a result of the manner in which they are accounted for. All other loans are referred to as "business activities" loans. Accordingly, selected credit quality disclosures that follow are presented separately for the originated loan portfolio and the acquired loan portfolio.

As of *June 30, 2018* and *December 31, 2017,* loans receivable, net, consists of the following:

(In thousands)	**June 30, 2018**			**December 31, 2017**
Loan portfolio segment:	**Business Activities Loans**	**Acquired Loans**	**Total**	**Business Activities Loans**
Commercial Real Estate	$*292,508*	*12,918*	*305,426*	*299,925*
Residential Real Estate	*146,754*	-	*146,754*	*146,377*
Commercial and Industrial	*162,568*	*8,108*	*170,676*	*131,161*
Consumer and Other	*78,382*	*882*	*79,264*	*87,707*
Construction	*46,593*	-	*46,593*	*47,619*
Construction to Permanent - CRE	*8,616*	-	*8,616*	*6,858*
Loans receivable, gross	*735,421*	*21,908*	*757,329*	*719,647*
Allowance for loan losses	*(6,525*)	-	*(6,525*)	*(6,297*)
Loans receivable, net	$*728,896*	*21,908*	*750,804*	*713,350*

Patriot's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County in New York, and the *five* Boroughs of New York City. Patriot originates commercial real estate loans, commercial business loans, a variety of consumer loans, and construction loans, and has purchased residential loans since *2016.* All commercial and residential real estate loans are collateralized primarily by *first* or *second* mortgages on real estate. The ability and willingness of borrowers to satisfy their loan obligations is dependent to some degree on the status of the regional economy as well as upon the regional real estate market. Accordingly, the ultimate collectability of a substantial portion of the loan portfolio and the recovery of a substantial portion of any resulting real estate acquired is susceptible to changes in market conditions.

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The carrying amount of the acquired loans at *May 10, 2018* total *$21.6* million. A subset of these loans was determined to have evidence of credit deterioration at the acquisition date, which was accounted for in accordance with ASC *310-30.* The purchased credit impaired loans presently maintain a carrying value of *$2.4* million. The loans were evaluated for impairment through the periodic reforecasting of expected cash flows. Loans considered *not* impaired at acquisition date had a carrying amount of *$19.2* million.

Information about the acquired loan portfolio subject to purchased credit impaired accounting guidance (ASC 310-30):

(In thousands)	**May 10, 2018**
Contractually required principal and interest at acquisition	$*5,816*
Contractual cash flows not expected to be collected (nonaccretable discount)	*(2,951*)
Expected cash flows at acquisition	*2,865*
Interest component of expected cash flows (accretable discount)	*(429*)
Fair value of acquired loans	$*2,436*

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

<u>Commercial Real Estate Loans</u>

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

Residential Real Estate Loans

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

In *March 2017,* Patriot purchased *$73* million of residential real estate loans, including a premium of *$985,000* over the book value of the loans. *No* residential real estate loans were purchased in the *first* half of *2018.*

Commercial and Industrial Loans

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Consumer and Other Loans

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

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

Construction Loans

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

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

Construction to Permanent – Commercial Real Estate (“CRE”)

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

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Allowance for Loan Losses

The following tables summarize the activity in the allowance for loan losses, allocated to segments of the loan portfolio, for the *three* months ended *June 30, 2018* and *2017:*

(In thousands)	**Commercial Real Estate**	**Residential Real Estate**	**Commercial and Industrial**	**Consumer and Other**	**Construction**	**Construction to Permanent - CRE**	**Unallocated**	**Total**
Three months ended June 30, 2018								
Allowance for loan losses:								
March 31, 2018	$ *2,480*	*1,073*	*1,759*	*546*	*488*	*61*	*78*	*6,485*
Charge-offs	-	-	-	*(13*)	-	-	-	*(13*)
Recoveries	*3*	-	-	-	-	-	-	*3*
Provisions (credits)	*(178*)	*23*	*237*	*(10*)	*11*	*19*	*(52*)	*50*
June 30, 2018	$ *2,305*	*1,096*	*1,996*	*523*	*499*	*80*	*26*	*6,525*
Three months ended June 30, 2017								
Allowance for loan losses:								
March 31, 2017	$ *2,198*	*1,073*	*1,049*	*583*	*591*	*77*	*126*	*5,697*
Charge-offs	-	-	-	*(13*)	-	-	-	*(13*)
Recoveries	-	-	-	-	-	-	-	-
Provisions (credits)	*20*	*(32*)	*404*	*23*	*(101*)	*(4*)	*(50*)	*260*
June 30, 2017	$ *2,218*	*1,041*	*1,453*	*593*	*490*	*73*	*76*	*5,944*

