PATRIOT NATIONAL BANCORP INC
Form 10-K
April 01, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

OR

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

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

(203) 324-7500

(Registrant's telephone number, including area code)

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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

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

As of June 30, 2018, the aggregate market value of the voting stock held by non-affiliates of the registrant based on the last sale price on June 30, 2018 as reported on the NASDAQ Global Market: $26.5 million.

Number of shares of the registrant's Common stock, $0.01 par value per share, 3,918,910 shares outstanding as of March 20, 2019.

Document Incorporated by Reference

Portions of a definitive proxy or Information statement relating to the registrant's Annual Meeting of Shareholders to be held in 2019, which will be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Form 10-K, are incorporated into Part III of this Form 10-K.

PATRIOT NATIONAL BANCORP, INC.

2018 FORM 10-K ANNUAL REPORT

For the Year Ended December 31, 2018

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

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

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

PART I

ITEM 1. Business

General

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

On March 11, 2003, the Company formed Patriot National Statutory Trust I (the “Trust”) for the sole purpose of issuing trust preferred securities and investing the proceeds in subordinated debentures issued by the Company. The Company primarily invested the funds from the issuance of the debt in the Bank. The Bank used the proceeds to fund general operations.

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

As of the date hereof, the only business of the Company is its ownership of all of the issued and outstanding capital stock of the Bank and the Trust. Except as specifically noted otherwise herein, the balance of the description of the Company’s business is a description of the Bank’s business.

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

On September 28, 2015, the Bank changed its name from Patriot National Bank to Patriot Bank, N.A.

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

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

The Bedford branch was closed on February 28, 2018 and its business and staff transferred to the Scarsdale branch.

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

Business Operations

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

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

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

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

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

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

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

Patriot became an approved SBA lender at the end of 2017 and was designated a “preferred lender” by the SBA earlier in this year, enabling it to approve loans to small businesses and entrepreneurs more quickly and efficiently. In 2018, Patriot hired people to support new SBA business development in Stamford, Connecticut, Jacksonville, Florida, Atlanta, Georgia, and Indianapolis, Indiana.

Employees

As of December 31, 2018, Patriot had 118 full-time equivalent employees. None of Patriot's employees are covered by a collective bargaining agreement.

Competition

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

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

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

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

Supervision and Regulation

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

Under the BHC, the Company is required to file semi-annual reports of its operations with the Fed for the period ended June 30 and for the year ended December 31. Patriot and any of its subsidiaries are subject to examination by the Fed. In addition, the Company will be required to obtain the prior approval of the Fed to acquire, with certain exceptions, more than 5% of the outstanding voting stock of any bank or bank holding company, to acquire all or substantially all of the assets of a bank, or to merge or consolidate with another bank holding company. Moreover, Patriot and any of its subsidiaries are prohibited from engaging in certain tying arrangements, in connection with any extension of credit or provision of any property or services. The Bank is also subject to certain restrictions imposed by the Federal Reserve Act on issuing any extension of credit to the Company or any of its subsidiaries, or making any investments in the stock or other securities thereof, and on the taking of such stock or securities as collateral for loans to any borrower. If the Company wants to engage in businesses permitted to financial holding companies, but not to bank holding companies, it would need to register with the Fed as a financial holding company.

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

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

The Company is subject to capital adequacy rules and guidelines issued by the Fed and the FDIC and the Bank is subject to capital adequacy rules and guidelines issued by the OCC. These substantially identical rules and guidelines require Patriot to maintain certain minimum ratios of capital to adjusted total assets and/or risk-weighted assets. Under the provisions of the FDIC Improvements Act of 1991, the federal regulatory agencies are required to implement and enforce these rules in a stringent manner. The Company is also subject to applicable provisions of Connecticut law, insofar as they do not conflict with, or are not otherwise preempted by, federal banking law. Patriot's operations are subject to regulation, supervision, and examination by the FDIC and the OCC.

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

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

The earnings and growth of Patriot and the banking industry in general are affected by the monetary and fiscal policies of the United States ("U.S.") government and its agencies, particularly the Fed. The Open Market Committee of the Fed implements national monetary policy to curb inflation and combat recession. The Fed uses its power to adjust interest rates on U.S. government securities, the discount rate, and deposit reserve retention rates. The actions of the Fed influence the growth of bank loans, investments, and deposits. They also affect interest rates charged on loans and paid on deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

In addition to other laws and regulations, Patriot is subject to the Community Reinvestment Act ("CRA"), which requires the federal bank regulatory agencies, when considering certain applications involving Patriot, to consider Patriot's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA was originally enacted because of concern over unfair treatment of prospective borrowers by banks and unwarranted geographic differences in lending patterns. Existing banks have sought to comply with the CRA in various ways; some banks have made use of more flexible lending criteria for certain types of loans and borrowers (consistent with the requirement to conduct safe and sound operations), while other banks have increased their efforts to make loans to help meet identified credit needs within the consumer community, such as those for home mortgages, home improvements, and small business loans. Compliance may also include participation in various government insured lending programs, such as Federal Housing Administration insured or Veterans Administration guaranteed mortgage loans, Small Business Administration loans, and participation in other types of lending programs such as high loan-to-value ratio conventional mortgage loans with private mortgage insurance. To date, the market area from which the Bank draws much of its business is in the towns and cities in which the Bank has branch offices, which are characterized by a very diverse ethnic, economic and racial cross-section of the population. As the Bank expands further, the market areas served by the Bank will continue to evolve. The Company and the Bank have not and will not adopt any policies or practices, which discourage credit applications from, or unlawfully discriminate against, individuals or segments of the communities served by the Bank.

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

The Company is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance with the Exchange Act, files periodic reports, proxy statements, and other information with the SEC.

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

Recent Legislative Developments

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

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

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

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

Recent Developments with Regulators

In November 2018 the Bank entered into a formal written agreement (the "Agreement") with the Office of the OCC. The Agreement states that by December 31, 2018 the Board and the Bank would develop, implement and revise written documents and policies related to executive compensation, conflict of interest, internal audit, liquidity and asset/liability management, commercial loan administration, leveraged lending, practices relating to the Allowance for Loan Losses, and assumptions used in the Bank's interest rate risk model. Under the Agreement the Bank has also agreed to provide a revised written 3-year strategic and capital plan for the Bank by December 31, 2018. The Bank has provided the documents and policies requested in the Agreement and awaits further assessment by the OCC.

