

PATRIOT NATIONAL BANCORP INC  
Form 10-Q  
May 15, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

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

**For the quarterly period ended March 31, 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)**

|  |                            |
|--|----------------------------|
| <b>Connecticut</b>                     | <b>06-1559137</b>          |
| <b>(State or other jurisdiction of</b> | <b>(I.R.S. Employer</b>    |
| <b>incorporation or organization)</b>  | <b>Identification No.)</b> |

**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 May 7, 2018, there were 3,903,878 shares of the registrant's common stock outstanding.

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**PART I- FINANCIAL INFORMATION****Item 1: Consolidated Financial Statements****PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS (Unaudited)**

| <i>(In thousands, except share data)</i>  | <b>March<br/>31,<br/>2018</b> | <b>December<br/>31,<br/>2017</b> |
|---|-------------------------------|----------------------------------|
| <b>ASSETS</b>   |                               |                                  |
| Cash and due from banks:  |                               |                                  |
| Noninterest bearing deposits and cash   | \$3,865                       | 3,582                            |
| Interest bearing deposits   | 58,127                        | 45,659                           |
| Total cash and cash equivalents   | 61,992                        | 49,241                           |
| Investment securities:  |                               |                                  |
| Available-for-sale securities, at fair value                                      | 24,793                        | 25,576                           |
| Other investments, at cost  | 4,450                         | 4,450                            |
| Total investment securities   | 29,243                        | 30,026                           |
| Federal Reserve Bank stock, at cost   | 2,526                         | 2,502                            |
| Federal Home Loan Bank stock, at cost   | 5,889                         | 5,889                            |
| Loans receivable (net of allowance for loan losses: 2018: \$6,485, 2017: \$6,297) | 718,070                       | 713,350                          |
| Accrued interest and dividends receivable   | 3,505                         | 3,496                            |
| Premises and equipment, net   | 35,638                        | 35,358                           |
| Deferred tax asset  | 11,335                        | 10,397                           |
| Other assets  | 2,219                         | 1,821                            |
| <b>Total assets</b>   | <b>\$870,417</b>              | <b>852,080</b>                   |
| <b>Liabilities</b>  |                               |                                  |
| Deposits:   |                               |                                  |
| Noninterest bearing deposits  | \$71,736                      | 81,197                           |
| Interest bearing deposits   | 583,562                       | 556,242                          |
| Total deposits  | 655,298                       | 637,439                          |
| Federal Home Loan Bank and correspondent bank borrowings                          | 120,000                       | 120,000                          |
| Senior notes, net   | 11,722                        | 11,703                           |
| Junior subordinated debt owed to unconsolidated trust                             | 8,088                         | 8,086                            |
| Note payable  | 1,532                         | 1,580                            |
| Advances from borrowers for taxes and insurance                                   | 1,904                         | 2,829                            |
| Accrued expenses and other liabilities  | 4,268                         | 3,694                            |
| <b>Total liabilities</b>  | <b>802,812</b>                | <b>785,331</b>                   |

## 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: 3,976,351 shares issued; 3,902,610 shares outstanding. 2017: 3,973,416 shares issued; 3,899,675 shares outstanding | 40               | 40             |
| Additional paid-in capital   | 106,928          | 106,875        |
| Accumulated deficit  | (37,805 )        | (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   | (379 )           | (155 )         |
| <b>Total shareholders' equity</b>  | <b>67,605</b>    | <b>66,749</b>  |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$870,417</b> | <b>852,080</b> |

See Accompanying Notes to Consolidated Financial Statements.

## PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

|   | <b>Three Months<br/>Ended March<br/>31,</b> |                |
|---|---|----------------|
|   | <b>2018</b>                                 | <b>2017</b>    |
| <i>(In thousands, except per share amounts)</i>                     |   |                |
| <b>Interest and Dividend Income</b>                                 |   |                |
| Interest and fees on loans  | \$8,774                                     | 6,607          |
| Interest on investment securities                                   | 266   | 171            |
| Dividends on investment securities                                  | 121   | 82             |
| Other interest income   | 151   | 64             |
| <b>Total interest and dividend income</b>                           | <b>9,312</b>                                | <b>6,924</b>   |
| <b>Interest Expense</b>   |   |                |
| Interest on deposits  | 1,657                                       | 989            |
| Interest on Federal Home Loan Bank borrowings                       | 257   | 78             |
| Interest on senior debt   | 229   | 229            |
| Interest on subordinated debt                                       | 99  | 85             |
| Interest on note payable  | 7   | 9              |
| <b>Total interest expense</b>                                       | <b>2,249</b>                                | <b>1,390</b>   |
| <b>Net interest income</b>  | <b>7,063</b>                                | <b>5,534</b>   |
| <b>Provision (Credit) for Loan Losses</b>                           | <b>185</b>                                  | <b>(1,749)</b> |
| <b>Net interest income after provision (credit) for loan losses</b> | <b>6,878</b>                                | <b>7,283</b>   |
| <b>Non-interest Income</b>  |   |                |
| Loan application, inspection and processing fees                    | 8   | 21             |
| Deposit fees and service charges                                    | 134   | 149            |
| Rental Income   | 84  | 94             |
| Loss on sale of investment securities                               | -   | (78 )          |
| Other income  | 96  | 91             |
| <b>Total non-interest income</b>                                    | <b>322</b>                                  | <b>277</b>     |
| <b>Non-interest Expense</b>   |   |                |
| Salaries and benefits   | 2,769                                       | 2,430          |
| Occupancy and equipment expense                                     | 741   | 775            |
| Data processing expense   | 317   | 120            |
| Professional and other outside services                             | 572   | 652            |
| Merger and acquisition related expenses                             | 523   | -              |
| Advertising and promotional expense                                 | 78  | 74             |
| Loan administration and processing expense                          | 13  | 9              |

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|                                   |                |              |
|-----------------------------------|----------------|--------------|
| Regulatory assessments            | 252            | 179          |
| Insurance expense                 | 55             | 59           |
| Material and communications       | 113            | 87           |
| Other operating expense           | 358            | 309          |
| <b>Total non-interest expense</b> | <b>5,791</b>   | <b>4,694</b> |
| <br>                              |                |              |
| <b>Income before income taxes</b> | <b>1,409</b>   | <b>2,866</b> |
| <br>                              |                |              |
| <b>Provision for Income Taxes</b> | <b>344</b>     | <b>1,136</b> |
| <br>                              |                |              |
| <b>Net income</b>                 | <b>\$1,065</b> | <b>1,730</b> |
| <br>                              |                |              |
| <b>Basic earnings per share</b>   | <b>\$0.27</b>  | <b>0.44</b>  |
| <b>Diluted earnings per share</b> | <b>\$0.27</b>  | <b>0.44</b>  |

See Accompanying Notes to Consolidated Financial Statements.



**PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)**

| <i>(In thousands)</i>   | <b>Three Months<br/>Ended March<br/>31,<br/>2018    2017</b> |              |
|---|--|--------------|
| Net income  | \$1,065  | 1,730        |
| Other comprehensive income  |  |              |
| Unrealized holding (loss) gain on securities                          | (307 )   | 239          |
| Income tax effect   | 83   | (93 )        |
| Reclassification for realized losses on sale of investment securities | -  | (78 )        |
| Income tax effect   | -  | 30           |
| Total other comprehensive (loss) income                               | (224 )   | 98           |
| <b>Comprehensive income</b>   | <b>\$841</b>   | <b>1,828</b> |

See Accompanying Notes to Consolidated Financial Statements.

## PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

| <i>(In thousands, except shares)</i>                                       | Number<br>of<br>Shares | Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Loss | Total  |
|--|------------------------|-----------------|----------------------------------|------------------------|-------------------|---|--------|
| <b>Balance at December 31, 2017</b>  | 3,899,675              | \$ 40           | 106,875                          | (38,832 )              | (1,179 )          | (155 )  | 66,749 |
| <b>Comprehensive income:</b>   |                        |                 |                                  |                        |                   |   |        |
| Net income   | -                      | -               | -                                | 1,065                  | -                 | -   | 1,065  |
| Unrealized holding loss on<br>available-for-sale securities, net of<br>tax | -                      | -               | -                                | -                      | -                 | (224 )  | (224 ) |
| <b>Total comprehensive income</b>  | -                      | -               | -                                | 1,065                  | -                 | (224 )  | 841    |
| Common stock dividends   |                        |                 |                                  | (38 )                  |                   |   | (38 )  |
| Share-based compensation expense   | -                      | -               | 53                               | -                      | -                 | -   | 53     |
| Vesting of restricted stock  | 2,935                  | -               | -                                | -                      | -                 | -   | -      |
| <b>Balance at March 31, 2018</b>   | 3,902,610              | \$ 40           | 106,928                          | (37,805 )              | (1,179 )          | (379 )  | 67,605 |
| <br>   |                        |                 |                                  |                        |                   |   |        |
| <b>Balance at December 31, 2016</b>  | 3,891,897              | \$ 40           | 106,729                          | (42,902 )              | (1,177 )          | (120 )  | 62,570 |
| <b>Comprehensive income:</b>   |                        |                 |                                  |                        |                   |   |        |
| Net income   | -                      | -               | -                                | 1,730                  | -                 | -   | 1,730  |
| Unrealized holding gain on<br>available-for-sale securities, net of<br>tax | -                      | -               | -                                | -                      | -                 | 98  | 98     |
| <b>Total comprehensive income</b>  | -                      | -               | -                                | 1,730                  | -                 | 98  | 1,828  |
| Share-based compensation expense   | -                      | -               | 43                               | -                      | -                 | -   | 43     |
| Vesting of restricted stock  | 2,231                  | -               | -                                | -                      | -                 | -   | -      |
| <b>Balance at March 31, 2017</b>   | 3,894,128              | \$ 40           | 106,772                          | (41,172 )              | (1,177 )          | (22 )   | 64,441 |

See Accompanying Notes to Consolidated Financial Statements.

## PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| <i>(In thousands)</i>  | <b>Three Months<br/>Ended March 31,</b> |                 |
|--|---|-----------------|
|  | <b>2018</b>                             | <b>2017</b>     |
| <b>Cash Flows from Operating Activities:</b>   |   |                 |
| Net income   | \$1,065                                 | 1,730           |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |   |                 |
| Amortization of investment premiums, net   | 13                                      | 35              |
| Amortization and accretion of purchase loan premiums and discounts                       | 176                                     | 127             |
| Amortization of debt issuance costs  | 21                                      | 20              |
| Provision (credit) for loan losses   | 185                                     | (1,749 )        |
| Depreciation and amortization  | 350                                     | 272             |
| Loss on sales of available-for-sale securities   | -                                       | 78              |
| Share-based compensation   | 53                                      | 43              |
| (Increase) decrease in deferred income taxes   | (855 )                                  | 878             |
| <b>Changes in assets and liabilities:</b>  |   |                 |
| Increase in accrued interest and dividends receivable                                    | (9 )                                    | (337 )          |
| Decrease (increase) in other assets  | 102                                     | (133 )          |
| Increase (decrease) in accrued expenses and other liabilities                            | 574                                     | (451 )          |
| <b>Net cash provided by operating activities</b>   | <b>1,675</b>                            | <b>513</b>      |
| <b>Cash Flows from Investing Activities:</b>   |   |                 |
| Proceeds from sales on available-for-sale securities                                     | -                                       | 9,000           |
| Principal repayments on available-for-sale securities                                    | 463                                     | 807             |
| Purchases of available-for-sale securities   | -                                       | (11,500)        |
| Purchases of Federal Reserve Bank stock  | (24 )                                   | (249 )          |
| Redemptions of Federal Home Loan Bank stock  | -                                       | 120             |
| (Increase) decrease in net originations of loans receivable                              | (5,081 )                                | 26,463          |
| Purchase of loan pools receivable  | -                                       | (72,889)        |
| Purchase of premises and equipment   | (630 )                                  | (955 )          |
| Escrow deposit for pending acquisition   | (500 )                                  | -               |
| <b>Net cash used in investing activities</b>   | <b>(5,772 )</b>                         | <b>(49,203)</b> |
| <b>Cash Flows from Financing Activities:</b>   |   |                 |
| Increase in deposits, net  | 17,859                                  | 31,635          |
| Repayments of FHLB and correspondent bank borrowings                                     | -                                       | (14,000)        |
| Principal repayments of note payable   | (48 )                                   | (47 )           |
| Decrease in advances from borrowers for taxes and insurance                              | (925 )                                  | (921 )          |
| Dividends paid on common stock   | (38 )                                   | -               |
| <b>Net cash provided by financing activities</b>   | <b>16,848</b>                           | <b>16,667</b>   |

|   |                 |               |
|---|-----------------|---------------|
| <b>Net Increase (decrease) in cash and cash equivalents</b> | 12,751          | (32,023)      |
| Cash and cash equivalents at beginning of period            | 49,241          | 92,289        |
| <b>Cash and cash equivalents at end of period</b>           | <b>\$61,992</b> | <b>60,266</b> |

**Supplemental Disclosures of Cash Flow Information:**

|                            |         |       |
|----------------------------|---------|-------|
| Cash paid for interest     | \$1,844 | 1,143 |
| Cash paid for income taxes | \$125   | -     |

**Supplemental Disclosures of Noncash Investing Activities:**

|  |     |       |
|--|-----|-------|
| Receivable recorded for securities sold, not settled | \$- | 4,968 |
|--|-----|-------|

See Accompanying Notes to Consolidated Financial Statements.