The following tables summarize the activity in the allowance for loan losses, allocated to segments of the loan portfolio, for the *six* months ended *June 30, 2018* and *2017:*

(In thousands)	**Commercial Real Estate**	**Residential Real Estate**	**Commercial and Industrial**	**Consumer and Other**	**Construction**	**Construction to Permanent**	**Unallocated**	**Total**

						- CRE		
Six months ended June 30, 2018								
Allowance for loan losses:								
December 31, 2017	$ *2,212*	*959*	*2,023*	*568*	*481*	*54*	-	*6,297*
Charge-offs	-	-	-	*(13*)	-	-	-	*(13*)
Recoveries	*6*	-	-	-	-	-	-	*6*
Provisions (credits)	*(87*)	*137*	*(27*)	*(32*)	*18*	*26*	*26*	*235*
June 30, 2018	$ *2,305*	*1,096*	*1,996*	*523*	*499*	*80*	*26*	*6,525*
Six months ended June 30, 2017								
Allowance for loan losses:								
December 31, 2016	$ *1,853*	*534*	*740*	*641*	*712*	*69*	*126*	*4,675*
Charge-offs	-	-	-	*(13*)	-	-	-	*(13*)
Recoveries	*2*	-	*2,769*	-	-	-	-	*2,771*
Provisions (credits)	*363*	*507*	*(2,056*)	*(35*)	*(222*)	*4*	*(50*)	*(1,489*)
June 30, 2017	$ *2,218*	*1,041*	*1,453*	*593*	*490*	*73*	*76*	*5,944*

There was *no* allowance for loan losses on all acquired loans as of *June 30, 2018.*

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following tables summarize the business activity loans, by loan portfolio segment, the amount of loans receivable evaluated individually and collectively for impairment as of *June 30, 2018* and *December 31, 2017:*

(In thousands)	**Commercial Real Estate**	**Residential Real Estate**	**Commercial and Industrial**	**Consumer and Other**	**Construction**	**Construction to Permanent - CRE**	**Unallocated**	**Total**
June 30, 2018								
Allowance for loan losses:								
Individually evaluated for impairment	$ -	-	*45*	-	-	-	-	*45*
Collectively evaluated for impairment	*2,305*	*1,096*	*1,951*	*523*	*499*	*80*	*26*	*6,480*
Total allowance for loan losses	$ *2,305*	*1,096*	*1,996*	*523*	*499*	*80*	*26*	*6,525*
Loans receivable, gross:								
Individually evaluated for impairment	$ *4,071*	*3,524*	*1,025*	*770*	-	-	-	*9,390*
Collectively evaluated for impairment	*288,437*	*143,230*	*161,543*	*77,612*	*46,593*	*8,616*	-	*726,031*
Total loans receivable, gross	$ *292,508*	*146,754*	*162,568*	*78,382*	*46,593*	*8,616*	-	*735,421* *(1)*

(*1*) The total loan receivable, gross does *not* include *$21.9* million acquired loans which were all individually evaluated for impairment.

(In thousands)	**Commercial Real Estate**	**Residential Real Estate**	**Commercial and Industrial**	**Consumer and Other**	**Construction**	**Construction to Permanent - CRE**	**Unallocated**	**Total**
December 31, 2017								
Allowance for loan losses:								
Individually evaluated for impairment	$ -	-	*251*	*2*	-	-	-	*253*
	2,212	*959*	*1,772*	*566*	*481*	*54*	-	*6,044*

Collectively evaluated for impairment								
Total allowance for loan losses	$ *2,212*	*959*	*2,023*	*568*	*481*	*54*	-	*6,297*
Loans receivable, gross:								
Individually evaluated for impairment	$ *1,977*	*3,336*	*748*	*692*	-	-	-	*6,753*
Collectively evaluated for impairment	*297,948*	*143,041*	*130,413*	*87,015*	*47,619*	*6,858*	-	*712,894*
Total loans receivable, gross	$ *299,925*	*146,377*	*131,161*	*87,707*	*47,619*	*6,858*	-	*719,647*

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

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

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

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

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

Substandard: An asset is classified "substandard" if it is *not* adequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Substandard assets have well defined weaknesses based on objective evidence, and are characterized by the distinct possibility that the Company will sustain some loss, if noted deficiencies are *not* corrected.