On October 29, 2018, the Company withdrew its initial application to the OCC requesting approval of the acquisition of Hana Small Business Lending, Inc. ("Hana SBL") pursuant to a purchase agreement entered into on February 6, 2018 and amended on August 2, 2018. As of March 30, 2019, the Company has not received regulatory non-objection.

On March 30, 2019 the Company and Hana SBL mutually agreed to terminate the purchase agreement between the parties. The termination agreement provides for the release of escrowed funds back to the Company.

Available Information

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

ITEM 1A. Risk Factors

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

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

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

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

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

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

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

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

Increases in:

- Loan delinquencies;
- Problem assets and foreclosures; or

Decreases in:

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

During the years 2007 through 2009, the general economic conditions and specific business conditions in the United States, including Fairfield County, Connecticut and the New York metropolitan area deteriorated, resulting in increases in loan delinquencies, problem assets and foreclosures, and declines in the value and collateral associated with the Bank’s loans.

During 2010 through 2018, however, the economic climate improved, contributing to decreases in the Bank’s problem assets, delinquencies and foreclosures from the levels experienced in the earlier period of economic turbulence. The Company is unable to predict, however, future economic conditions and their impact on the Company’s business.

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

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

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

Patriot is subject to certain risks with respect to liquidity.

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

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

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

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

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

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

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

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

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

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

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

On June 29, 2018, the Company entered into certain subordinated note purchase agreements with two institutional accredited investors and completed a private placement of $10 million of fixed-to-floating rate subordinated notes with the maturity date of September 30, 2028 pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506(b) of Regulation D promulgated thereunder. Proceeds of $7.8 million were directly contributed to the Bank. The subordinated debt qualifies for Tier 2 Capital of the Company and the funds contributed to the Bank qualify as Tier 1 capital at the Bank.

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

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

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

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

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

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

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

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

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

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

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

- Operating results that vary from the expectations of securities analysts and investors;
- Developments in its business or in the financial services sector in-general;
- Regulatory or legislative changes affecting its business or the financial services sector in-general;
- Operating results or securities price performance of companies that investors consider being comparable to the Company;
- Changes in estimates or recommendations by securities analysts or rating agencies;

Announcements of strategic developments, acquisitions, dispositions, financings, and other material events by the Company or the Company's competitors; and

Changes or volatility in global financial markets and economies, general market conditions, interest or foreign exchange rates, stock, commodity, credit, or asset valuations.

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

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

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

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

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

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

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

Patriot is subject to risks associated with taxation.

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

Risks associated with changes in technology.

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

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

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

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

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

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

Changing regulation of corporate governance and public disclosure.

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

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

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

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

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

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

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

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The following table summarizes Patriot's owned and leased properties, as of December 31, 2018:

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

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

On May 10, 2018 the Bank completed its acquisition of Prime Bank. The closing of the transaction added a new Patriot branch located in the Town of Orange, New Haven County, Connecticut.

On February 28, 2018, the Bedford branch was closed and its business and staff transferred to the Scarsdale branch.

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

In 2014, the Bank purchased two new buildings, which now house the Milford branch and Darien branch.

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

In 2013, the Bank purchased its Greenwich branch building.

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

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

ITEM 3. Legal Proceedings

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

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

The Company’s Common Stock is traded on the Nasdaq Global Market under the Symbol “PNBK.”

Holders

There were approximately 313 shareholders of record of the Company’s Common Stock as of December 31, 2018. This number does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms or other nominees.

Dividends

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

On July 17, 2017, the Company announced its intention to make quarterly cash dividend payments. For the year ended December 31, 2018 and 2017, the Company paid cash dividends of $154,000 and $77,000, respectively.

Recent Sales of Unregistered Securities

On June 29, 2018, the Company entered into certain subordinated note purchase agreements with two institutional accredited investors and completed a private placement of $10 million of fixed-to-floating rate subordinated notes with the maturity date of September 30, 2028 (the “Subordinated Notes”) pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506(b) of Regulation D promulgated thereunder.

The Subordinated Notes will initially bear interest at 6.25% per annum, from and including June 29, 2018, to but excluding, June 30, 2023, payable semi-annually in arrears. From and including June 30, 2023, until but excluding June 30, 2028 or an early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month LIBOR (but not less than zero) plus 332.5 basis points, payable quarterly in arrears. The Company may, at its option, beginning on June 30, 2023 and on any scheduled interest payment date thereafter, redeem the Subordinated Notes. Interest on the Subordinated Notes is payable beginning on December 30, 2018.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Performance Graph

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

	Period Ending					
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Patriot National Bancorp ("PNBK")	100.00%	157.88%	139.90%	135.10%	171.63%	137.02%
Nasdaq Community Bank Index Total Return Index ("XABQ")	100.00%	104.66%	114.65%	159.10%	163.19%	138.83%
S&P 500 Total Return Index ("SP500TR")	100.00%	113.69%	115.26%	129.05%	157.22%	150.33%

ITEM 6. Selected Financial Data

(In thousands, except per share data)