**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.

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

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 March 31, 2018 are not necessarily indicative of the results of operations that may be expected for the remainder of 2018.

**Note 2: Recent Accounting Pronouncements**

*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). Also, subsequent ASUs issued to clarify this Topic. The Update, 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 Updates 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 Updates during the first quarter of 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 Updates 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 Updates during the first quarter of 2018 primarily 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.



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 March 31, 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 March 31, 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 for all entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The Company does not anticipate this update will have a material impact on its Consolidated Financial Statements.



***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 2017-08

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 the 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 2018-04

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 is not expected to have an impact on the 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; however, in certain cases, Management made reasonable estimates of the effects of a reduced federal corporate income tax rate on its existing deferred tax balances. In other cases, the Company has not been able to make a reasonable estimate and continued to account for those items based on its existing accounting under ASC 740, and the provisions of the tax laws that were in effect immediately prior to enactment of the Tax Cuts and Jobs Act. In all cases, 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.

**Note 3: Available-for Sale Securities**

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

| <i>(In thousands)</i>                              | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>(Losses)</b> | <b>Fair<br/>Value</b> |
|--|---------------------------|---------------------------------------|--|-----------------------|
| <b><u>March 31, 2018:</u></b>                      |                           |                                       |  |                       |
| U. S. Government agency mortgage-backed securities | \$ 6,854                  | -                                     | (199)                                    | ) 6,655               |
| Corporate bonds                                    | 14,000                    | -                                     | (399)                                    | ) 13,601              |
| Subordinated notes                                 | 4,500                     | 37                                    | -  | ) 4,537               |
|  | \$ 25,354                 | 37                                    | (598)                                    | ) 24,793              |
| <b><u>December 31, 2017:</u></b>                   |                           |                                       |  |                       |
| 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 March 31, 2018 and December 31, 2017:

| <i>(In thousands)</i>                              | <b>Less than 12<br/>Months</b> |                              | <b>12 Months or<br/>More</b> |                              | <b>Total</b>          |                              |
|--|--------------------------------|------------------------------|------------------------------|------------------------------|-----------------------|------------------------------|
|  | <b>Fair<br/>Value</b>          | <b>Unrealized<br/>(Loss)</b> | <b>Fair<br/>Value</b>        | <b>Unrealized<br/>(Loss)</b> | <b>Fair<br/>Value</b> | <b>Unrealized<br/>(Loss)</b> |
| <b><u>March 31, 2018:</u></b>                      |                                |                              |                              |                              |                       |                              |
| U. S. Government agency mortgage-backed securities | \$3,755                        | (63)                         | ) 2,900                      | (136)                        | ) 6,655               | (199)                        |
| Corporate bonds                                    | 7,651                          | (349)                        | ) 5,950                      | (50)                         | ) 13,601              | (399)                        |
|  | \$11,406                       | (412)                        | ) 8,850                      | (186)                        | ) 20,256              | (598)                        |
| <b><u>December 31, 2017:</u></b>                   |                                |                              |                              |                              |                       |                              |
| 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 March 31, 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 2.9% and 1.4% from the amortized cost of those securities, respectively.

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 March 31, 2018 .

At March 31, 2018 and December 31, 2017, available-for-sale securities of \$6.0 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 March 31, 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<br>Within<br>5<br>years | Due<br>After<br>5 years<br>through<br>10 years | Due<br>After<br>10<br>years | Total      | Due<br>Within<br>5<br>years | Due<br>After<br>5 years<br>through<br>10 years | Due<br>After<br>10<br>years | Total  |
| <b>March 31, 2018:</b>  |                             |  |                             |            |                             |  |                             |        |
| Corporate bonds   | \$-                         | 9,000  | 5,000                       | 14,000     | -                           | 8,847  | 4,754                       | 13,601 |
| Subordinated Notes  | -                           | 4,500  | -                           | 4,500      | -                           | 4,537  | -                           | 4,537  |
| <b>Available-for-sale securities with single maturity dates</b> | -                           | 13,500   | 5,000                       | 18,500     | -                           | 13,384   | 4,754                       | 18,138 |
| U. S. Government agency mortgage-backed securities              | -                           | 3,036  | 3,818                       | 6,854      | -                           | 2,900  | 3,755                       | 6,655  |
|   | \$-                         | 16,536   | 8,818                       | 25,354     | -                           | 16,284   | 8,509                       | 24,793 |
| <b>December 31, 2017:</b>                                       |                             |  |                             |            |                             |  |                             |        |
| Corporate bonds   | \$-                         | 9,000  | 5,000                       | 14,000     | -                           | 8,928  | 4,876                       | 13,804 |
| Subordinated Notes  | -                           | 4,500  | -                           | 4,500      | -                           | 4,548  | -                           | 4,548  |
| <b>Available-for-sale securities with single maturity dates</b> | -                           | 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 |

There were no sales and purchases of available-for-sale securities in the three-month period ended March 31, 2018. During the three-month period ended March 31, 2017, there were \$9 million sales and \$11.5 million purchases of available-for-sale securities. A loss on the sale of available-for-sale securities of \$78,000 was recorded during the three months ended March 31, 2017.

**Note 4: Loans Receivable and Allowance for Loan Losses**

As of March 31, 2018 and December 31, 2017, loans receivable, net, consists of the following:

*(In thousands)*

|                                       | <b>March</b>     | <b>December</b> |
|---------------------------------------|------------------|-----------------|
| <b><u>Loan portfolio segment:</u></b> | <b>31,</b>       | <b>31,</b>      |
|                                       | <b>2018</b>      | <b>2017</b>     |
| Commercial Real Estate                | \$313,868        | 299,925         |
| Residential Real Estate               | 144,633          | 146,377         |
| Commercial and Industrial             | 129,913          | 131,161         |
| Consumer and Other                    | 83,185           | 87,707          |
| Construction                          | 46,348           | 47,619          |
| Construction to permanent - CRE       | 6,608            | 6,858           |
| <b>Loans receivable, gross</b>        | <b>724,555</b>   | <b>719,647</b>  |
| Allowance for loan losses             | (6,485 )         | (6,297 )        |
| <b>Loans receivable, net</b>          | <b>\$718,070</b> | <b>713,350</b>  |

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.

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



Commercial Real Estate Loans

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

### 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 quarter 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.

### 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.

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 March 31, 2018 and 2017:

| <i>(In thousands)</i>                        | <b>Commercial<br/>Real<br/>Estate</b> | <b>Residential<br/>Real<br/>Estate</b> | <b>Commercial<br/>and<br/>Industrial</b> | <b>Consumer<br/>and<br/>Other</b> | <b>Construction<br/>to<br/>Permanent<br/>[CRE]</b> | <b>Unallocated</b> | <b>Total</b> |
|--|---------------------------------------|--|--|-----------------------------------|--|--------------------|--------------|
| <b>Three months ended<br/>March 31, 2018</b> |                                       |  |  |                                   |  |                    |              |
| <b>Allowance for loan losses:</b>            |                                       |  |  |                                   |  |                    |              |
| December 31, 2017                            | \$ 2,212                              | 959                                    | 2,023                                    | 568                               | 481  | 54                 | 6,297        |
| Charge-offs                                  | -                                     | -                                      | -  | -                                 | -  | -                  | -            |
| Recoveries                                   | 3                                     | -                                      | -  | -                                 | -  | -                  | 3            |
| Provisions (credits)                         | 265                                   | 114                                    | (264)                                    | (22)                              | 7  | 7                  | 185          |
| March 31, 2018                               | \$ 2,480                              | 1,073                                  | 1,759                                    | 546                               | 488  | 61                 | 6,485        |
| <b>Three months ended<br/>March 31, 2017</b> |                                       |  |  |                                   |  |                    |              |
| <b>Allowance for loan losses:</b>            |                                       |  |  |                                   |  |                    |              |
| December 31, 2016                            | \$ 1,853                              | 534                                    | 740                                      | 641                               | 712  | 69                 | 4,675        |
| Charge-offs                                  | -                                     | -                                      | -  | -                                 | -  | -                  | -            |
| Recoveries                                   | 2                                     | -                                      | 2,769                                    | -                                 | -  | -                  | 2,771        |
| Provisions (credits)                         | 343                                   | 539                                    | (2,460)                                  | (58)                              | (121)  | 8                  | (1,749)      |
| March 31, 2017                               | \$ 2,198                              | 1,073                                  | 1,049                                    | 583                               | 591  | 77                 | 5,697        |



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

| <i>(In thousands)</i>                 | <b>Commercial<br/>Real<br/>Estate</b> | <b>Residential<br/>Real<br/>Estate</b> | <b>Commercial<br/>and<br/>Industrial</b> | <b>Consumer<br/>and<br/>Other</b> | <b>Construction</b> | <b>Construction<br/>to<br/>Permanent<br/>[CRE]</b> | <b>Unallocated</b> | <b>Total</b> |
|---------------------------------------|---------------------------------------|--|--|-----------------------------------|---------------------|--|--------------------|--------------|
| <b>March 31, 2018</b>                 |                                       |  |  |                                   |                     |  |                    |              |
| <b>Allowance for loan losses:</b>     |                                       |  |  |                                   |                     |  |                    |              |
| Individually evaluated for impairment | \$ -                                  | -                                      | 51                                       | 4                                 | -                   | -  | -                  | 55           |
| Collectively evaluated for impairment | 2,480                                 | 1,073                                  | 1,708                                    | 542                               | 488                 | 61   | 78                 | 6,430        |
| Total allowance for loan losses       | \$ 2,480                              | 1,073                                  | 1,759                                    | 546                               | 488                 | 61   | 78                 | 6,485        |
| <b>Loans receivable, gross:</b>       |                                       |  |  |                                   |                     |  |                    |              |
| Individually evaluated for impairment | \$ 2,429                              | 3,343                                  | 1,521                                    | 694                               | -                   | -  | -                  | 7,987        |
| Collectively evaluated for impairment | 311,439                               | 141,290                                | 128,392                                  | 82,491                            | 46,348              | 6,608  | -                  | 716,568      |
| Total loans receivable, gross         | \$ 313,868                            | 144,633                                | 129,913                                  | 83,185                            | 46,348              | 6,608  | -                  | 724,555      |
| <b>December 31, 2017</b>              |                                       |  |  |                                   |                     |  |                    |              |
| <b>Allowance for loan losses:</b>     |                                       |  |  |                                   |                     |  |                    |              |
| Individually evaluated for impairment | \$ -                                  | -                                      | 251                                      | 2                                 | -                   | -  | -                  | 253          |
| Collectively evaluated for impairment | 2,212                                 | 959                                    | 1,772                                    | 566                               | 481                 | 54   | -                  | 6,044        |
| Total allowance for loan losses       | \$ 2,212                              | 959                                    | 2,023                                    | 568                               | 481                 | 54   | -                  | 6,297        |
| <b>Loans receivable, gross:</b>       |                                       |  |  |                                   |                     |  |                    |              |
| Individually evaluated for impairment | \$ 1,977                              | 3,336                                  | 748                                      | 692                               | -                   | -  | -                  | 6,753        |
|                                       | 297,948                               | 143,041                                | 130,413                                  | 87,015                            | 47,619              | 6,858  | -                  | 712,894      |