Doubtful: Assets classified as "doubtful" have all of the weaknesses inherent in those classified as "substandard", with the added characteristic that the identified weaknesses make collection or liquidation-in-full improbable, on the basis of currently existing facts, conditions, and values.

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

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

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Loan Portfolio Aging Analysis

The following tables summarize performing and non-performing loans receivable by portfolio segment, by aging category, by delinquency status as of *June 30, 2018.*

Business Activities Loans

(In thousands)	**Performing (Accruing) Loans**							
As of June 30, 2018:	**30 - 59 Days Past Due**	**60 - 89 Days Past Due**	**90 Days or Greater Past Due**	**Total**	**Current**	**Total Performing Loans**	**Non-accruing Loans**	**Loans Receivable Gross**
Loan portfolio segment:								
Commercial Real Estate:								
Pass	$ *1,858*	-	*670*	*2,528*	*283,402*	*285,930*	-	*285,930*
Special mention	-	-	-	-	*615*	*615*	-	*615*
Substandard	*638*	-	*1,025*	*1,663*	*2,163*	*3,826*	*2,137*	*5,963*
	2,496	-	*1,695*	*4,191*	*286,180*	*290,371*	*2,137*	*292,508*
Residential Real Estate:								
Pass	*175*	-	-	*175*	*141,841*	*142,016*	-	*142,016*
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	*1,516*	*1,516*	-	*1,516*	*3,222*	*4,738*
	175	-	*1,516*	*1,691*	*141,841*	*143,532*	*3,222*	*146,754*
Commercial and Industrial:								
Pass	*2,157*	*1,767*	-	*3,924*	*154,144*	*158,068*	-	*158,068*
Substandard	-	-	-	-	-	-	*1,025*	*1,025*
	2,157	*4,517*	-	*6,674*	*154,869*	*161,543*	*1,025*	*162,568*
Consumer and Other:								
Pass	*33*	*24*	-	*57*	*78,245*	*78,302*	-	*78,302*
Substandard	-	-	-	-	-	-	*80*	*80*
	33	*24*	-	*57*	*78,245*	*78,302*	*80*	*78,382*
Construction:								
Pass	-	-	-	-	*37,793*	*37,793*	-	*37,793*

Substandard	-	-	*8,800*	*8,800*	-	*8,800*	-	*8,800*
	-	-	*8,800*	*8,800*	*37,793*	*46,593*	-	*46,593*
Construction to Permanent - CRE:								
Pass	-	-	-	-	*8,616*	*8,616*	-	*8,616*
Total	$*4,861*	*4,541*	*12,011*	*21,413*	*707,544*	*728,957*	*6,464*	*735,421*
Loans receivable, gross:								
Pass	$*4,223*	*1,791*	*670*	*6,684*	*704,041*	*710,725*	-	*710,725*
Special mention	-	*2,750*	-	*2,750*	*1,340*	*4,090*	-	*4,090*
Substandard	*638*	-	*11,341*	*11,979*	*2,163*	*14,142*	*6,464*	*20,606*
Loans receivable, gross	$*4,861*	*4,541*	*12,011*	*21,413*	*707,544*	*728,957*	*6,464*	*735,421*

As of *June 30, 2018,* the loans over *90* days past due and still accruing primarily consists of *one* construction loan. The loan is well secured, and in process of collection. The Company is confident the collateral will serve to ultimately assure full realization of principal and interest.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Acquired Loans