	As of and for the year ended December 31, 2018	2017	2016	2015	2014
Balance Sheet Data:					
Cash and due from banks	$66,437	48,729	92,289	85,400	73,258
Investment securities	52,253	38,929	36,596	42,472	46,818
Loans, net	772,767	713,350	576,982	479,127	471,984
Total assets	951,696	852,080	756,654	653,355	632,443
Total deposits	743,281	637,439	529,324	444,665	440,889
Total borrowings	130,983	141,369	159,476	142,026	128,066
Total shareholders' equity	69,340	66,749	62,570	61,464	58,735
Operating Data:					
Interest and dividend income	$40,375	32,849	25,408	23,741	20,368
Interest expense	12,378	6,956	3,008	2,690	2,970
Net interest income	27,997	25,893	22,400	21,051	17,398
Provision (credit) for loan losses	1,303	(857)	2,464	250	-
Non-interest income	1,627	1,444	1,556	1,551	1,832
Non-interest expense	24,235	21,172	18,355	18,851	18,271
Provision (benefit) for income taxes	890	2,875	1,207	1,358	(14,750)
Net income	$3,196	4,147	1,930	2,143	15,709
Per Share Data:					
Basic income per share	$0.82	1.06	0.49	0.55	4.08 (1)
Diluted income per share	$0.82	1.06	0.49	0.55	4.05 (1)
Selected Ratios:					
Return on average assets	0.35 %	0.54 %	0.30 %	0.34 %	2.81 %
Return on average equity	4.64 %	6.32 %	3.08 %	3.55 %	32.94 %
Average equity to average assets	7.63 %	8.48 %	9.83 %	9.65 %	8.53 %

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

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

Critical Accounting Policies

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

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

Allowance for Loan and Lease Losses (ALLL)

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

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

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Unrealized Gains and Losses on Securities Available-for-sale

The Company receives estimated fair values of debt securities from independent valuation services and brokers. In developing these fair values, the valuation services and brokers use estimates of cash flows based on historical performance of similar instruments in similar rate environments. Available-for-sale debt securities consist primarily of mortgage-backed securities that are guaranteed by the U.S. government. The Company uses various indicators in determining whether a security is other-than-temporarily impaired including, for debt securities, when it is probable that the contractual interest and principal will not be collected, or for equity securities, whether the market value is below its cost for an extended period of time with low expectation of recovery. The debt securities are monitored for changes in credit ratings because adverse changes in credit ratings could indicate a change in the estimated cash flows of the underlying collateral or issuer. For marketable equity securities, the Company considers the issuer's financial condition, capital strength, and near term prospects to determine whether impairment is temporary or other-than-temporary. The Company also considers the volatility of a security's price in comparison to the market as a whole and any recoveries or declines in fair value subsequent to the balance sheet date. If management determines that the impairment is other-than-temporary, the entire amount of the impairment, as of the balance sheet date, is recognized in earnings, even if the decision to sell the security has not been made. The fair value of the security becomes the new amortized cost basis of the investment and is not adjusted for subsequent recoveries in fair value. Available-for-sale debt securities were not considered to be other-than-temporarily impaired as of December 31, 2018, 2017, or 2016 because the unrealized losses were related to changes in interest rates and did not affect the expected cash flows to be received, or indicate a loss of value on the underlying collateral, or a loss of financial stability on the part of the issuer. Management concluded that the declines in fair value of the investment portfolio as of the reporting dates is temporary and that values would recover by way of increases in market price or positive changes in market interest rates.

Deferred Income Taxes

The Company provides for deferred income taxes on the asset and liability approach, whereby a deferred tax liability or asset is recognized for the estimated future tax effect attributable to temporary differences or carryforwards. Temporary differences are the differences between the reported amounts of assets and liabilities in the financial statements and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Business Combinations

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

FINANCIAL CONDITION

Assets

The Company's total assets increased $99.6 million, or 11.7%, from $852.1 million at December 31, 2017 to $951.7 million at December 31, 2018. The growth in assets is primarily attributable to management's efforts to increase the amount and quality of its loan portfolio through its loan origination activities and by investing in quality loan pools, primarily funded through a growth in deposits.

Following is a detailed discussion and analysis of events and transactions during the years ended December 31, 2018 and 2017 and the impacts that have been realized with respect to Patriot's financial position.

Cash and cash equivalents

Cash and cash equivalents have increased $17.7 million or 36.3%, from $48.7 million at December 31, 2017 to $66.4 million as of December 31, 2018. The net cash provided primarily due to a $59.7 million increase in deposits, and $37.0 million of proceeds from maturity or sales on available-for-sale securities, and $5.6 million in net cash provided by operations during the period. The cash inflows were partially offset by funding of $47.1 million in purchases of loans and $18.6 million in purchases of available-for-sale securities, and $29.8 million in repayments of FHLB and correspondent bank borrowing.

Investment securities

Patriot's investment security portfolio has increased $13.9 million or 45.6% from $30.5 million at December 31, 2017 to $44.4 million at December 31, 2018.

The total investment among the existing investment security classes, consisting of U.S. Treasury notes, U.S. Government agency mortgage-backed securities, corporate bonds, subordinated notes, and other investments. This increase was primarily attributable to purchases of $15.6 million of U.S. Government agency mortgage-backed securities and $3.0 million U.S. Treasury notes, which was offset by $2.3 million principal repayments on Government agency mortgage-backed securities, $1.5 million proceeds from maturity of U.S. Treasury notes, and $860,000 change in unrealized losses on the available-for-sale securities. In 2018, the Company sold $35.5 million securities acquired in the Prime Bank transaction, which were sold at the fair value at the acquisition date with no recorded gain or loss.

Loans receivable, net

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

(In thousands)	**December 31, 2018**		**2017**		**2016**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Loan portfolio segment:						
Commercial Real Estate	$274,938	35.23 %	299,925	41.68 %	271,229	46.63 %
Residential Real Estate	157,300	20.16 %	146,377	20.34 %	86,514	14.87 %
Commercial and Industrial	191,852	24.58 %	131,161	18.23 %	60,977	10.48 %
Consumer and Other	94,569	12.12 %	87,707	12.19 %	101,449	17.44 %
Construction	46,040	5.90 %	47,619	6.62 %	53,895	9.27 %
Construction to permanent - CRE	15,677	2.01 %	6,858	0.94 %	7,593	1.31 %
Loans receivable, gross	780,376	100.00%	719,647	100.00%	581,657	100.00%
Allowance for loan and lease losses	(7,609)		(6,297)		(4,675)	
Loans receivable, net	$772,767		713,350		576,982	