Collectively evaluated  
for impairment

|                                  |            |         |         |        |        |       |   |         |
|----------------------------------|------------|---------|---------|--------|--------|-------|---|---------|
| Total loans receivable,<br>gross | \$ 299,925 | 146,377 | 131,161 | 87,707 | 47,619 | 6,858 | - | 719,647 |
|----------------------------------|------------|---------|---------|--------|--------|-------|---|---------|

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:

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

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

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

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

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



The following tables summarize non-performing (i.e., non-accruing) loans by aging category and status, within the applicable loan portfolio segment as of March 31, 2018 and December 31, 2017:

| <i>(In thousands)</i>                  | Non-accruing Loans                   |                                   |   | Total<br>Past<br>Due | Current  | Total<br>Non-accruing<br>Loans |
|--|--------------------------------------|-----------------------------------|---|----------------------|----------|--------------------------------|
|  | 30<br>-<br>59<br>Days<br>Past<br>Due | 60 -<br>89<br>Days<br>Past<br>Due | 90 Days<br>or<br>Greater<br>Past<br>Due |                      |          |                                |
| <b><u>As of March 31, 2018:</u></b>    |                                      |                                   |   |                      |          |                                |
| <b>Loan portfolio segment:</b>         |                                      |                                   |   |                      |          |                                |
| Commercial Real Estate                 |                                      |                                   |   |                      |          |                                |
| Sub-standard                           | \$-                                  | -                                 | 474                                     | 474                  | -        | 474                            |
| Residential Real Estate:               |                                      |                                   |   |                      |          |                                |
| Sub-standard                           | -                                    | -                                 | 3,037                                   | 3,037                | -        | 3,037                          |
| Commercial and Industrial:             |                                      |                                   |   |                      |          |                                |
| Sub-standard                           | -                                    | 6                                 | 1,515                                   | 1,521                | -        | 1,521                          |
| Consumer and Other                     |                                      |                                   |   |                      |          |                                |
| Sub-standard                           | -                                    | -                                 | 4                                       | 4                    | -        | 4                              |
| <b>Total non-accruing loans</b>        | <b>\$-</b>                           | <b>6</b>                          | <b>5,030</b>                            | <b>5,036</b>         | <b>-</b> | <b>5,036</b>                   |
| <b><u>As of December 31, 2017:</u></b> |                                      |                                   |   |                      |          |                                |
| <b>Loan portfolio segment:</b>         |                                      |                                   |   |                      |          |                                |
| Residential Real Estate:               |                                      |                                   |   |                      |          |                                |
| Sub-standard                           | \$-                                  | -                                 | 3,028                                   | 3,028                | -        | 3,028                          |
| Commercial and Industrial:             |                                      |                                   |   |                      |          |                                |
| Sub-standard                           | -                                    | -                                 | 748                                     | 748                  | -        | 748                            |
| Consumer and Other                     |                                      |                                   |   |                      |          |                                |
| Sub-standard                           | -                                    | -                                 | 2                                       | 2                    | -        | 2                              |
| <b>Total non-accruing loans</b>        | <b>\$-</b>                           | <b>-</b>                          | <b>3,778</b>                            | <b>3,778</b>         | <b>-</b> | <b>3,778</b>                   |

If non-accrual loans had been performing in accordance with the original contractual terms, additional interest income of \$81,000 and \$21,000 would have been recognized in income during the three months ended March 31, 2018 and 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 months ended March 31, 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 troubled debt restructurings to be impaired. In most cases, loan payments that are past due less than 90 days, based on contractual terms, are considered collection delays and not an indication of loan impairment. The Bank considers consumer installment loans to be pools of smaller homogeneous loan balances, which are collectively evaluated for impairment.

The following tables summarize performing and non-performing loans receivable by portfolio segment, by aging category, by delinquency status as of March 31, 2018 and December 31, 2017.

| <i>(In thousands)</i>                   |                                    |                              |                                    |               |                |                               |                           |                               |
|---|------------------------------------|------------------------------|------------------------------------|---------------|----------------|-------------------------------|---------------------------|-------------------------------|
| <u>As of March 31, 2018:</u>            | <b>Performing (Accruing) Loans</b> |                              |                                    |               | <b>Current</b> | <b>Total Performing Loans</b> | <b>Non-accruing Loans</b> | <b>Loans Receivable Gross</b> |
|   | <b>30 - 59 Days Past Due</b>       | <b>60 - 89 Days Past Due</b> | <b>90 Days or Greater Past Due</b> | <b>Total</b>  |                |                               |                           |                               |
| <b>Loan portfolio segment:</b>          |                                    |                              |                                    |               |                |                               |                           |                               |
| <b>Commercial Real Estate:</b>          |                                    |                              |                                    |               |                |                               |                           |                               |
| Pass                                    | \$19                               | 670                          | -                                  | 689           | 299,011        | 299,700                       | -                         | 299,700                       |
| Special Mention                         | -                                  | -                            | -                                  | -             | 9,989          | 9,989                         | -                         | 9,989                         |
| Substandard                             | -                                  | 2,705                        | -                                  | 2,705         | 1,000          | 3,705                         | 474                       | 4,179                         |
|   | 19                                 | 3,375                        | -                                  | 3,394         | 310,000        | 313,394                       | 474                       | 313,868                       |
| <b>Residential Real Estate:</b>         |                                    |                              |                                    |               |                |                               |                           |                               |
| Pass                                    | 121                                | 1,271                        | -                                  | 1,392         | 138,685        | 140,077                       | -                         | 140,077                       |
| Special Mention                         | 1,519                              | -                            | -                                  | 1,519         | -              | 1,519                         | -                         | 1,519                         |
| Substandard                             | -                                  | -                            | -                                  | -             | -              | -                             | 3,037                     | 3,037                         |
|   | 1,640                              | 1,271                        | -                                  | 2,911         | 138,685        | 141,596                       | 3,037                     | 144,633                       |
| <b>Commercial and Industrial:</b>       |                                    |                              |                                    |               |                |                               |                           |                               |
| Pass                                    | 293                                | 829                          | -                                  | 1,122         | 127,270        | 128,392                       | -                         | 128,392                       |
| Substandard                             | -                                  | -                            | -                                  | -             | -              | -                             | 1,521                     | 1,521                         |
|   | 293                                | 829                          | -                                  | 1,122         | 127,270        | 128,392                       | 1,521                     | 129,913                       |
| <b>Consumer and Other:</b>              |                                    |                              |                                    |               |                |                               |                           |                               |
| Pass                                    | 129                                | 80                           | 350                                | 559           | 82,622         | 83,181                        | -                         | 83,181                        |
| Substandard                             | -                                  | -                            | -                                  | -             | -              | -                             | 4                         | 4                             |
|   | 129                                | 80                           | 350                                | 559           | 82,622         | 83,181                        | 4                         | 83,185                        |
| <b>Construction:</b>                    |                                    |                              |                                    |               |                |                               |                           |                               |
| Pass                                    | -                                  | -                            | 2,039                              | 2,039         | 35,509         | 37,548                        | -                         | 37,548                        |
| Substandard                             | -                                  | -                            | 8,800                              | 8,800         | -              | 8,800                         | -                         | 8,800                         |
|   | -                                  | -                            | 10,839                             | 10,839        | 35,509         | 46,348                        | -                         | 46,348                        |
| <b>Construction to permanent - CRE:</b> |                                    |                              |                                    |               |                |                               |                           |                               |
| Pass                                    | -                                  | -                            | -                                  | -             | 6,608          | 6,608                         | -                         | 6,608                         |
| <b>Total</b>                            | <b>\$2,081</b>                     | <b>5,555</b>                 | <b>11,189</b>                      | <b>18,825</b> | <b>700,694</b> | <b>719,519</b>                | <b>5,036</b>              | <b>724,555</b>                |
| <b>Loans receivable, gross:</b>         |                                    |                              |                                    |               |                |                               |                           |                               |
| Pass                                    | \$562                              | 2,850                        | 2,389                              | 5,801         | 689,705        | 695,506                       | -                         | 695,506                       |
| Special Mention                         | 1,519                              | -                            | -                                  | 1,519         | 9,989          | 11,508                        | -                         | 11,508                        |
| Substandard                             | -                                  | 2,705                        | 8,800                              | 11,505        | 1,000          | 12,505                        | 5,036                     | 17,541                        |
| <b>Loans receivable, gross</b>          | <b>\$2,081</b>                     | <b>5,555</b>                 | <b>11,189</b>                      | <b>18,825</b> | <b>700,694</b> | <b>719,519</b>                | <b>5,036</b>              | <b>724,555</b>                |



*(In thousands)*

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

As of March 31, 2018, the loans over 90 days past due and still accruing consists of two construction loans. The loans are well secured and the Company is confident, if necessary, the collateral will serve to ultimately assure full realization of principal and interest.



### **Troubled Debt Restructurings (“TDR”)**

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

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

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

### **Impaired Loans**

Impaired loans may consist of non-accrual loans and/or performing and non-performing TDRs. As of March 31, 2018 and December 31, 2017, based on the on-going monitoring and analysis of the loan portfolio, impaired loans of \$8.0 million and \$6.8 million, respectively, were identified, for which \$55,000 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. In some cases, there may be no specific reserves due to the carrying amount of the loan having been charged off. Once a borrower is in default, Patriot is under no obligation to advance additional funds on unused commitments.

At March 31, 2018 and December 31, 2017, exposure to the impaired loans was related to 15 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.





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

(In thousands)

|   | March 31, 2018         |                          |                      | December 31, 2017      |                          |                      |
|---|------------------------|--------------------------|----------------------|------------------------|--------------------------|----------------------|
|   | Recorded<br>Investment | Principal<br>Outstanding | Related<br>Allowance | Recorded<br>Investment | Principal<br>Outstanding | Related<br>Allowance |
| <b><u>With no related allowance recorded:</u></b> |                        |                          |                      |                        |                          |                      |
| Commercial Real Estate                            | \$2,429                | 2,429                    | -                    | 1,977                  | 2,425                    | -                    |
| Residential Real Estate                           | 3,343                  | 3,343                    | -                    | 3,336                  | 3,369                    | -                    |
| Commercial and Industrial                         | 1,470                  | 1,470                    | -                    | 497                    | 683                      | -                    |
| Consumer and Other                                | 690                    | 690                      | -                    | 690                    | 818                      | -                    |
|   | 7,932                  | 7,932                    | -                    | 6,500                  | 7,295                    | -                    |
| <b><u>With a related allowance recorded:</u></b>  |                        |                          |                      |                        |                          |                      |
| Commercial Real Estate                            | -                      | -                        | -                    | -                      | -                        | -                    |
| Residential Real Estate                           | -                      | -                        | -                    | -                      | -                        | -                    |
| Commercial and Industrial                         | 51                     | 51                       | 51                   | 251                    | 251                      | 251                  |
| Consumer and Other                                | 4                      | 4                        | 4                    | 2                      | 2                        | 2                    |
|   | 55                     | 55                       | 55                   | 253                    | 253                      | 253                  |
| <b><u>Impaired Loans, Total:</u></b>              |                        |                          |                      |                        |                          |                      |
| Commercial Real Estate                            | 2,429                  | 2,429                    | -                    | 1,977                  | 2,425                    | -                    |
| Residential Real Estate                           | 3,343                  | 3,343                    | -                    | 3,336                  | 3,369                    | -                    |
| Commercial and Industrial                         | 1,521                  | 1,521                    | 51                   | 748                    | 934                      | 251                  |
| Consumer and Other                                | 694                    | 694                      | 4                    | 692                    | 820                      | 2                    |
| <b>Impaired Loans, Total</b>                      | <b>\$7,987</b>         | <b>7,987</b>             | <b>55</b>            | <b>6,753</b>           | <b>7,548</b>             | <b>253</b>           |

The following tables summarize additional information regarding impaired loans for the three months ended March 31, 2018 and 2017.