(In thousands)	**Performing (Accruing) Loans**							
As of June 30, 2018:	**30 - 59 Days Past Due**	**60 - 89 Days Past Due**	**90 Days or Greater Past Due**	**Total**	**Current**	**Total Performing Loans**	**Non-accruing Loans**	**Loans Receivable Gross**
Loan portfolio segment:								
Commercial Real Estate:								
Pass	$ -	-	-	-	*8,526*	*8,526*	-	*8,526*
Special mention	-	-	-	-	*2,537*	*2,537*	-	*2,537*
Substandard	-	-	-	-	*1,799*	*1,799*	*56*	*1,855*
	-	-	-	-	*12,862*	*12,862*	*56*	*12,918*
Commercial and Industrial:								
Pass	*34*	-	-	*34*	*4,346*	*4,380*	-	*4,380*
Special mention	*267*	-	-	*267*	*794*	*1,061*	-	*1,061*
Substandard	-	-	-	-	*2,619*	*2,619*	*48*	*2,667*
	301	-	-	*301*	*7,759*	*8,060*	*48*	*8,108*
Consumer and Other:								
Pass	*26*	*13*	-	*39*	*834*	*873*	-	*873*
Substandard	-	-	-	-	-	-	*9*	*9*
	26	*13*	-	*39*	*834*	*873*	*9*	*882*
Total	$ *327*	*13*	-	*340*	*21,455*	*21,795*	*113*	*21,908*
Loans receivable, gross:								
Pass	$ *60*	*13*	-	*73*	*13,706*	*13,779*	-	*13,779*
Special mention	*267*	-	-	*267*	*3,331*	*3,598*	-	*3,598*
Substandard	-	-	-	-	*4,418*	*4,418*	*113*	*4,531*
Loans receivable, gross	$ *327*	*13*	-	*340*	*21,455*	*21,795*	*113*	*21,908*

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

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

Business Activities Loans

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

Total	$*1,566*	*6,593*	*1,356*	*9,515*	*706,354*	*715,869*	*3,778*	*719,647*
Loans receivable, gross:								
Pass	$*1,566*	*2,255*	*375*	*4,196*	*695,666*	*699,862*	-	*699,862*
Special mention	-	*2,650*	-	*2,650*	*9,317*	*11,967*	-	*11,967*
Substandard	-	*1,688*	*981*	*2,669*	*1,371*	*4,040*	*3,778*	*7,818*
Loans receivable, gross	$*1,566*	*6,593*	*1,356*	*9,515*	*706,354*	*715,869*	*3,778*	*719,647*

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following tables summarize non-performing (i.e., non-accruing) loans by aging category and status, within the applicable loan portfolio segment as of *June 30, 2018:*

Business Activities Loans

(In thousands)	**Non-accruing Loans**					
	30 - 59 Days Past Due	**60 - 89 Days Past Due**	**90 Days or Greater Past Due**	**Total Past Due**	**Current**	**Total Non-accruing Loans**
As of June 30, 2018:						
Loan portfolio segment:						
Commercial Real Estate						
Substandard	$-	-	*2,137*	*2,137*	-	*2,137*
Residential Real Estate:						
Substandard	-	-	*3,222*	*3,222*	-	*3,222*
Commercial and Industrial:						
Substandard	-	-	*1,025*	*1,025*	-	*1,025*
Consumer and Other						
Substandard	-	*80*	-	*80*	-	*80*
Total non-accruing loans	$-	*80*	*6,384*	*6,464*	-	*6,464*

Acquired Loans

(In thousands)	**Non-accruing Loans**					
	30 - 59 Days Past Due	**60 - 89 Days Past Due**	**90 Days or Greater Past Due**	**Total Past Due**	**Current**	**Total Non-accruing Loans**
As of June 30, 2018:						
Loan portfolio segment:						
Commercial Real Estate						
Substandard	$-	-	*56*	*56*	-	*56*

Commercial and Industrial:						
Substandard	-	-	*48*	*48*	-	*48*
Consumer and Other						
Substandard	-	-	*9*	*9*	-	*9*
Total non-accruing loans	$-	-	*113*	*113*	-	*113*

If non-accrual loans had been performing in accordance with the original contractual terms, additional interest income of approximately *$103,000* and *$176,000* would have been recognized in income during the *three* and *six* months ended *June 30, 2018,* respectively.