The total loans receivable increased $60.8 million or 8.4%, from $719.6 million at December 31, 2017 to $780.4 million at December 31, 2018. The increase in loans receivable included purchases of $21.4 million education loans and $25.6 million of residential real estate loans. In addition, loans totaling $21.6 million were acquired from Prime Bank. Excluding the loan purchases and acquisitions, net loans receivable decreased $5.3 million. The Company continued to demonstrate impressive trajectory in its core competency of loan originations, with approximately $230 million in new loans funded and committed in 2018. As of December 31, 2018, the loan pipeline was strong, and management expects continued growth. The Company will continue to add to the product lines and enhance service offerings to the customers.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents loans receivable, gross by portfolio segment, by contractual maturity as of December 31, 2018:

	Contractual Maturity of Loan Balance			
(In thousands)	**One year or less**	**One through Five Years**	**After Five Years**	**Total**
Loan portfolio segment:				
Commercial Real Estate	$47,086	51,138	176,714	274,938
Residential Real Estate	-	9,947	147,353	157,300
Commercial and Industrial	44,776	58,885	88,191	191,852
Consumer and Other	294	5,344	88,931	94,569
Construction	41,427	4,613	-	46,040
Construction to permanent - CRE	-	-	15,677	15,677
Total	$133,583	129,927	516,866	780,376
Fixed rate loans	$33,435	54,942	137,020	225,397
Variable rate loans	100,148	74,985	379,846	554,979
Total	$133,583	129,927	516,866	780,376

Approximately 37.5% of the loan portfolio is variable rate and reprices with changes in interest rates within three months of the rate change. The balance of the loan portfolio is either fixed rate or variable over a longer period of rate change (for example, adjustable rate mortgage loans are generally fixed for 3-5 years and then reprice annually after the fixed period).

All variable rate loans account for 71.1% of the total loan portfolio, which is attractive to the Bank in a period of increasing interest rates.

As a community bank, the Bank is invested in a thriving, robust local economy, which may be subject to the vagaries of general economic conditions. The existing conditions have led an investment in the loan portfolio weighted to Commercial Real Estate and Commercial and Industrial, which accounts for 59.8% of total loans receivable. These loans generally are collateralized by the underlying real estate and supported by personal guarantees of the borrowers.

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Allowance for Loan and Lease Losses

The allowance for loan and lease losses increased $1.3 million from $6.3 million at December 31, 2017 to $7.6 million at December 31, 2018. The increase was primarily attributable to $1.0 million provision booked in December 2018, that was associated with one loan stemming from operating cash flow weakness and a collateral shortfall.

Based upon the overall assessment and evaluation of the loan portfolio at December 31, 2018, management believes the allowance for loan and lease losses of $7.6 million, which represents 0.98% 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 and lease losses:

(In thousands)	**2018**	**2017**	**2016**
Balance at beginning of the period	$6,297	4,675	5,242
Charge-offs:			
Commercial Real Estate	-	-	-
Residential Real Estate	(2)	-	(190)
Commercial and Industrial	-	(265)	(2,977)
Consumer and Other	(33)	(39)	(13)
Construction	-	-	-
Construction to permanent - CRE	-	-	-
Total charge-offs	(35)	(304)	(3,180)
Recoveries:			
Commercial Real Estate	7	10	80
Residential Real Estate	2	-	1
Commercial and Industrial	34	2,769	66
Consumer and Other	1	4	2
Construction	-	-	-
Construction to permanent - CRE	-	-	-
Total recoveries	44	2,783	149
Net (recoveries) charge-offs	(9)	(2,479)	3,031
Provision (credit) charged to earnings	1,303	(857)	2,464
Balance at end of the period	$7,609	6,297	4,675
Ratios:			
Net (recoveries) charge-offs to average loans	(0.001)%	(0.370)%	0.580 %
Allowance for loan and lease losses to total loans	0.975 %	0.875 %	0.810 %

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

(In thousands)	**2018 Allowance for loan losses**	**% of loans**	**2017 Allowance for loan losses**	**% of loans**	**2016 Allowance for loan losses**	**% of loans**
Commercial Real Estate	$1,866	35.23 %	2,212	41.68 %	1,853	46.63 %
Residential Real Estate	1,059	20.16 %	959	20.34 %	534	14.87 %
Commercial and Industrial	3,558	24.58 %	2,023	18.23 %	740	10.48 %
Consumer and Other	641	12.12 %	568	12.19 %	641	17.44 %
Construction	350	5.90 %	481	6.62 %	712	9.27 %
Construction to permanent - CRE	108	2.01 %	54	0.94 %	69	1.31 %
Unallocated	27	N/A	-	N/A	126	N/A
Total	$7,609	100.00%	6,297	100.00%	4,675	100.00%

Nonperforming Assets

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

(In thousands)	**December 31, 2018**	**2017**	**2016**
Non-accruing loans:			
Commercial Real Estate	$3,525	-	-
Residential Real Estate	2,006	3,028	1,590
Commercial and Industrial	4,681	748	231
Consumer and Other	174	2	-
Construction	8,800	-	-
Total non-accruing loans	19,186	3,778	1,821
Loans past due over 90 days and still accruing	1,316	1,356	1,452
Other real estate owned	2,945	-	851
Total nonperforming assets	$23,447	5,134	4,124
Nonperforming assets to total assets	2.46 %	0.60 %	0.55 %
Nonperforming loans to total loans	2.65 %	0.72 %	0.71 %

Non-accrual loans increased $15.4 million, from $3.8 million at December 31, 2017 to $19.2 million at December 31, 2018. The $19.2 million of non-accrual loans at December 31, 2018 is comprised of 23 relationships, for which a specific reserve of $1.5 million has been established. The $3.8 million of non-accrual loans at December 31, 2017 is comprised of eight relationships, for which a specific reserve of $253,000 has been established.

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

Premises and equipment

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

During the year ended December 31, 2018, construction-in-process decreased approximately $2.1 million or 94.9%. Reduction of the construction-in-process was primarily impacted by the completion of the renovation and build-out of a new branch location in Westport, CT located at 50 Charles Street.