(In thousands)

|   | <b>Three Months Ended March 31,</b> |                   |                   |                   |
|---|-------------------------------------|-------------------|-------------------|-------------------|
|   | <b>2018</b>                         |                   | <b>2017</b>       |                   |
|   | <b>Average</b>                      | <b>Interest</b>   | <b>Average</b>    | <b>Interest</b>   |
|   | <b>Recorded</b>                     | <b>Income</b>     | <b>Recorded</b>   | <b>Income</b>     |
|   | <b>Investment</b>                   | <b>Recognized</b> | <b>Investment</b> | <b>Recognized</b> |
| <b><u>With no related allowance recorded:</u></b> |                                     |                   |                   |                   |
| Commercial Real Estate                            | \$2,205                             | 25                | 6,236             | 73                |
| Residential Real Estate                           | 3,342                               | 3                 | 1,910             | 3                 |
| Commercial and Industrial                         | 739                                 | -                 | -                 | -                 |
| Consumer and Other                                | 691                                 | 7                 | 541               | 5                 |
|   | 6,977                               | 35                | 8,687             | 81                |
| <b><u>With a related allowance recorded:</u></b>  |                                     |                   |                   |                   |
| Commercial Real Estate                            | -                                   | -                 | -                 | -                 |
| Residential Real Estate                           | -                                   | -                 | -                 | -                 |
| Commercial and Industrial                         | 393                                 | -                 | 231               | -                 |
| Consumer and Other                                | 2                                   | -                 | -                 | -                 |
|   | 395                                 | -                 | 231               | -                 |
| <b><u>Impaired Loans, Total:</u></b>              |                                     |                   |                   |                   |
| Commercial Real Estate                            | 2,205                               | 25                | 6,236             | 73                |
| Residential Real Estate                           | 3,342                               | 3                 | 1,910             | 3                 |
| Commercial and Industrial                         | 1,132                               | -                 | 231               | -                 |
| Consumer and Other                                | 693                                 | 7                 | 541               | 5                 |
| <b>Impaired Loans, Total</b>                      | <b>\$7,372</b>                      | <b>35</b>         | <b>8,918</b>      | <b>81</b>         |

**Note 5: Deposits**

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

| <i>(In thousands)</i>                         | <b>March<br/>31, 2018</b> | <b>December<br/>31, 2017</b> |
|---|---------------------------|------------------------------|
| Non-interest bearing                          | \$71,736                  | \$81,197                     |
| <b><u>Interest bearing:</u></b>               |                           |                              |
| NOW   | 23,461                    | 25,476                       |
| Savings                                       | 132,118                   | 135,975                      |
| Money market                                  | 11,936                    | 16,575                       |
| Certificates of deposit, less than \$250,000  | 178,243                   | 173,221                      |
| Certificates of deposit, \$250,000 or greater | 72,614                    | 66,866                       |
| Brokered deposits                             | 165,190                   | 138,129                      |
| Interest bearing, Total                       | 583,562                   | 556,242                      |
| <b>Total Deposits</b>                         | <b>\$655,298</b>          | <b>\$637,439</b>             |

**Note 6: 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 March 31, 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 March 31, 2018, 2,872,933 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 months ended March 31, 2018, the Company granted 11,200 RSAs to the CEO and 2,999 RSAs to Executive Vice Presidents. During the three months ended March 31, 2017, no RSAs were granted to employees and directors. During the three months ended March 31, 2018, 2,935 shares of restricted stock became vested, 100 shares of restricted stock forfeited. All RSAs are non-participating grants.

The Company recognizes compensation expense for all director and employee share-based compensation awards on a straight-line basis over the requisite service period, which is equal to the vesting schedule of each award, for each vesting portion of an award equal to its grant date fair value. For the three months ended March 31, 2018 and 2017, the Company recognized total share-based compensation expense of \$53,000 and \$43,000, respectively. The share-based compensation attributable to employees of Patriot amounted to \$35,000 and \$28,000 for the three months ended March 31, 2018 and 2017, respectively.

Included in share-based compensation expense for the three months ended March 31, 2018 and 2017 were \$18,000 and \$15,000 attributable to Patriot’s external Directors, who received total compensation of \$82,000 and \$69,000 for each of those periods, respectively, which amounts are included in Other Operating Expenses in the Consolidated Statements of Income.

The following is a summary of the status of the Company's restricted shares for the three months ended March 31, 2018 and 2017 and changes therein during the periods indicated:

| <b><u>Three months ended March 31, 2018:</u></b>     | <b>Number<br/>of<br/>Shares<br/>Awarded</b> | <b>Weighted<br/>Average<br/>Grant<br/>Date<br/>Fair<br/>Value</b> |
|--|---|---|
| Unvested at December 31, 2017                        | 25,870                                      | \$12.15   |
| Granted  | 14,199                                      | \$17.93   |
| Vested   | (2,935 )                                    | \$14.18   |
| Forfeited  | (100 )                                      | \$15.50   |
| Unvested at March 31, 2018                           | 37,034                                      | \$14.20   |
| <br><b><u>Three months ended March 31, 2017:</u></b> |   |   |
| Unvested at December 31, 2016                        | 35,264                                      | \$12.84   |
| Vested   | (2,231 )                                    | \$13.03   |
| Unvested at March 31, 2017                           | 33,033                                      | \$12.55   |

Unrecognized compensation expense attributable to the unvested restricted shares outstanding as of March 31, 2018 amounts to \$482,000, which amount is expected to be recognized over the weighted average remaining life of the awards of 2.76 years.

#### RSA Grant - Non-executive Employees

During the three months ended March 31, 2018, 100 granted shares were forfeited. During the three months ended March 31, 2017, none of the granted shares were forfeited. The remaining 6,200 shares continue to vest and \$24,000 of compensation expense is expected to be recognized through the January 2019 vesting date.

#### 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. During the three months ended March 31, 2018 and 2017 compensation expense under the 401K aggregated \$51,000 and \$34,000, respectively.

Dividends

On July 17, 2017, the Company announced its intention to begin making quarterly cash dividend payments. For the three months ended March 31, 2018, the Company paid cash dividends of \$38,000. No dividend was declared and paid for the three months ended March 31, 2017.

**Note 7: 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 computation of basic and diluted earnings per share for the three months ended March 31, 2018 and 2017 follows.

| <i>(Net income in thousands)</i>                        | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2018</b>                             | <b>2017</b> |
| <b><u>Basic earnings per share:</u></b>                 |   |             |
| Net income attributable to Common shareholders          | \$1,065                                 | 1,730       |
| <b><u>Divided by:</u></b>                               |   |             |
| Weighted average shares outstanding                     | 3,900,513                               | 3,892,726   |
| <b>Basic earnings per common share</b>                  | <b>\$0.27</b>                           | <b>0.44</b> |
| <b><u>Diluted earnings per share:</u></b>               |   |             |
| Net income attributable to Common shareholders          | \$1,065                                 | 1,730       |
| Weighted average shares outstanding                     | 3,900,513                               | 3,892,726   |
| Effect of potentially dilutive restricted common shares | 16,601                                  | 3,368       |
| <b><u>Divided by:</u></b>                               |   |             |
| Weighted average diluted shares outstanding             | 3,917,114                               | 3,896,094   |
| <b>Diluted earnings per common share</b>                | <b>\$0.27</b>                           | <b>0.44</b> |

**Note 8: 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 activities, evaluates each customer's creditworthiness on a case-by-case basis. Management believes that it effectively mitigates the credit risk of these financial instruments through its credit approval processes, establishing credit limits, monitoring the on-going creditworthiness of recipients and grantees, and the receipt of collateral as deemed necessary.

Financial instruments with credit risk at March 31, 2018 are as follows:

*(In thousands)*

|   | <b>As of<br/>March<br/>31, 2018</b> |
|---|-------------------------------------|
| <b><u>Commitments to extend credit:</u></b> |                                     |
| Unused lines of credit                      | \$67,423                            |
| Undisbursed construction loans              | 10,196                              |
| Home equity lines of credit                 | 20,898                              |
| Future loan commitments                     | 21,937                              |
| Financial standby letters of credit         | 1,286                               |
|   | <b>\$121,740</b>                    |

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 \$5,000 reserve for credit loss as of March 31, 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.

**Note 9: Regulatory and Operational Matters**

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

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. Under the instituted regulatory framework, to be considered "well capitalized", a financial institution must generally have a Total Capital ratio of at least 10%, a Tier 1 Capital ratio of at least 8.0%, a CET1 Capital ratio at least 6.5%, and a Tier 1 Leverage Capital ratio of at least 5.0%. However, regardless of a financial institution's ratios, the 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.

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

| <i>(In thousands)</i>  | <b>Patriot National Bancorp, Inc.</b> |              |                          |              | <b>Patriot Bank, N.A.</b> |              |                          |              |
|--|---------------------------------------|--------------|--------------------------|--------------|---------------------------|--------------|--------------------------|--------------|
|  | <b>March 31, 2018</b>                 |              | <b>December 31, 2017</b> |              | <b>March 31, 2018</b>     |              | <b>December 31, 2017</b> |              |
|  | <b>Amount</b>                         | <b>Ratio</b> | <b>Amount</b>            | <b>Ratio</b> | <b>Amount</b>             | <b>Ratio</b> | <b>Amount</b>            | <b>Ratio</b> |
|  | <b>(\$)</b>                           | <b>(%)</b>   | <b>(\$)</b>              | <b>(%)</b>   | <b>(\$)</b>               | <b>(%)</b>   | <b>(\$)</b>              | <b>(%)</b>   |
| <b>Total Capital (to risk weighted assets):</b>                |                                       |              |                          |              |                           |              |                          |              |
| Actual   | 79,461                                | 10.408       | 74,264                   | 10.092       | 89,306                    | 11.759       | 83,711                   | 11.406       |
| To be Well Capitalized <sup>(1)</sup>                          | -                                     | -            | -                        | -            | 75,947                    | 10.000       | 73,393                   | 10.000       |
| For capital adequacy with Capital Buffer <sup>(2)</sup>        | -                                     | -            | -                        | -            | 74,997                    | 9.875        | 67,889                   | 9.250        |
| For capital adequacy   | 61,075                                | 8.000        | 58,868                   | 8.000        | 60,757                    | 8.000        | 58,715                   | 8.000        |
| <b>Tier 1 Capital (to risk weighted assets):</b>               |                                       |              |                          |              |                           |              |                          |              |
| Actual   | 72,968                                | 9.558        | 67,959                   | 9.235        | 82,813                    | 10.904       | 77,407                   | 10.547       |
| To be Well Capitalized <sup>(1)</sup>                          | -                                     | -            | -                        | -            | 60,757                    | 8.000        | 58,715                   | 8.000        |
| For capital adequacy with Capital Buffer <sup>(2)</sup>        | -                                     | -            | -                        | -            | 59,808                    | 7.875        | 53,210                   | 7.250        |
| For capital adequacy   | 45,806                                | 6.000        | 44,151                   | 6.000        | 45,568                    | 6.000        | 44,036                   | 6.000        |
| <b>Common Equity Tier 1 Capital (to risk weighted assets):</b> |                                       |              |                          |              |                           |              |                          |              |
| Actual   | 64,968                                | 8.510        | 59,959                   | 8.148        | 82,813                    | 10.904       | 77,407                   | 10.547       |
| To be Well Capitalized <sup>(1)</sup>                          | -                                     | -            | -                        | -            | 49,365                    | 6.500        | 47,706                   | 6.500        |
| For capital adequacy with Capital Buffer <sup>(2)</sup>        | -                                     | -            | -                        | -            | 48,416                    | 6.375        | 42,201                   | 5.750        |
| For capital adequacy   | 34,355                                | 4.500        | 33,113                   | 4.500        | 34,176                    | 4.500        | 33,027                   | 4.500        |
| <b>Tier 1 Leverage Capital (to average assets):</b>            |                                       |              |                          |              |                           |              |                          |              |
| Actual   | 72,968                                | 8.561        | 67,959                   | 8.219        | 82,813                    | 9.722        | 77,407                   | 9.360        |
| To be Well Capitalized <sup>(1)</sup>                          | -                                     | -            | -                        | -            | 42,592                    | 5.000        | 41,351                   | 5.000        |
| For capital adequacy   | 34,093                                | 4.000        | 33,072                   | 4.000        | 34,074                    | 4.000        | 33,081                   | 4.000        |

<sup>(1)</sup> Designation as "Well Capitalized" does not apply to bank holding companies - - the Company. Such categorization of capital adequacy only applies to insured depository institutions - - the Bank.