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

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

Business Activities Loans

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

If non-accrual loans had been performing in accordance with the original contractual terms, additional interest income of approximately *$22,000* and *$43,000* would have been recognized in income during the *three* and *six* months ended *June 30, 2017,* respectively.

Additionally, certain loans for which the borrower cannot demonstrate sufficient cash flow to continue loan payments in the future and certain troubled debt restructurings ("TDRs") are placed on non-accrual status. During the *three* and *six* months ended *June 30, 2018* and *2017, no* interest income was collected and recognized on non-accruing loans.

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Troubled Debt Restructurings ("TDR")

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

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

The recorded investment in TDRs was *$2.9* million at *June 30, 2018* and *$3.0* million at *December 31, 2017,* respectively. All TDRs at *June 30, 2018* and *December 31, 2017* were performing in accordance with their modified terms and therefore, were on accrual status.

Business Activities Loans

(In thousands)

Loan portfolio segment:	**June 30, 2018**	**December 31, 2017**
Commercial Real Estate	$*1,934*	*1,977*
Residential Real Estate	*992*	*999*
Total TDR Loans	*2,926*	*2,976*
Less: TDRs included in non-accrual loans	-	-
Total accrual TDR Loans	$*2,926*	*2,976*

There were *no* loans modified as TDRs and *no* defaults of TDRs during the *three* months ended *June 30, 2018* and *2017.* At *June 30, 2018* and *December 31, 2017,* there were *no* commitments to advance additional funds under TDRs.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Impaired Loans

Impaired loans *may* consist of non-accrual loans and/or performing and non-performing TDRs. As of *June 30, 2018* and *December 31, 2017,* based on the on-going monitoring and analysis of the loan portfolio, impaired loans of *$9.4* million and *$6.8* million, respectively, were identified, for which *$45,000* and *$253,000* specific reserves were established, respectively. Loans *not* requiring specific reserves had sufficient collateral values, less costs to sell, supporting the net investment in the loan which includes principal balance, unamortized fees and costs and accrued interest, if any. Once a borrower is in default, Patriot is under *no* obligation to advance additional funds on unused commitments.

At *June 30, 2018* and *December 31, 2017,* exposure to the impaired loans was related to *14* and *12* borrowers, respectively. In all cases, appraisal reports of the underlying collateral, if any, have been obtained from independent licensed appraisal firms. For non-performing loans, the independently determined appraised values were reduced by an estimate of the costs to sell the assets, in order to estimate the potential loss, if any, that *may* eventually be realized. Performing loans are monitored to determine when, if at all, additional loan loss reserves *may* be required for a loss of underlying collateral value.

In addition there was *$2.4* million of PCI loans acquired from Prime Bank; *$2.0* million of commercial and industrial, and *$0.4* million of residential real estate. All the acquired loans were considered individually with *no* allowance recorded. The *$2.4* million PCI loans were originally recorded at fair value by the Bank on the date of acquisition.

The following summarizes the investment in, outstanding principal balance of, and the related allowance, if any, for impaired business activity loans as of *June 30, 2018* and *December 31, 2017:*

Business Activities Loans

(In thousands)	**June 30, 2018**			**December 31, 2017**		
	Recorded Investment	**Principal Outstanding**	**Related Allowance**	**Recorded Investment**	**Principal Outstanding**	**Related Allowance**
<u>With no related allowance recorded:</u>						

Commercial Real Estate	$*4,071*	*4,524*	-	*1,977*	*2,425*	-
Residential Real Estate	*3,524*	*3,557*	-	*3,336*	*3,369*	-
Commercial and Industrial	*980*	*1,163*	-	*497*	*683*	-
Consumer and Other	*770*	*842*	-	*690*	*818*	-
	9,345	*10,086*	-	*6,500*	*7,295*	-
With a related allowance recorded:						
Commercial Real Estate	-	-	-	-	-	-
Residential Real Estate	-	-	-	-	-	-
Commercial and Industrial	*45*	*51*	*45*	*251*	*251*	*251*
Consumer and Other	-	-	-	*2*	*2*	*2*
	45	*51*	*45*	*253*	*253*	*253*
Impaired Loans, Total:						
Commercial Real Estate	*4,071*	*4,524*	-	*1,977*	*2,425*	-
Residential Real Estate	*3,524*	*3,557*	-	*3,336*	*3,369*	-
Commercial and Industrial	*1,025*	*1,214*	*45*	*748*	*934*	*251*
Consumer and Other	*770*	*842*	-	*692*	*820*	*2*
Impaired Loans, Total	$*9,390*	*10,137*	*45*	*6,753*	*7,548*	*253*

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following tables summarize additional information regarding impaired loans for the *three* and *six* months ended *June 30, 2018* and *2017*.