Other Real Estate Owned (“OREO”)

As of December 31, 2018 and 2017, Patriot recorded OREO of $2.9 million and $0 on the Consolidated Balance Sheet, respectively. The 2018 OREO balance consists of two properties, $1.0 million was acquired from the acquisition of Prime Bank in May 2018, and the additional $1.9 million represents the value of one loan receivable due from the mortgagor of a foreclosed residential property that is currently being marketed for sale. No OREO property was sold in 2018. In 2017, Patriot sold the OREO recorded in 2016 and recognized a loss of $9,000.

Deferred Taxes

As of December 31, 2018, Patriot has available approximately $19.6 million of Federal net operating loss carryforwards (“NOL”) that is offset by $15.5 million in §382 limitations imposed by the Internal Revenue Code. The $4.1 million of Federal NOLs are available to offset Patriot’s taxable income for periods up to and through 2032, as these NOLs expire on various dates beginning in 2029.

In 2018, the Bank recorded an uncertain tax position (“UTP”) of $1.1 million related to the utilization of certain federal net operating losses. At December 31, 2017, there were no uncertain tax positions recognized in the Consolidated Financial Statements.

Additionally, Patriot has approximately $51.6 million of NOLs available for Connecticut tax purposes, which may be used to offset up to 50% of taxable income in any year. The NOLs have an approximate fourteen year life.

As of December 31, 2018, Patriot had a $10.9 million deferred tax asset, comprised of multiple temporary differences, in addition to the previously aforementioned NOLs, which management believes will be fully realized in the future. The assessment of the potential realizability of the deferred tax assets is based on observation of the condition and future of the Bank, including:

- Favorable financial performance over the past three years;
- Forecasted taxable income for 2019 and future periods;
- The growth in loan originations and the overall quality of the loan portfolio;
- Improvements in operations and cost management; and
- Net operating loss carry-forwards that do not begin to expire until 2029.

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

Deposits

Total deposits increased by $105.8 million or 16.6%, from $637.4 million at December 31, 2017 to $743.3 million at December 31, 2018. The increase included a $45.5 million increase in brokered deposits and a $41.9 million increase in listed time deposits as the Bank utilizes these wholesale funding sources to support growth in its loan portfolio. In addition, $46.2 million of the increase came from the purchase of Prime Bank, which partially offsets a $54.1 million decrease in savings accounts.

Changes in all the deposit accounts may be summarized as:

$68.6 million or 100+% increase in money market deposits
$45.5 million or 32.9% increase in brokered deposits;
$41.9 million or 17.5% increase in time certificates of deposits, which included listed time deposits;
$3.3 million or 4.0% increase in non-interest bearing deposits;
$624,000 or 2.4% increase in NOW accounts; and
$54.1 million or 39.8% decrease in Savings accounts.

Borrowings

Total borrowings declined by $10.4 million or 7.4%, from $141.4 million at December 31, 2017 to $131.0 million at December 31, 2018. Borrowings consist of Federal Home Loan Bank ("FHLB") advances, senior notes, junior subordinated debentures, and a note payable to the seller from whom the Fairfield branch building was purchased in 2015.

FHLB advances decreased by $20.0 million or 16.7% at December 31, 2018 compared to 2017, which decrease is primarily attributable to the decision to fund balance sheet growth at slightly lower rates in the brokered deposit market. The Bank maintains strong standing with the FHLB and its "Well Capitalized" designation with the FDIC, as provided below.

On June 29, 2018, the Company entered into certain subordinated note purchase agreements with two institutional accredited investors and completed a private placement of $10 million of fixed-to-floating rate subordinated notes with the maturity date of September 30, 2028 pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506(b) of Regulation D promulgated thereunder. Proceeds of $7.8 million was directly contributed to the Bank. The subordinated debt qualifies for Tier 2 Capital of the Company and the funds contributed to the Bank qualify as Tier 1 capital at the Bank.

Shareholders' Equity

Equity increased $2.6 million from $66.7 million at December 31, 2017 to $69.3 million at December 31, 2018, primarily due to $3.2 million of year-to-date net income, $220,000 of equity compensation, which were offset by $671,000 of investment portfolio unrealized loss and $154,000 common stock dividend payments.

Derivatives

In 2018, Patriot entered into two interest rate swaps ("swaps"), one with a loan customer to provide a facility to mitigate the fluctuations in the variable rate on the respective loan. The customer swap is matched in offsetting terms to another swap that Patriot entered with an outside third party. These two swaps are reported at fair value in other assets or other liabilities. Patriot's swaps qualify as derivatives, but are not designated as hedging instruments, thus any net gain or loss resulting from changes in the fair value is recognized in other noninterest income. A net gain of $98,000 was recognized on the swaps for the year ended December 31, 2018, resulting from one nonperiodic payment to Patriot from the outside third party.

Further discussion of the final derivatives is set forth in Note 19 to the Consolidated Financial Statements.

Average Balances

The following table presents daily average balance sheets, interest income, interest expense and the corresponding yields earned and rates paid for each of the years in the three-year period ended December 31, 2018.

(In thousands)	**Year ended December 31, 2018**			**2017**			**2016**		
	Daily Average Balance ($)	**Interest ($)**	**Yield (%)**	**Daily Average Balance ($)**	**Interest ($)**	**Yield (%)**	**Daily Average Balance ($)**	**Interest ($)**	**Yield (%)**
ASSETS									
Interest Earning Assets:									
Loans	$748,260	37,546	5.02	662,299	31,270	4.72	522,021	24,391	4.67
Investments	45,514	1,796	3.95	38,527	1,365	3.54	37,583	897	2.39
Cash equivalents and other	56,126	1,033	1.84	22,970	214	0.93	33,411	120	0.36
Total interest earning assets	849,900	40,375	4.75	723,796	32,849	4.54	593,015	25,408	4.28
Cash and due from banks	5,080			3,966			3,525		
Allowance for loan and lease losses	(6,507)			(5,734)			(6,238)		
OREO	748			840			499		
Other assets	53,999			50,434			47,501		
Total Assets	$903,220			773,302			638,302		
Liabilities									
Interest bearing liabilities:									
Time certificates	$266,902	4,274	1.60	238,056	2,787	1.17	156,638	1,103	0.70
Savings accounts	117,196	995	0.85	143,711	1,160	0.81	127,238	778	0.61
Money market accounts	40,792	549	1.35	14,488	5	0.04	17,989	7	0.04
NOW accounts	24,197	15	0.06	25,088	7	0.03	26,559	8	0.03
Broker deposits	166,994	3,191	1.91	79,610	989	1.24	47,950	346	0.72
Borrowings	108,108	1,634	1.51	107,554	702	0.65	110,319	371	0.34
Senior notes	11,739	915	7.79	11,664	915	7.84	319	25	7.84
Subordinated debt	13,060	767	5.87	8,204	360	4.39	8,248	334	4.05
Note Payable and other	2,037	38	1.87	1,788	31	1.75	1,852	36	1.94
Total interest bearing liabilities	751,025	12,378	1.65	630,163	6,956	1.10	497,112	3,008	0.60
Demand deposits	78,765			75,177			75,311		
Other liabilities	4,545			2,393			3,127		