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

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

The capital buffer requirement is being phased in over three years beginning in 2016. The 1.25% capital conservation buffer for 2017 has been included in the minimum capital adequacy ratios in the 2017 column in the table above. The capital conservation buffer increased to 1.875% for 2018, which has been included in the minimum capital adequacy ratios in the 2018 column above.

The capital buffer requirement effectively raises the minimum required Total Capital ratio to 10.5%, the Tier 1 capital ratio to 8.5% and the CET1 capital ratio to 7.0% on a fully phased-in basis, which will be effective beginning on January 1, 2019. Management believes that, as of March 31, 2018, Patriot satisfies all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis, as if all such requirements were currently in effect.

#### **Note 10: Fair Value and Interest Rate Risk**

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

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

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

The three levels of the fair value hierarchy consist of:

Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets that the entity has the ability to access at the measurement date (such as active exchange-traded equity securities and certain U.S. and government agency debt securities).

Level 2 Observable inputs other than quoted prices included in Level 1, such as:

Quoted prices for similar assets or liabilities in active markets (such as U.S. agency and government sponsored mortgage-backed securities)

Quoted prices for identical or similar assets or liabilities in less active markets (such as certain U.S. and government agency debt securities, and corporate and municipal debt securities that trade infrequently)

Other inputs that are observable for substantially the full term of the asset or liability (i.e. interest rates, yield curves, prepayment speeds, default rates, etc.).

Valuation techniques that require unobservable inputs that are supported by little or no market activity and are Level significant to the fair value measurement of the asset or liability (such as pricing and discounted cash flow  
3 models that typically reflect management's estimates of the assumptions a market participant would use in pricing the asset or liability).

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

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

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

Available-for-sale securities

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

Other Investments

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

Federal Reserve Bank Stock and Federal Home Loan Bank Stock

Shares in the Federal Reserve Bank ("FRB") and Federal Home Loan Bank ("FHLB") are purchased and redeemed based upon their \$100 par value. The stocks are non-marketable equity securities, and as such, are considered restricted securities that are carried at cost.

Loans

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

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

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

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.



### Deposits

The fair value of demand deposits, regular savings and certain money market deposits is the amount payable on demand at the reporting date.

The fair value of certificates of deposit and other time deposits is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities, estimated using local market data, to a schedule of aggregated expected maturities on such deposits. Patriot does not record deposits at fair value on a recurring basis.

### Senior Notes and Junior Subordinated Debt

Patriot does not record Senior notes at fair value on a recurring basis. The fair value of the Senior notes was estimated by discounting future cash flows at rates at which similar notes would be made. The carrying value is considered comparable to fair value.

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

### Federal Home Loan Bank Borrowings

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

### Off-balance sheet financial instruments

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

The following tables detail the financial assets measured at fair value on a recurring basis and the valuation techniques utilized relative to the fair value hierarchy, as of March 31, 2018 and December 31, 2017:

| <i>(In thousands)</i>                              | <b>Quoted<br/>Prices in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Total</b> |
|--|---|--|--|--------------|
| <b>March 31, 2018:</b>                             |   |  |  |              |
| U. S. Government agency mortgage-backed securities | \$ -  | 6,655  | -  | 6,655        |
| Corporate bonds                                    | -   | 13,601   | -  | 13,601       |
| Subordinated notes                                 | -   | 4,537  | -  | 4,537        |
| Available-for-sale securities                      | \$ -  | 24,793   | -  | 24,793       |
| <b>December 31, 2017:</b>                          |   |  |  |              |
| U. S. Government agency mortgage-backed securities | \$ -  | 7,224  | -  | 7,224        |
| Corporate bonds                                    | -   | 13,804   | -  | 13,804       |
| Subordinated notes                                 | -   | 4,548  | -  | 4,548        |
| Available-for-sale securities                      | \$ -  | 25,576   | -  | 25,576       |

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

The table below presents the valuation methodology and unobservable inputs for level 3 assets measures at fair value on a non-recurring basis as of March 31, 2018 and December 31, 2017:

| <i>(In thousands)</i>     | <b>Fair Value</b> | <b>Valuation Methodology</b> | <b>Unobservable Inputs</b>  | <b>Range of Inputs</b> |
|---------------------------|-------------------|------------------------------|-----------------------------|------------------------|
| <b>March 31, 2018:</b>    |                   |                              |                             |                        |
| Impaired loans            | \$7,932           | Real Estate Appraisals       | Discount for appraisal type | 0% -8%                 |
| <b>December 31, 2017:</b> |                   |                              |                             |                        |
| Impaired loans            | \$6,500           | Real Estate Appraisals       | Discount for appraisal type | 0% -8%                 |

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

The estimated fair value amounts have been measured as of March 31, 2018 and December 31, 2017, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of the financial instruments measured may be different than if they had been subsequently valued.

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

The following table provides a comparison of the carrying amounts and estimated fair values of Patriot's financial assets and liabilities as of March 31, 2018 and December 31, 2017:

(In thousands)

|  |                      | March 31, 2018   |                      | December 31, 2017 |                      |
|--|----------------------|------------------|----------------------|-------------------|----------------------|
|  | Fair Value Hierarchy | Carrying Amount  | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| <b>Financial Assets:</b>                             |                      |                  |                      |                   |                      |
| Cash and noninterest bearing balances due from banks | Level 1              | \$3,865          | 3,865                | 3,582             | 3,582                |
| Interest-bearing deposits due from banks             | Level 1              | 58,127           | 58,127               | 45,659            | 45,659               |
| U. S. Government agency mortgage-backed securities   | Level 2              | 6,655            | 6,655                | 7,224             | 7,224                |
| Corporate bonds                                      | Level 2              | 13,601           | 13,601               | 13,804            | 13,804               |
| Subordinated Notes                                   | Level 2              | 4,537            | 4,537                | 4,548             | 4,548                |
| Other investments                                    | Level 2              | 4,450            | 4,450                | 4,450             | 4,450                |
| Federal Reserve Bank stock                           | Level 2              | 2,526            | 2,526                | 2,502             | 2,502                |
| Federal Home Loan Bank stock                         | Level 2              | 5,889            | 5,889                | 5,889             | 5,889                |
| Loans receivable, net                                | Level 3              | 718,070          | 705,991              | 713,350           | 702,816              |
| Accrued interest receivable                          | Level 2              | 3,505            | 3,505                | 3,496             | 3,496                |
| <b>Financial assets, total</b>                       |                      | <b>\$821,225</b> | <b>809,146</b>       | <b>804,504</b>    | <b>793,970</b>       |
| <b>Financial Liabilities:</b>                        |                      |                  |                      |                   |                      |
| Demand deposits                                      | Level 2              | \$71,736         | 71,736               | 81,197            | 81,197               |
| Savings deposits                                     | Level 2              | 132,118          | 132,118              | 135,975           | 135,975              |
| Money market deposits                                | Level 2              | 11,936           | 11,936               | 16,575            | 16,575               |
| NOW accounts   | Level 2              | 23,461           | 23,461               | 25,476            | 25,476               |
| Time deposits  | Level 2              | 250,857          | 249,401              | 240,087           | 239,219              |
| Brokered deposits                                    | Level 1              | 165,190          | 164,650              | 138,129           | 137,870              |
| FHLB and correspondent bank borrowings               | Level 2              | 120,000          | 120,086              | 120,000           | 120,218              |
| Senior notes   | Level 2              | 11,722           | 11,116               | 11,703            | 11,249               |
| Subordinated debentures                              | Level 2              | 8,088            | 8,088                | 8,086             | 8,086                |
| Note payable   | Level 3              | 1,532            | 1,345                | 1,580             | 1,416                |
| Accrued interest payable                             | Level 2              | 954              | 954                  | 569               | 569                  |
| <b>Financial liabilities, total</b>                  |                      | <b>\$797,594</b> | <b>794,891</b>       | <b>779,377</b>    | <b>777,850</b>       |

The carrying amount of cash and noninterest bearing balances due from banks, interest-bearing deposits due from banks, and demand deposits approximates fair value, due to the short-term nature and high turnover of these balances. These amounts are included in the table above for informational purposes.

In the normal course of its operations, Patriot assumes interest rate risk (i.e., the risk that general interest rate levels will fluctuate). As a result, the fair value of the Patriot's financial assets and liabilities are affected when interest market rates change, which change may be either favorable or unfavorable. Management attempts to mitigate interest

rate risk by matching the maturities of its financial assets and liabilities. However, borrowers with fixed rate obligations are less likely to prepay their obligations in a rising interest rate environment and more likely to prepay their obligations in a falling interest rate environment. Conversely, depositors receiving fixed rates are more likely to withdraw funds before maturity in a rising interest rate environment and less likely to do so in a falling interest rate environment. Management monitors market rates of interest and the maturities of its financial assets and financial liabilities, adjusting the terms of new loans and deposits in an attempt to minimize interest rate risk. Additionally, management mitigates its overall interest rate risk through its available funds investment strategy.

Off-balance-sheet instruments

Loan commitments on which the committed interest rate is less than the current market rate were insignificant at March 31, 2018 and December 31, 2017. The estimated fair value of fee income on letters of credit at March 31, 2018 and December 31, 2017 was insignificant.

**Note 11: Mergers and Acquisitions**

Acquisition of Prime Bank

On August 1, 2017, a definitive merger agreement (“Merger Agreement”) was entered into by and among the Company, Patriot Bank, Prime Bank, a Connecticut bank headquartered in Orange, CT (“Prime Bank”) (PMHV:US) and a stockholder representative of Prime Bank. This transaction was approved by the shareholders of Prime Bank on October 17, 2017 and was approved by the Office of the Comptroller of the Currency (“the OCC”) on April 12, 2018.

On May 10, 2018 the Company purchased all the outstanding stock of Prime Bank for \$5.9 million. The closing of the transaction adds a new Patriot branch located in the Town of Orange, New Haven County, Connecticut. As of March 31, 2018, 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 \$48 million. The results of Prime Bank’s operations will be 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. Patriot is still evaluating the estimated fair values of the assets acquired and the liabilities 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 expected to be incurred, are also yet to be determined.

In the first quarter of 2018, the Company incurred \$136,000 of merger and acquisition expenses related to the Prime Bank merger. The Company anticipates that it will incur approximately \$200,000 of additional merger and acquisition expenses.

Definitive Purchase Agreement

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

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 \$366,000 of merger and acquisition expenses related to the Hana SBL acquisition for the three months ended March 31, 2018. The Company anticipates that it will incur approximately \$350,000 of additional merger and acquisition expenses.

The effect of the merger is expected to be reflected in the Patriot’s results beginning with the third quarter of 2018.

*Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations*

**"SAFE HARBOR" STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

Certain statements contained in the Company's public statements, including this one, and in particular in "Management's Discussion and Analysis of Financial Condition and Results of Operations," may be forward looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to: (1) changes in prevailing interest rates which would affect the interest earned on the Company's interest earning assets and the interest paid on its interest bearing liabilities; (2) the timing of repricing of the Company's interest earning assets and interest bearing liabilities; (3) the effect of changes in governmental monetary policy; (4) the effect of changes in regulations applicable to the Company and the Bank and the conduct of its business; (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks; (6) the ability of competitors that are larger than the Company to provide products and services which it is impracticable for the Company to provide; (7) the state of the economy and real estate values in the Company's market areas, and the consequent effect on the quality of the Company's loans; (8) recent governmental initiatives that are expected to have a profound effect on the financial services industry and could dramatically change the competitive environment of the Company; (9) other legislative or regulatory changes, including those related to residential mortgages, changes in accounting standards, and Federal Deposit Insurance Corporation ("FDIC") premiums that may adversely affect the Company; (10) the application of generally accepted accounting principles, consistently applied; (11) the fact that one period of reported results may not be indicative of future periods; (12) the state of the economy in the greater New York metropolitan area and its particular effect on the Company's customers, vendors and communities and (13) other such factors, including risk factors, as may be described in the Company's other filings with the SEC.

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

**CRITICAL ACCOUNTING POLICIES**

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



effect of matters that are inherently uncertain. Refer to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2018 for additional information.

## Summary

The Company reported net income for the first quarter of 2018 of \$1.1 million (\$0.27 basic and diluted earnings per share) compared to a net income of \$1.7 million (\$0.44 basic and diluted earnings per share) for the quarter ended March 31, 2017. On a pre-tax basis, the Company earned \$1.4 million for the three month period ended March 31, 2018, a decrease of \$1.5 million compared to the first quarter of 2017.

The comparative results for the three month period ended March 31, 2018 and 2017 were affected by a single recovery in the Commercial and Industrial portfolio segment. In March 2017, the Bank received a \$2.8 million insurance recovery, which was recorded as a credit to the allowance for loan losses.

Pre-tax earnings reported for the first quarter of 2018 included non-recurring transaction expenses of \$523,000 which were primarily associated with the two pending acquisitions that are underway. These non-recurring expenses will cease once the acquisitions are consummated and the acquired companies are fully integrated.

The quarter's results reflect strong earnings performance and continued, measured progress. Building scale and franchise value remains on track, and the Company continues to build its management team to add specialization and depth to its lending platform and retail banking presence.

Total assets increased \$18.3 million or 2.1%, from \$852.1 million at December 31, 2017 to \$870.4 million at March 31, 2018.

Cash and cash equivalents increased \$12.8 million or 26.0%, from \$49.2 million at December 31, 2017 to \$62.0 million at March 31, 2018, as the availability of a variety of funding strategies negated the need to maintain cash and cash equivalents on the balance sheet.

The net loan portfolio increased \$4.7 million or 0.7%, from \$713.4 million at December 31, 2017 to \$718.1 million at March 31, 2018.

Total liabilities increased \$17.5 million or 2.2%, from \$785.3 million at December 31, 2017 to \$802.8 million at March 31, 2018.

Total deposits increased \$17.9 million or 2.8%, from \$637.4 million to \$655.3 million.

Interest bearing deposits increased \$27.3 million or 4.9%, mostly relating to increases of \$27.1 million or 19.6% in brokered deposits, \$10.8 million or 4.5% in Certificates of deposits, partially offset by decreases of \$2.0 million or 7.9% in NOW, \$3.9 million or 2.8% in Savings accounts, and \$4.6 million or 28.0% in Money Market accounts,

respectively.

Non-interest bearing deposits decreased by \$9.5 million or 11.7%.

Equity increased \$856,000 or 1.3%, from \$66.7 million at December 31, 2017 to \$67.6 million at March 31, 2018, primarily due to \$1.1 million of net income, \$53,000 of equity compensation, which offset by \$224,000 of investment portfolio unrealized loss in the first quarter of 2018.

## Financial Condition

### *Cash and Cash Equivalents*

Cash and cash equivalents increased \$12.8 million, from \$49.2 million at December 31, 2017 to \$62.0 million at March 31, 2018. The increase was primarily attributable to \$17.9 million increase in deposits and \$1.7 million in net cash provided by operating activities during the first quarter. The effect of these cash inflows was partially offset by a \$5.1 million cash outflow for increase in net originations of loan receivable.

### *Investments*

The following table is a summary of the Company's available-for-sale securities portfolio, at fair value, at the dates shown:

|  | <b>March<br/>31,<br/>2018</b> | <b>December<br/>31,<br/>2017</b> | <b>Inc/(Dec)<br/>(\$)</b> | <b>Inc/(Dec)<br/>(%)</b> |
|--|-------------------------------|----------------------------------|---------------------------|--------------------------|
| <i>(In thousands)</i>                              |                               |                                  |                           |                          |
| U. S. Government agency mortgage-backed securities | \$6,655                       | 7,224                            | (569 )                    | (7.88 )%                 |
| Corporate bonds                                    | 13,601                        | 13,804                           | (203 )                    | (1.47 )%                 |
| Subordinated notes                                 | 4,537                         | 4,548                            | (11 )                     | (0.24 )%                 |
| Total Available-for-Sale Securities                | \$24,793                      | 25,576                           | (783 )                    | (3.06 )%                 |

Available-for-sale securities decreased \$783,000 or 3.1%, from \$25.6 million at December 31, 2017 to \$24.8 million at March 31, 2018. This decrease was primarily attributable to \$462,000 repayments of principal on Government agency mortgage-backed securities and \$307,000 change in unrealized losses of the available for sale securities. There were no purchases or sales of available-for-sale securities in the three month period ended March 31, 2018.

### *Loans*

The following table provides the composition of the Company's loan portfolio as of March 31, 2018 and December 31, 2017:

| <i>(In thousands)</i>                 | <b>March 31, 2018</b> |                | <b>December 31, 2017</b> |                |
|---------------------------------------|-----------------------|----------------|--------------------------|----------------|
| <b><u>Loan portfolio segment:</u></b> | Amount                | %              | Amount                   | %              |
| Commercial Real Estate                | \$313,868             | 43.32 %        | 299,925                  | 41.68 %        |
| Residential Real Estate               | 144,633               | 19.96 %        | 146,377                  | 20.34 %        |
| Commercial and Industrial             | 129,913               | 17.93 %        | 131,161                  | 18.23 %        |
| Consumer and Other                    | 83,185                | 11.48 %        | 87,707                   | 12.19 %        |
| Construction                          | 46,348                | 6.40 %         | 47,619                   | 6.62 %         |
| Construction to permanent - CRE       | 6,608                 | 0.91 %         | 6,858                    | 0.94 %         |
| <b>Loans receivable, gross</b>        | <b>724,555</b>        | <b>100.00%</b> | <b>719,647</b>           | <b>100.00%</b> |
| Allowance for loan losses             | (6,485 )              |                | (6,297 )                 |                |
| <b>Loans receivable, net</b>          | <b>\$718,070</b>      |                | <b>713,350</b>           |                |

The Company's gross loan portfolio increased \$5.0 million, or 0.7%, from \$719.6 million at December 31, 2017 to \$724.6 million at March 31, 2018. The increase in loans was primarily attributable to \$5.1 million increase in net origination of loans receivable. As of March 31, 2018, the loan pipeline is strong, and management expects continued growth. The Company will continue to add to the product lines and enhance service offerings to the customers.

At March 31, 2018, the net loan to deposit ratio was 110% and the net loan to total assets ratio was 82%. At December 31, 2017, these ratios were 112% and 84%, respectively.

### *Allowance for Loan Losses*

The allowance for loan losses increased \$188,000 or 3.0% from \$6.3 million at December 31, 2017 to \$6.5 million at March 31, 2018. The increase was primarily attributable to \$185,000 provision for all loan categories.

The overall credit quality of the loan portfolio continues to be strong and stable. Based upon the overall assessment and evaluation of the loan portfolio at March 31, 2018, management believes the allowance for loan losses of \$6.5 million, which represents 0.9% of gross loans outstanding, was adequate under prevailing economic conditions to absorb existing losses in the loan portfolio.

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

| <i>(In thousands)</i>                  | <b>March 31,</b> |             |
|--|------------------|-------------|
|  | <b>2018</b>      | <b>2017</b> |
| Balance at beginning of year           | \$6,297          | 4,675       |
| Charge-offs:                           |                  |             |
| Total charge-offs                      | -                | -           |
| Recoveries:                            |                  |             |
| Commercial Real Estate                 | 3                | 2           |
| Commercial and Industrial              | -                | 2,769       |
| Total recoveries                       | 3                | 2,771       |
| Net recoveries                         | (3 )             | (2,771)     |
| Provision (credit) charged to earnings | 185              | (1,749)     |
| Balance at end of year                 | \$6,485          | 5,697       |

### **Ratios:**

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|   |          |          |
|---|----------|----------|
| Net (recoveries) charge-offs to average loans | (0.00 )% | (0.49 )% |
| Allowance for loan losses to total loans      | 0.90 %   | 0.80 %   |

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

*(In thousands)*

|                                 | <b>March 31, 2018</b>                        |                       |  | <b>December 31, 2017</b>                     |                       |  |
|---------------------------------|--|-----------------------|--|--|-----------------------|--|
|                                 | <b>Allowance<br/>for<br/>loan<br/>losses</b> | <b>% of<br/>loans</b> |  | <b>Allowance<br/>for<br/>loan<br/>losses</b> | <b>% of<br/>loans</b> |  |
| Commercial Real Estate          | \$2,480                                      | 43.32 %               |  | 2,212  | 41.68 %               |  |
| Residential Real Estate         | 1,073  | 19.96 %               |  | 959  | 20.34 %               |  |
| Commercial and Industrial       | 1,759  | 17.93 %               |  | 2,023  | 18.23 %               |  |
| Consumer and Other              | 546  | 11.48 %               |  | 568  | 12.19 %               |  |
| Construction                    | 488  | 6.40 %                |  | 481  | 6.62 %                |  |
| Construction to permanent - CRE | 61   | 0.91 %                |  | 54   | 0.94 %                |  |
| Unallocated                     | 78   | N/A                   |  | -  | N/A                   |  |
| <b>Total</b>                    | <b>\$6,485</b>                               | <b>100.00 %</b>       |  | <b>6,297</b>                                 | <b>100.00 %</b>       |  |



***Non-performing Assets***

The following table presents non-performing assets as of March 31, 2018 and December 31, 2017:

| <i>(In thousands)</i>                          | <b>March<br/>31,<br/>2018</b> | <b>December<br/>31,<br/>2017</b> |      |   |
|--|-------------------------------|----------------------------------|------|---|
| Non-accruing loans:                            |                               |                                  |      |   |
| Commercial Real Estate                         | \$474                         | -                                |      |   |
| Residential Real Estate                        | 3,037                         | 3,028                            |      |   |
| Commercial and Industrial                      | 1,521                         | 748                              |      |   |
| Consumer and Other                             | 4                             | 2                                |      |   |
| Total non-accruing loans                       | 5,036                         | 3,778                            |      |   |
| Loans past due over 90 days and still accruing | 11,189                        | 1,356                            |      |   |
| Total nonperforming assets                     | \$16,225                      | 5,134                            |      |   |
| Nonperforming assets to total assets           | 1.86                          | %                                | 0.60 | % |
| Nonperforming loans to total loans             | 2.24                          | %                                | 0.71 | % |

The \$5.0 million of non-accrual loans at March 31, 2018 is comprised of ten relationships, for which a specific reserve of \$55,000 has been established.

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

The \$3.8 million of non-accrual loans at December 31, 2017 was comprised of eight borrowers, for which a specific reserve of \$253,000 had been established.