Business Activities Loans

(In thousands)	**Three Months Ended June 30,**			
	2018		**2017**	
	Average Recorded Investment	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:				
Commercial Real Estate	$ *3,250*	*25*	*6,188*	*75*
Residential Real Estate	*3,480*	*3*	*1,907*	*3*
Commercial and Industrial	*980*	-	*37*	-
Consumer and Other	*750*	*8*	*541*	*5*
	8,460	*36*	*8,673*	*83*
With a related allowance recorded:				
Commercial Real Estate	-	-	-	-
Residential Real Estate	-	-	-	-
Commercial and Industrial	*293*	-	*232*	-
Consumer and Other	*3*	-	-	-
	296	-	*232*	-
Impaired Loans, Total:				
Commercial Real Estate	*3,250*	*25*	*6,188*	*75*
Residential Real Estate	*3,480*	*3*	*1,907*	*3*
Commercial and Industrial	*1,273*	-	*269*	-
Consumer and Other	*753*	*8*	*541*	*5*
Impaired Loans, Total	$ *8,756*	*36*	*8,905*	*83*

(In thousands)	**Six Months Ended June 30,**			
	2018		**2017**	
	Average Recorded Investment	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:				
Commercial Real Estate	$ *2,770*	*49*	*6,213*	*148*
Residential Real Estate	*3,421*	*6*	*1,909*	*5*

Commercial and Industrial	*912*	-	*37*	-
Consumer and Other	*725*	*15*	*541*	*10*
	7,828	*70*	*8,700*	*163*
With a related allowance recorded:				
Commercial Real Estate	-	-	-	-
Residential Real Estate	-	-	-	-
Commercial and Industrial	*244*	-	*232*	-
Consumer and Other	*2*	-	-	-
	246	-	*232*	-
Impaired Loans, Total:				
Commercial Real Estate	*2,770*	*49*	*6,213*	*148*
Residential Real Estate	*3,421*	*6*	*1,909*	*5*
Commercial and Industrial	*1,156*	-	*269*	-
Consumer and Other	*727*	*15*	*541*	*10*
Impaired Loans, Total	$*8,074*	*70*	*8,932*	*163*

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note *6*: Deposits

The following table presents the balance of deposits held, by category as of *June 30, 2018* and *December 31, 2017.*

(In thousands)	**June 30, 2018**	**December 31, 2017**
Non-interest bearing	$ *83,808*	$ *81,197*
Interest bearing:		
NOW	*26,352*	*25,476*
Savings	*111,812*	*135,975*
Money market	*38,240*	*16,575*
Certificates of deposit, less than $250,000	*205,896*	*173,221*
Certificates of deposit, $250,000 or greater	*68,287*	*66,866*
Brokered deposits	*177,917*	*138,129*
Interest bearing, Total	*628,504*	*556,242*
Total Deposits	$ *712,312*	$ *637,439*

As of *June 30, 2018* total deposits consists of *$44.3* million deposits acquired in connection with the Prime Bank merger.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note *7*: Share-Based Compensation and Employee Benefit Plan

The Company maintains the Patriot National Bancorp, Inc. *2012* Stock Plan (the "Plan") to provide an incentive to directors and employees of the Company by the grant of restricted stock awards ("RSA"), options, or phantom stock units. Since *2013,* the Company's practice is to grant RSAs. As of *June 30,2018* and *December 31, 2017,* there were *no* options or phantom stock units outstanding, or that have been exercised during the period then ended.