Total Liabilities	834,335		707,733		575,550	
Shareholders' equity	68,885		65,569		62,752	
Total Liabilities and Shareholders' Equity	$903,220		773,302		638,302	
Net interest income		27,997		25,893		22,400
Interest margin		3.29		3.58		3.78
Interest spread		3.10		3.44		3.68

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The following table presents the change in interest-earning assets and interest-bearing liabilities by major category and the related change in the interest income earned and interest expense incurred thereon attributable to the change in transactional volume in the financial instruments and the rates of interest applicable thereto, comparing the years ended December 31, 2018 to 2017 and December 31, 2017 to 2016.

(In thousands)	**Year ended December 31, 2018 compared to 2017 Increase/(Decrease)**				**2017 compared to 2016 Increase/(Decrease)**			
	Daily Average Balance	**Volume**	**Rate**	**Total**	**Daily Average Balance**	**Volume**	**Rate**	**Total**
Interest Earning Assets:								
Loans	$85,961	4,148	2,128	6,276	$140,278	6,169	710	6,879
Investments	6,987	246	185	431	944	2	466	468
Cash equivalents and other	33,156	305	514	819	(10,441)	(36)	130	94
Total interest earning assets	126,104	4,699	2,827	7,526	130,781	6,135	1,306	7,441
Interest bearing liabilities:								
Time certificates	28,846	734	753	1,487	81,418	572	1,112	1,684
Savings accounts	(26,515)	(215)	50	(165)	16,473	100	282	382
Money market accounts	26,304	10	534	544	(3,501)	(2)	-	(2)
NOW accounts	(891)	-	8	8	(1,471)	(1)	-	(1)
Broker deposits	87,384	1,085	1,117	2,202	31,660	229	414	643
Borrowings	554	4	928	932	(2,765)	(6)	337	331
Senior notes	75	-	-	-	11,345	890	-	890
Subordinated debt	4,856	213	194	407	(44)	(2)	28	26
Note payable and other	249	3	4	7	(64)	(5)	-	(5)
Total interest bearing liabilities	120,862	1,438	3,984	5,422	133,051	1,775	2,173	3,948
Net interest income	$5,242	3,261	(1,157)	2,104	$(2,270)	4,360	(867)	3,493

RESULTS OF OPERATIONS

Comparison of Results of Operations for the years 2018 and 2017

For the year ended December 31, 2018, the Company recorded net income of $3.2 million ($0.82 per share) compared to a net income of $4.1 million ($1.06 per share) for the year ended December 31, 2017.

Income before tax expense was $4.1 million compared to 2017's income before income tax expense of $7.0 million. Highlights include:

- Interest and dividend income increased $7.5 million;
- Net interest income increased $2.1 million;
- Provision for loan losses increased $2.2 million; and
- Non-interest expense increased $3.0 million.

The 2018 net income is not comparable to the same period in the prior year due to a $2.8 million credit recovery that was recognized in the first quarter of 2017 and $2.1 million of non-recurring acquisition-related expenses recognized in 2018.

Net interest income

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

Net interest income for the years ended December 31, 2018 and 2017 was $28.0 million and $25.9 million, respectively. The increase of $2.1 million in 2018 over the previous year was the result of focused growth and diversification in the loan portfolio which yielded an increase in interest income. Average loan balances increased $86.0 million in 2018 as compared to 2017. Average yields on loans increased slightly from 4.72% in 2017 to 5.02% in 2018.

As loans continued to grow in 2018, so did the need to increase the Bank's deposit base and liquidity sources. Since the second half of 2016, the Bank has adopted a certificate of deposits (CD) program to attract term deposits at competitive rates. For the year ended December 31, 2018, total interest expense increased $5.4 million compared to the year ended December 31, 2017, primarily driven by $4.1 million increase in interest on deposits as the result of an increase in higher cost brokered and listing service deposits which carry higher rates than retail banking deposits. In addition, interest expense increased $407,000 primarily associated with the subordinated debt issued on June 29, 2018.

Net interest margin for the year ended December 31, 2018 was 3.29% as compared to 3.58% for 2017. The decline in net interest margin reflects the impact of the subordinated debt added on June 29, 2018 and increasing deposit costs associated with higher rates paid on retail deposits and an increased reliance on more expansive wholesale funding sources.

Provision (credit) for loan losses

For the year ended December 31, 2018, provision (credit) for loan losses increased to $1.3 million, as compared to a net credit for loan losses of $857,000 in 2017. The increase of provision (credit) for loan losses in 2018 was the growth in the loan portfolio and an incremental provision recognized in December 2018 associated with a single credit experiencing cash flow difficulty. The credit for loan losses in 2017 represents an insurance recovery for a loan that had been fully reserved in a previous year.

Non-interest income

Non-interest income increased $183,000 from $1.4 million for 2017 to $1.6 million for 2018. The increase was primarily attributable to realized gains on the sale of SBA loans.

Non-interest expense

Non-interest expense increased $3.0 million from $21.2 million for 2017 to $24.2 million for 2018. The increase in non-interest expense was primarily impacted by an increase of $826,000 in salaries and benefits associated with increased staffing, and $1.5 million increase in nonrecurring project costs for merger and tax initiative projects. Excluding project costs, full year 2018 operating expense increased 8% reflecting investments in the organic SBA business and deposit gathering initiatives.