Loans greater than 90 days past due or more, and still accruing interest, were \$11.2 million at March 31, 2018, as compared to \$1.4 million at December 31, 2017. The \$11.2 million at March 31, 2018 was comprised of two large construction loans. The loans are well secured and we are confident, if necessary, the collateral will serve to ultimately ensure full realization of principal and interest. These positions will be constantly monitored to determine if there are any developments with the borrowers, the collateral or both.



**Deferred Taxes**

Deferred tax assets increased \$938,000, from \$10.4 million at December 31, 2017 to \$11.3 million at March 31, 2018. The increase in deferred tax assets resulted from a decision to capitalize certain allowable expenses for tax purposes in the 2017 income tax returns.

Patriot anticipates utilizing the net operating loss carry forwards to reduce income taxes otherwise payable on current year taxable income and net unrealized gains on the investment portfolio to the net operating loss carry forward.

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

**Deposits**

The following table is a summary of the Company's deposits at the dates shown:

| <i>(In thousands)</i>                         | <b>March<br/>31,<br/>2018</b> | <b>December<br/>31,<br/>2017</b> | <b>Inc/(Dec)<br/>(\$)</b> | <b>Inc/(Dec)<br/>(%)</b> |          |
|---|-------------------------------|----------------------------------|---------------------------|--------------------------|----------|
| Non-interest bearing                          | \$71,736                      | 81,197                           | (9,461 )                  | (11.65 )                 | )%       |
| <b><u>Interest bearing:</u></b>               |                               |                                  |                           |                          |          |
| NOW   | 23,461                        | 25,476                           | (2,015 )                  | (7.91 )                  | )%       |
| Savings                                       | 132,118                       | 135,975                          | (3,857 )                  | (2.84 )                  | )%       |
| Money market                                  | 11,936                        | 16,575                           | (4,639 )                  | (27.99 )                 | )%       |
| Certificates of deposit, less than \$250,000  | 178,243                       | 173,221                          | 5,022                     | 2.90                     | %        |
| Certificates of deposit, \$250,000 or greater | 72,614                        | 66,866                           | 5,748                     | 8.60                     | %        |
| Brokered deposits                             | 165,190                       | 138,129                          | 27,061                    | 19.59                    | %        |
| Total Interest bearing                        | 583,562                       | 556,242                          | 27,320                    | 4.91                     | %        |
| <b>Total Deposits</b>                         | <b>\$655,298</b>              | <b>637,439</b>                   | <b>17,859</b>             | <b>2.80</b>              | <b>%</b> |

Deposits increased \$17.9 million or 2.8%, from \$637.4 million at December 31, 2017 to \$655.3 million at March 31, 2018, resulting from an increase of \$27.1 million in broker deposits partially offset by a decline in all other categories. During the first quarter of 2018, the Bank attracted over \$18 million in new account/ dollar deposits. Offsetting this

growth, several commercial and consumer clients saw cyclical draw downs in their liquid accounts, for reasons ranging from bonus allocations, business expenses, tax expenses, to loan paydowns. Also due to increased competition among local and national banks' deposit pricing, the Bank saw an expected decline of rate sensitive, non relationship deposit dollars. Despite the competition and the ebb and flow of commercial client funds, the Bank has managed to remain within range of its deposit growth targets.

### ***Borrowings***

Total borrowings were \$141.3 million and \$141.4 million as of March 31, 2018 and December 31, 2017, respectively. Borrowings consist primarily of Federal Home Loan Bank (“FHLB”) advances, senior notes, junior subordinated debentures and a note payable.

#### Federal Home Loan Bank borrowings

The Company is a member of the Federal Home Loan Bank of Boston (“FHLB-B”). Borrowings from the FHLB-B are limited to a percentage of the value of qualified collateral, as defined on the FHLB-B Statement of Products Policy. Qualified collateral, as defined, primarily consists of mortgage-backed securities and loans receivable that are required to be free and clear of liens and encumbrances, and may not be pledged for any other purposes. As of March 31, 2018, the Bank had \$31.2 million of available borrowing capacity from the FHLB-B.

In addition, Patriot has a \$2.0 million revolving line of credit with the FHLB-B. At March 31, 2018 and December 31, 2017, no funds had been borrowed under the line of credit.

#### Correspondent Bank - Line of Credit

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

The Correspondent Bank Agreement provides for up to \$16 million in borrowings of which no borrowings were outstanding as of March 31, 2018. The Correspondent Bank Agreement is unsecured, currently requires a compensating balance of \$250,000 to remain on account with Zions Bank at all times, pays interest on funds on account (e.g., Fed funds sweep, compensating balance) at variable rates depending on the total deposit, and charges interest on advances at Zions Bank’s daily Fed funds rate, which is variable.

#### Senior notes

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

In connection with the issuance of the Senior notes, the Company incurred \$374,000 of costs, which are being amortized over the term of the Senior notes to recognize a constant rate of interest expense. At March 31, 2018 and December 31, 2017, \$278,000 and \$297,000 of unamortized debt issuance costs have been deducted from the face amount of the Senior notes included in the Consolidated Balance Sheet.

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

Junior subordinated debt owed to unconsolidated trust

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

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

Note Payable

In September 2015, the Bank purchased the property in which its Fairfield, Connecticut branch is located for approximately \$2.0 million, a property it had been leasing until that date. The purchase price was primarily satisfied by issuing the seller a \$2.0 million, nine-year, promissory note bearing interest at a fixed rate of 1.75% per annum. As of March 31, 2018 and December 31, 2017, the note had a balance outstanding of \$1.5 million and \$1.6 million, respectively. The note matures in August 2024 and requires a balloon payment of approximately \$234,000 at that time. The note is secured by a first Mortgage Deed and Security Agreement on the purchased property.

*Equity*

Equity increased \$856,000 from \$66.7 million at December 31, 2017 to \$67.6 million at March 31, 2018, primarily due to \$1.1 million of year-to-date net income, \$53,000 of equity compensation, which were offset by \$224,000 of investment portfolio unrealized loss and \$38,000 common stock dividend payments.

*Off-Balance Sheet Commitments*

The Company’s off-balance sheet commitments, which primarily consist of commitments to lend, increased \$4.5 million from \$117.2 million at December 31, 2017 to \$121.7 million at March 31, 2018.





**RESULTS OF OPERATIONS****Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential**

The following tables present daily average balance sheets, interest income, interest expense and the corresponding yields earned and rates paid for the three months ended March 31, 2018 and 2017:

| <i>(In thousands)</i>                     | <b>Three months ended March 31,</b> |                 |              |                |                 |              |
|---|-------------------------------------|-----------------|--------------|----------------|-----------------|--------------|
|   | <b>2018</b>                         |                 |              | <b>2017</b>    |                 |              |
|   | <b>Daily</b>                        | <b>Interest</b> | <b>Yield</b> | <b>Daily</b>   | <b>Interest</b> | <b>Yield</b> |
|   | <b>Average</b>                      | <b>(\$)</b>     | <b>(%)</b>   | <b>Average</b> | <b>(\$)</b>     | <b>(%)</b>   |
|   | <b>Balance</b>                      |                 |              | <b>Balance</b> |                 |              |
|   | <b>(\$)</b>                         |                 |              | <b>(\$)</b>    |                 |              |
| <b>ASSETS</b>                             |                                     |                 |              |                |                 |              |
| <b>Interest Earning Assets:</b>           |                                     |                 |              |                |                 |              |
| Loans                                     | \$726,688                           | 8,774           | 4.90         | 569,463        | 6,607           | 4.71         |
| Cash equivalents                          | 41,953                              | 151             | 1.46         | 36,030         | 64              | 0.72         |
| Investments                               | 37,983                              | 387             | 4.08         | 34,843         | 253             | 2.92         |
| <b>Total interest earning assets</b>      | <b>806,624</b>                      | <b>9,312</b>    | <b>4.68</b>  | <b>640,336</b> | <b>6,924</b>    | <b>4.38</b>  |
| Cash and due from banks                   | 3,897                               |                 |              | 4,515          |                 |              |
| Premised and equipment, net               | 35,466                              |                 |              | 32,881         |                 |              |
| Allowance for loan losses                 | (6,383 )                            |                 |              | (4,748 )       |                 |              |
| OREO                                      | -                                   |                 |              | 499            |                 |              |
| Other assets                              | 15,449                              |                 |              | 17,301         |                 |              |
| <b>Total Assets</b>                       | <b>\$855,053</b>                    |                 |              | <b>690,784</b> |                 |              |
| <b>Liabilities</b>                        |                                     |                 |              |                |                 |              |
| <b>Interest bearing liabilities:</b>      |                                     |                 |              |                |                 |              |
| Deposit                                   | \$571,134                           | 1,657           | 1.18         | 464,516        | 989             | 0.86         |
| Borrowings                                | 120,000                             | 257             | 0.87         | 67,437         | 78              | 0.47         |
| Senior notes                              | 11,711                              | 229             | 7.93         | 11,635         | 229             | 7.97         |
| Subordinated debt                         | 8,087                               | 99              | 4.96         | 8,248          | 85              | 4.16         |
| Note Payable                              | 1,547                               | 7               | 1.84         | 1,737          | 9               | 1.77         |
| <b>Total interest bearing liabilities</b> | <b>712,479</b>                      | <b>2,249</b>    | <b>1.28</b>  | <b>553,573</b> | <b>1,390</b>    | <b>1.02</b>  |
| Demand deposits                           | 71,540                              |                 |              | 71,055         |                 |              |
| Other liabilities                         | 3,243                               |                 |              | 2,689          |                 |              |

|   |           |         |      |
|---|-----------|---------|------|
| <b>Total Liabilities</b>                          | 787,262   | 627,317 |      |
| <b>Shareholders' equity</b>                       | 67,791    | 63,467  |      |
| <b>Total Liabilities and Shareholders' Equity</b> | \$855,053 | 690,784 |      |
| <b>Net interest income</b>                        | 7,063     | 5,534   |      |
| <b>Interest margin</b>                            |           | 3.55    | 3.50 |
| <b>Interest spread</b>                            |           | 3.40    | 3.36 |

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-bearing assets and interest-bearing liabilities for the three months ended March 31, 2018 and 2017:

| <i>(In thousands)</i>                     | <b>Three Months Ended<br/>March 31,<br/>2018 compared to<br/>2017</b> |             |              |
|---|---|-------------|--------------|
|   | <b>Increase/(Decrease)</b>  |             |              |
|   | <b>Volume</b>   | <b>Rate</b> | <b>Total</b> |
| <b>Interest Earning Assets:</b>           |   |             |              |
| Loans                                     | \$1,740   | 427         | 2,167        |
| Cash equivalents                          | 10  | 77          | 87           |
| Investments                               | 27  | 107         | 134          |
| <b>Total interest earning assets</b>      | <b>1,777</b>  | <b>611</b>  | <b>2,388</b> |
| <b>Interest bearing liabilities:</b>      |   |             |              |
| Deposit                                   | 251   | 417         | 668          |
| Borrowings                                | 68  | 111         | 179          |
| Senior notes                              | -   | -           | -            |
| Subordinated debt                         | (2 )  | 16          | 14           |
| Note payable                              | (2 )  | -           | (2 )         |
| <b>Total interest bearing liabilities</b> | <b>315</b>  | <b>544</b>  | <b>859</b>   |
| <b>Net interest income</b>                | <b>\$1,462</b>  | <b>67</b>   | <b>1,529</b> |

For the quarter ended March 31, 2018, interest income increased \$2.4 million or 34% as compared to the quarter ended March 31, 2017, as focused growth and diversification in the loan portfolio yielded an increase in interest income. Average loan balances increased \$157.2 million or 28% as compared to the quarter ended March 31, 2017. Total interest expense increased \$859,000 or 62% as compared to the quarter ended March 31, 2017, primarily driven by \$668,000 increase in interest on deposits as the result of an increase in deposit rates.