The Plan provides for the issuance of up to *3,000,000* shares of the Company's common stock subject to certain limitations. As of *June 30, 2018, 2,869,913* shares of stock are available for issuance under the Plan. In accordance with the terms of the Plan, the vesting of RSAs and options *may* be accelerated at the discretion of the Compensation Committee of the Board of Directors. The Compensation Committee sets the terms and conditions applicable to the vesting of RSAs and stock option grants. RSAs granted to directors and employees generally vest in quarterly or annual installments over a three, *four* or *five* year period from the date of grant.

During the *three* and *six* months ended *June 30, 2018,* the Company granted *0* and *11,200* RSAs to the CEO, *0* and *2,999* RSAs to Executive Vice Presidents, and *4,124* and *4,124* RSAs to directors, respectively. There were *1,968* and *4,903* shares of restricted stock vested, *1,104* and *1,204* shares of restricted stock forfeited, respectively. All RSAs are non- participating grants.

During the *three* and *six* months ended *June 30, 2017,* the Company granted *5,084* RSAs to directors and *zero* RSAs to employees. There were *0* and *2,231* shares of restricted stock vested, *6,000,* and *6,000* shares of restricted stock forfeited, respectively.

The Company recognizes compensation expense for all director and employee share-based compensation awards on a straight-line basis over the requisite service period, which is equal to the vesting schedule of each award, for each vesting portion of an award equal to its grant date fair value.

For the *three* and *six* months ended *June 30, 2018,* the Company recognized total share-based compensation expense of *$54,000* and *$107,000,* respectively. The share-based compensation attributable to employees of Patriot amounted to *$32,000* and *$67,000,* respectively, for the *three* and *six* months ended *June 30, 2018.* Included in share-based compensation expense for the *three* and *six* months ended *June 30, 2018* were *$22,000* and *$40,000* attributable to Patriot's external Directors, who received total compensation of *$77,000* and *$159,000* for each of those periods, respectively, which amounts are included in Other Operating Expenses in the Consolidated Statements of Income.

For the *three* and *six* months ended *June 30, 2017,* the Company recognized total share-based compensation expense of *$25,000* and *$68,000,* respectively. The share-based compensation attributable to employees of Patriot amounted to *$4,000* and *$32,000,* respectively. Included in share-based compensation expense for the *three* and *six* months ended *June 30, 2017* were *$21,000* and *$36,000* attributable to Patriot's external Directors, who received total compensation of *$77,000* and *$146,000* for each of those periods, respectively, which amounts are included in Other Operating Expenses in the Consolidated Statements of Income.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following is a summary of the status of the Company's restricted shares as of *June 30,2018* and *2017* and changes therein during the periods indicated:

Three months ended June 30, 2018:	**Number of Shares Awarded**	**Weighted Average Grant Date Fair Value**
Unvested at March 31, 2018	*37,034*	$ *14.20*
Granted	*4,124*	$ *18.55*
Vested	*(1,968*)	$ *16.05*
Forfeited	*(1,104*)	$ *14.15*
Unvested at June 30, 2018	*38,086*	$ *14.57*
Six months ended June 30, 2018:		
Unvested at December 31, 2017	*25,870*	$ *12.15*
Granted	*18,323*	$ *18.07*
Vested	*(4,903*)	$ *14.93*
Forfeited	*(1,204*)	$ *14.26*
Unvested at June 30, 2018	*38,086*	$ *14.57*

Three months ended June 30, 2017:	**Number of Shares Awarded**	**Weighted Average Grant Date Fair Value**
Unvested at March 31, 2017	*33,033*	$ *12.55*
Granted	*5,084*	$ *15.05*
Forfeited	*(6,000*)	$ *15.50*
Unvested at June 30, 2017	*32,117*	$ *12.39*
Six months ended June 30, 2017:		
Unvested at December 31, 2016	*35,264*	$ *12.84*
Granted	*5,084*	$ *15.05*
Vested	*(2,231*)	$ *13.05*
Forfeited	*(6,000*)	$ *15.50*
Unvested at June 30, 2017	*32,117*	$ *12.39*

Unrecognized compensation expense attributable to the unvested restricted shares outstanding as of *June 30, 2018* amounts to *$485,000,* which amount is expected to be recognized over the weighted average remaining life of the awards of *2.77* years.