Business Combination

On August 1, 2017, a definitive 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.

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

The acquisition enabled Patriot to expand its consumer and small business relationships, lending operations, and community presence, all of which are expected to improve key operating metrics.

Pending Acquisition and Subsequent Termination

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

On August 2, 2018, the Company, Hana SBL and three wholly-owned subsidiaries of Hana SBL, entered into an amendment to the purchase agreement, pursuant to which the closing date of the above referenced transaction had been extended from August 2, 2018 to August 1, 2019.

On October 29, 2018, the Company withdrew its initial application to the OCC requesting approval of the acquisition of Hana SBL. As of March 30, 2019, the Company has not received regulatory non-objection.

On March 30, 2019 the Company and Hana SBL mutually agreed to terminate the purchase agreement between the parties. The termination agreement provides for the release of escrowed funds back to the Company.

Comparison of Results of Operations for the years 2017 and 2016

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

Income before tax expense was $7.0 million in 2017 compared to 2016's income before income tax expense of $3.1 million. Highlights include:

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

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

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

Net interest Income

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

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

Average yields on investment securities improved in 2017 to 3.54% from 2.39% in 2016 resulting in higher interest income of $468,000. This increase was primarily due to average higher yield of the subordinated bonds from two creditworthy financial institutions, which were purchased during 2016, each yielding 5% or greater.

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

In December 2016, the Company completed an issuance, through a private placement, of $12 million aggregate principal amount of 7.0% fixed senior unsecured notes due December 22, 2021 (the "Notes").

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

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

Provision for loan losses

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

Non-interest income

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

Non-interest expense

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

LIQUIDITY

The Company's balance sheet liquidity to total assets ratio was 10.7% at December 31, 2018 compared to 8.2% at December 31, 2017. Liquidity including readily available off-balance sheet funding sources was 19.4% at December 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 23.7% at December 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.

At December 31, 2018, cash and cash equivalents and unpledged available-for-sale securities amounted to $66.4 million and $32.5 million, respectively.

At December 31, 2018, the Bank had additional borrowing capacity of $49.9 million available from FHLB Boston, which is comprised of $47.9 million of advances and a $2.0 million overnight line of credit. These amounts are in addition to the FHLB advances of $100 million that are outstanding at December 31, 2018. Additionally, the Bank has the ability to borrow from the FRB.

As of December 31, 2018, the maturities of Patriot's contractual obligations are as follows:

(In thousands)

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

Certificates of deposit	$222,586	56,658	2,757	-	282,001
Federal Home Loan Bank borrowings	10,000	30,000	60,000	-	100,000
Brokered deposits	152,133	26,120	5,347	-	183,600
Correspondent bank - line of credit	-	-	-	-	-
Senior notes	-	12,000	-	-	12,000
Subordinated debt	-	-	-	10,000	10,000
Junior subordinated debt	-	-	-	8,248	8,248
Note payable	195	401	416	376	1,388
Operating lease obligations	396	772	717	315	2,200
Total contractual obligations	$385,310	125,951	69,237	18,939	599,437

OFF-BALANCE SHEET ARRANGEMENTS

The Bank's off-balance sheet commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon or are contingent upon the customer adhering to the terms of the agreements, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2018, the Bank's off-balance sheet commitments are as follows:

(In thousands)	**12/31/2018**
Commitments to extend credit:	
Unused lines of credit	$ 77,120
Undisbursed construction loans	20,679
Home equity lines of credit	19,330
Future loan commitments	61,438
Financial standby letters of credit	1,160
	$ 179,727

REGULATORY CAPITAL REQUIREMENTS

The following tables illustrate the Company's and the Bank's regulatory capital ratios at December 31, 2018 and 2017:

(In thousands)	**Patriot National Bancorp, Inc.**				**Patriot Bank, N.A.**			
	December 31, 2018		**December 31, 2017**		**December 31, 2018**		**December 31, 2017**	
	Amount ($)	**Ratio (%)**	**Amount ($)**	**Ratio (%)**	**Amount ($)**	**Ratio (%)**	**Amount ($)**	**Ratio (%)**
Total Capital (to risk weighted assets)	89,993	10.377	74,264	10.092	99,204	11.491	83,711	11.406
Tier 1 Capital (to risk weighted assets)	72,373	8.345	67,959	9.235	91,583	10.608	77,407	10.547
Common Equity Tier 1 Capital (to risk weighted assets)	64,373	7.423	59,959	8.148	91,583	10.608	77,407	10.547
Tier 1 Leverage Capital (to average assets)	72,373	7.764	67,959	8.219	91,583	9.823	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 0.625% capital conservation buffer for 2016 has been included in the minimum capital adequacy ratios in 2016 column in the table above. The capital conversation buffer increased to 1.25% for 2017, which has been included in the minimum capital adequacy ratios in the 2017 column above. The capital conversation 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. As of December 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.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

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

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

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

The tables below 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)

	Net Portfolio Value - Performance Summary					
	As of December 31, 2018			**As of December 31, 2017**		
Projected Interest Rate Scenario	**Estimated Value**	**Change from Base ($)**	**Change from Base (%)**	**Estimated Value**	**Change from Base ($)**	**Change from Base (%)**
+200	122,002	(3,027)	(2.4)	89,258	(13,440)	(13.1)
+100	125,681	652	0.5	96,939	(5,758)	(5.6)
BASE	125,029	-	-	102,697	-	-
-100	120,108	(4,921)	(3.9)	105,874	3,177	3.1
-200	115,924	(9,105)	(7.3)	108,657	5,959	5.8

	Net Interest Income - Performance Summary					
	December 31, 2018			**Year ended December 31, 2017**		
Projected Interest Rate Scenario	**Estimated Value**	**Change from Base ($)**	**Change from Base (%)**	**Estimated Value**	**Change from Base ($)**	**Change from Base (%)**
+200	32,729	1,712	5.5	27,936	(937)	(3.2)
+100	32,179	1,162	3.7	28,454	(420)	(1.5)
BASE	31,017	-	-	28,873	-	-
-100	30,014	(1,003)	(3.2)	28,830	(43)	(0.2)
-200	28,615	(2,402)	(7.7)	29,271	398	1.4