Net interest income was \$7.0 million for the quarter ended March 31, 2018, up 28% from the corresponding 2017 period, reflecting strong loan and deposit growth. Net interest margin for the quarter ended March 31, 2018 was 3.55% as compared to 3.50% for the quarter ended March 31, 2017.

#### ***Provision (Credit) for Loan Losses***

The provision for loan losses for the three months ended March 31, 2018 was \$185,000, as compared to a net credit of \$1.7 million in the first quarter of 2017. The credit for loan losses in the quarter ended March 31, 2017 was primarily attributable to a \$2.8 million insurance recovery in its Commercial and Industrial portfolio segment, which was recorded as a credit to the allowance for loan losses in the first quarter of 2017.

***Non-interest income***

Non-interest income increased \$45,000 from \$277,000 for the quarter ended March 31, 2017 to \$322,000 for the quarter ended March 31, 2018. The increase was primarily attributable to a loss of \$78,000 on sale of investment securities in the first quarter of 2017, which was partially offset by \$15,000 decreases in deposit fees and service charges, \$13,000 reduction of loan application and processing fees, and \$10,000 decrease in rental income in the first quarter of 2018.

***Non-interest expense***

Non-interest expense increased \$1.1 million from \$4.7 million for the quarter ended March 31, 2017 to \$5.8 million for the quarter ended March 31, 2018. The expenses were impacted by non-recurring project costs of \$523,000 primarily associated with the pending acquisitions, and will cease once the pending acquisitions are completed and the acquired companies fully integrated. As the Bank continues to grow its business activities, additional client facing and support team members were necessary. As such, salaries and benefits increased by \$339,000 and data processing expense increased by \$197,000. The total increase in non-interest expense was partially offset by \$80,000 decrease in professional and other outside services and \$34,000 decrease in occupancy and equipment expense.

***Provision for income taxes***

The provision for income taxes decreased \$792,000 from \$1.1 million for the quarter ended March 31, 2017 to \$344,000 for the quarter ended March 31, 2018. The decrease mainly reflected the lower pre-tax income (due to the prior year credit to the loan loss provision) and the positive impact of the change in the Federal corporate tax rate from 35% to 21% enacted in December 2017.

## Liquidity

The Company's balance sheet liquidity to total assets ratio was 9.5% at March 31, 2018 compared to 8.2% at December 31, 2017. Liquidity including readily available off balance sheet funding sources was 15.1% at March 31, 2018 compared to 15.6% at December 31, 2017. The Company's available total liquidity (readily available plus brokered deposit availability) to total assets ratio was 18.8% at March 31, 2018 compared to 18.3% at December 31, 2017.

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

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

## Capital

The following table illustrates the Company's and the Bank's regulatory capital ratios as of March 31, 2018 and December 31, 2017:

| <i>(In thousands)</i>                                  | <b>Patriot National Bancorp, Inc.</b> |              |                          |              | <b>Patriot Bank, N.A.</b> |              |                          |              |
|--|---------------------------------------|--------------|--------------------------|--------------|---------------------------|--------------|--------------------------|--------------|
|  | <b>March 31, 2018</b>                 |              | <b>December 31, 2017</b> |              | <b>March 31, 2018</b>     |              | <b>December 31, 2017</b> |              |
|  | <b>Amount</b>                         | <b>Ratio</b> | <b>Amount</b>            | <b>Ratio</b> | <b>Amount</b>             | <b>Ratio</b> | <b>Amount</b>            | <b>Ratio</b> |
|  | <b>(\$)</b>                           | <b>(%)</b>   | <b>(\$)</b>              | <b>(%)</b>   | <b>(\$)</b>               | <b>(%)</b>   | <b>(\$)</b>              | <b>(%)</b>   |
| Total Capital (to risk weighted assets)                | 79,461                                | 10.408       | 74,264                   | 10.092       | 89,306                    | 11.759       | 83,711                   | 11.406       |
| Tier 1 Capital (to risk weighted assets)               | 72,968                                | 9.558        | 67,959                   | 9.235        | 82,813                    | 10.904       | 77,407                   | 10.547       |
| Common Equity Tier 1 Capital (to risk weighted assets) | 64,968                                | 8.510        | 59,959                   | 8.148        | 82,813                    | 10.904       | 77,407                   | 10.547       |
| Tier 1 Leverage Capital (to average assets)            | 72,968                                | 8.561        | 67,959                   | 8.219        | 82,813                    | 9.722        | 77,407                   | 9.360        |

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

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

The capital buffer requirement is being phased in over three years beginning in 2016. The 1.25% capital conservation buffer for 2017 has been included in the minimum capital adequacy ratios in the 2017 column in the table above. The capital conservation buffer increased to 1.875% for 2018, which has been included in the minimum capital adequacy ratios in the 2018 column above.

The capital buffer requirement effectively raises the minimum required Total Capital ratio to 10.5%, the Tier 1 Capital ratio to 8.5%, and the CET1 Capital ratio to 7.0% on a fully phased-in basis, which will be effective beginning on January 1, 2019. Management believes that, as of March 31, 2018, Patriot satisfies all capital adequacy requirements

under the Basel III Capital Rules on a fully phased-in basis, as if all such requirements were currently in effect.

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



**IMPACT OF INFLATION AND CHANGING PRICES**

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

**Stock Repurchase Program**

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

| <b>Period Beginning</b>             | <b>Period Ending</b> | <b>No. of<br/>Shares<br/>Purchased<sup>(1)</sup></b> | <b>Average<br/>Price<br/>Paid<br/>per<br/>Share</b> | <b>No. of<br/>Shares<br/>Purchased<br/>as part of<br/>Publicly<br/>Announced<br/>Plans<sup>(1)</sup></b> | <b>Maximum<br/>No. of<br/>Shares<br/>that may<br/>yet be<br/>Purchased<br/>Under the<br/>Plans<sup>(1)</sup></b> |
|-------------------------------------|----------------------|--|---|--|--|
| August 1, 2017                      | August 31, 2017      | 100  | (1) \$ 17.10  | 0 <sup>(1)</sup>   |  |
| <b>Year ended December 31, 2017</b> |                      | 100  | <b>\$ 17.10</b>                                     |  |  |

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

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

No shares of Patriot's common stock were repurchased during the three months period ended March 31, 2018.



***Item 3: Quantitative and Qualitative Disclosures about Market Risk***

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

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

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

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

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

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

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

(In thousands)

| <b>Net Portfolio Value - Performance Summary</b> |                        |                              |                             |                                |                              |                             |
|--|------------------------|------------------------------|-----------------------------|--------------------------------|------------------------------|-----------------------------|
| <b>As of March 31, 2018</b>                      |                        |                              |                             | <b>As of December 31, 2017</b> |                              |                             |
| <b>Projected Interest Rate Scenario</b>          | <b>Estimated Value</b> | <b>Change from Base (\$)</b> | <b>Change from Base (%)</b> | <b>Estimated Value</b>         | <b>Change from Base (\$)</b> | <b>Change from Base (%)</b> |
| +200   | 91,291                 | (15,066)                     | (14.2)                      | 89,258                         | (13,440)                     | (13.1)                      |
| +100   | 99,718                 | (6,639)                      | (6.2)                       | 96,939                         | (5,758)                      | (5.6)                       |
| BASE   | 106,357                | -                            | -                           | 102,697                        | -                            | -                           |
| -100   | 109,934                | 3,577                        | 3.4                         | 105,874                        | 3,177                        | 3.1                         |
| -200   | 112,017                | 5,659                        | 5.3                         | 108,657                        | 5,959                        | 5.8                         |

| <b>Net Interest Income - Performance Summary</b> |                        |                              |                             |                                     |                              |                             |
|--|------------------------|------------------------------|-----------------------------|-------------------------------------|------------------------------|-----------------------------|
| <b>March 31, 2018</b>                            |                        |                              |                             | <b>Year ended December 31, 2017</b> |                              |                             |
| <b>Projected Interest Rate Scenario</b>          | <b>Estimated Value</b> | <b>Change from Base (\$)</b> | <b>Change from Base (%)</b> | <b>Estimated Value</b>              | <b>Change from Base (\$)</b> | <b>Change from Base (%)</b> |
| +200   | 27,169                 | (942)                        | (3.4)                       | 27,936                              | (937)                        | (3.2)                       |
| +100   | 27,593                 | (518)                        | (1.8)                       | 28,454                              | (420)                        | (1.5)                       |
| BASE   | 28,111                 | -                            | -                           | 28,873                              | -                            | -                           |
| -100   | 28,097                 | (14)                         | (0.0)                       | 28,830                              | (43)                         | (0.2)                       |
| -200   | 28,167                 | 56                           | 0.2                         | 29,271                              | 398                          | 1.4                         |

***Item 4: Disclosure Controls and Procedures***

The Bank maintains disclosure controls and procedures that are designed to provide reasonable assurance that information, which is required to be disclosed timely, is accumulated and communicated to management in a timely fashion. In designing and evaluating such controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management is necessarily required to use judgment in evaluating controls and procedures.

An evaluation of the effectiveness of the Company's disclosure controls and procedures was performed by the Company's management, with the participation of the Company's Chief Executive Officer and its Chief Financial Officer, as of the end of the period covered by this report. As used herein, "disclosure controls and procedures" means controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation, the aforementioned officers concluded that, as of March 31, 2018, the Company's disclosure controls and procedures were effective.

**Internal Control over Financial Reporting**

There were no changes in the Company's internal controls over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **PART II - OTHER INFORMATION**

### ***Item 1: Legal Proceedings***

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

### ***Item 1A: Risk Factors***

During the three months ended March 31, 2018, there were no material changes to the risk factors relevant to the Company's operations, which are described in the Annual Report on Form 10-K for the year ended December 31, 2017.

**Item 6: Exhibits**

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

No. Description

- 3(i) Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp Inc. (incorporated by reference to Exhibit 3.1 to the Company's current report Form 8-K dated October 21, 2010)  
(C)
- 3(ii) Amended and Restated By-laws of Bancorp (incorporated by reference to Exhibit 3(ii) to the Company's Current Report on Form 8-K dated November 1, 2010 (Commission File No. 000-29599))
- 10(a) 2012 Stock Plan of Bancorp (incorporated by reference from Annex A to the Proxy Statement on Form 14C  
(2) filed November 1, 2011)
- 10(a) Amended Financial Services Agreement. (incorporated by reference to Exhibit 10(a) (20) to the Company's  
(20) Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (Commission File No. 000-29599)
- 10(a) Agreement and Plan of Merger by and among Patriot National Bancorp, Inc., Patriot Bank, National  
(21) Association, Prime Bank and Jasper J. Jaser, as stockholders' representative, dated as of August 1, 2017  
(21) (incorporated by reference to Exhibit 10(a) (21) to the Company's Quarterly Report on Form 10-Q for the  
quarter ended June 30, 2017)
- 10(a) Asset Purchase Agreement by and between Hana Small Business Lending, Inc.; Hana ABS 2014-1, LLC;  
(22) Hana Investment, LLC and Patriot Bank, N.A., dated as of February 2, 2018 (incorporated by reference to  
Exhibit 10(a) (26) to the Company's Annual Report on Form 10-K for the year ended December 31, 2017).
- 14 Code of Conduct for Senior Financial Officers (incorporated by reference to Exhibit 14 to the Company's Annual  
Report on Form 10 -KSB for the year ended December 31, 2004 (Commission File No. 000-29599))
- 21 Subsidiaries of Bancorp
- 31(1) Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31(2) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer



32 Section 1350 Certifications

101.INS#XBRL Instance Document

101.SCH#XBRL Schema Document

101.CAL#XBRL Calculation Linkbase Document

101.LAB#XBRL Labels Linkbase Document

101.PRE#XBRL Presentation Linkbase Document

101.DEF#XBRL Definition Linkbase Document

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

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 14, 2018

Patriot National Bancorp, Inc. (Registrant)

By: /s/ Joseph D. Perillo  
Joseph D. Perillo  
Executive Vice President and Chief  
Financial Officer