RSA Grant - Non-executive Employees

During the *three* and *six* months ended *June 30, 2018, 0* and *100* granted shares were forfeited, respectively. During the *three* and *six* months ended *June 30, 2017, none* of the granted shares were forfeited. The remaining *6,200* shares continue to vest and *$16,000* of compensation expense is expected to be recognized through the *January 2019* vesting date.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Retirement Plan

The Company offers a *401K* retirement plan (the *"401K"*), which provides for tax-deferred salary deductions for eligible employees. Employees *may* choose to make voluntary contributions to the *401K,* limited to an annual maximum amount as set forth periodically by the Internal Revenue Service. The Company matches *50%* of such contributions, up to a maximum of *six* percent of an employee's annual compensation. During the *three* and *six* months ended *June 30, 2018* compensation expense under the *401K* aggregated *$65,000* and *$116,000,* respectively. During the *three* and *six* months ended *June 30, 2017* compensation expense under the *401K* aggregated *$60,000* and *$94,000,* respectively.

Dividends

On *July 17, 2017,* the Company announced its intention to make quarterly cash dividend payments. For the *three* and *six* months ended *June 30, 2018,* the Company paid cash dividends of *$.01* per share of common stock, or an aggregated of *$39,000* and *$77,000,* respectively. *No* dividend was declared and paid for the *three* and *six* months ended *June 30, 2017.*

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note *8*: Earnings per share

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

The following table summarizes the computation of basic and diluted earnings per share for the *three* and *six* months ended *June 30, 2018* and *2017:*

(Net income in thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
Basic earnings per share:				
Net income attributable to Common shareholders	$ *1,036*	*804*	*2,101*	*2,534*
Divided by:				
Weighted average shares outstanding	*3,903,858*	*3,894,128*	*3,902,195*	*3,893,431*
Basic earnings per common share	$ *0.27*	*0.21*	*0.54*	*0.65*
Diluted earnings per share:				
Net income attributable to Common shareholders	$ *1,036*	*804*	*2,101*	*2,534*
Weighted average shares outstanding	*3,903,858*	*3,894,128*	*3,902,195*	*3,893,431*
Effect of potentially dilutive restricted common shares	*13,603*	*7,400*	*17,943*	*5,289*
Divided by:				
Weighted average diluted shares outstanding	*3,917,461*	*3,901,528*	*3,920,138*	*3,898,720*

Diluted earnings per common share	$*0.26*	*0.21*	*0.54*	*0.65*

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

No**te *9*: Financial Instruments with Off-Balance Sheet Risk**

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

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

Financial instruments with credit risk at *June 30, 2018* are as follows:

(In thousands)

	As of June 30, 2018
Commitments to extend credit:	
Unused lines of credit	$ *81,743*
Undisbursed construction loans	*14,136*
Home equity lines of credit	*20,162*
Future loan commitments	*14,497*
Financial standby letters of credit	*1,286*
	$ *131,824*

Commitments to extend credit are agreements to lend to a customer as long as there is *no* violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates or other termination clauses, and *may* require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do *not* necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary upon extending credit, is based on management's credit evaluation of the customer. Collateral held varies, but *may* include commercial property, residential property, deposits and securities. Patriot has established a *$8,000* reserve for credit loss as of *June 30, 2018,* which is included in accrued expenses and other liabilities.

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note *10*: Regulatory and Operational Matters

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

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

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The Company's and the Bank's regulatory capital amounts and ratios at *June 30, 2018* and *December 31, 2017* are summarized as follows:

(In thousands)	**Patriot National Bancorp, Inc.**				**Patriot Bank, N.A.**			
	June 30, 2018		**December 31, 2017**		**June 30, 2018**		**December 31, 2017**	
	Amount ($)	**Ratio (%)**	**Amount ($)**	**Ratio (%)**	**Amount ($)**	**Ratio (%)**	**Amount ($)**	**Ratio (%)**
Total Capital (to risk weighted assets):								
Actual	*77,930*	*9.575*	*74,264*	*10.092*	*95,988*	*11.852*	*83,711*	*11.406*
To be Well Capitalized(1)	-	-	-	-	*80,987*	*10.000*	*73,393*	*10.000*
For capital adequacy with Capital Buffer(2)	-	-	-	-	*79,975*			