Impact of Inflation and Changing Prices

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

ITEM 8. Financial Statements and Supplementary Data

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

- Report of Independent Registered Public Accounting Firm - As of and for each of the years ended December 31, 2018 and 2017
- Report of Independent Registered Public Accounting Firm - For the year ended December 31, 2016
- Consolidated Balance Sheets as of December 31, 2018 and 2017
- Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2018
- Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2018
- Consolidated Statements of Shareholders' Equity for each of the years in the three-year period ended December 31, 2018
- Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2018
- Consolidated Supplemental Statements of Non-Cash Activity for each of the years in the three-year period ended December 31, 2018
- Notes to Consolidated Financial Statements

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

The following tables present the summarized quarterly results of operations (unaudited) to the Consolidated Financial Statements for each of the calendar years in the two-year period ended December 31, 2018:

(In thousands, except per share amounts)

	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
2018:				
Interest and Dividend Income	$9,312	9,890	10,244	10,929
Interest expense	2,249	2,849	3,456	3,824
Net Interest Income	7,063	7,041	6,788	7,105
Provision for loan losses	185	50	50	1,018
Non-interest income	322	386	354	565
Non-interest expense	5,791 (1)	5,961 (1)	6,047 (1)	6,436 (1)
Income before income taxes	1,409	1,416	1,045	216
Expense (benefit) for Income Taxes	344	380	276	(110)
Net income	$1,065	1,036	769	326
Earnings per share				
Basic	$0.27	0.27	0.20	0.08
Diluted[3]	$0.27	0.26	0.20	0.08
Weighted average shares outstanding - Basic	3,900,513	3,903,858	3,904,751	3,907,006
Weighted average shares outstanding - Diluted	3,917,114	3,917,461	3,918,818	3,917,096
2017:				
Interest and Dividend Income	$6,924	7,945	8,967	9,013
Interest expense	1,390	1,637	1,915	2,014
Net Interest Income	5,534	6,308	7,052	6,999
(Credit) Provision for loan losses	(1,749)	260	545	87
Non-interest income	277	349	386	432
Non-interest expense	4,694	5,014	5,222	6,242 (2)
Income before income taxes	2,866	1,383	1,671	1,102
Expense for Income Taxes	1,136	579	658	502
Net income	$1,730	804	1,013	600
Earnings per share				
Basic	$0.44	0.21	0.26	0.15
Diluted	$0.44	0.21	0.26	0.15
Weighted average shares outstanding - Basic	3,892,726	3,894,128	3,894,237	3,895,763
Weighted average shares outstanding - Diluted	3,896,094	3,901,528	3,903,430	3,904,354

(1) Includes special project costs of $523,000, $592,000, $653,000, and $330,000, for the quarter ended March 31, 2018, June 30, 2018, September 30, 2018, and December 31, 2018, respectively.

(2) Includes special project costs of $39,000 and $601,000 for the quarters ended September 30, 2017 and December 31, 2017, respectively.

(3) The sum of Earnings (loss) per share - Diluted of each of the quarters in the year ended December 31, 2018 does not agree to the amount of Diluted earnings per share presented on the Consolidated Statement of Operations for the year ended December 31, 2018, due to the impact of rounding to the nearest cent on the amount of Earnings per share - Diluted for the three months ended December 31, 2018 (i.e., the "Fourth Quarter").

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

None.

ITEM 9A. Controls and Procedures

Disclosure Controls and Procedures

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

As used herein, "disclosure controls and procedures" means controls and other procedures of Patriot that are designed to ensure that information required to be disclosed by Patriot in the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC rules and regulations. Patriot's disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Continual evaluation of the effectiveness of its disclosure controls and procedures is performed by management, with the participation of Patriot's Chief Executive Officer and Chief Financial Officer. As described more fully in the following section of Item 9A, because of the material weakness in internal control over financial reporting described below, management concluded that Patriot's disclosure controls and procedures were not effective as of and for the year ended December 31, 2018.

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

Management's Annual Report on Internal Control Over Financial Reporting

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

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

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's financial statements will not be prevented or detected on a timely basis.

Management assessed the effectiveness of internal controls over financial reporting as of December 31, 2018, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013). Based on this assessment, management concluded that internal control over financial reporting was not effective as of December 31, 2018 as a result of an identified material weakness resulting from the aggregation of control deficiencies in management's review of the calculation of the allowance for loan losses, which includes the review of the completeness and accuracy of inputs and other information used in the allowance for loan losses calculation, as well as the precision of management's review over the allowance for loan losses calculation.

Management has reviewed and confirmed that the calculation of the allowance for loan losses included in the December 31, 2018 financial statements did not result in a material misstatement of the consolidated financial statements for any period presented. Management is currently reviewing the control processes around the precision of the preparation and review of the calculation of the allowance for loan losses for completeness and accuracy in light of the material weakness identified and will incorporate any necessary changes to its processes, including expanding the resources dedicated to the preparation and review of the calculations and strengthening the documentation of the support for the underlying assumptions included in the allowance for loan losses calculation.

In accordance with the rules and regulations of the SEC, management's report on the design and effectiveness of Patriot's system of internal controls over financial reporting is not subject to attestation by Patriot's independent registered public accounting firm. The SEC rules and regulations applicable to Patriot only require a report by management. Accordingly, this annual report filed on Form 10-K for the year ended December 31, 2018 does not include an opinion by Patriot's independent registered public accounting firm regarding management's system of internal controls over financial reporting.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal controls over financial reporting during the fourth fiscal quarter of 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

ITEM 9B. Other Information

Agreement with the OCC

On November 7, 2018, the Bank entered into an agreement (the "Agreement") with the OCC, pursuant to which the Bank agreed to take certain actions, including the following:

- Within 30 days of the date of the Agreement, the Board of the Bank shall appoint a Compliance Committee of at least three directors, a majority of whom shall not be employees or controlling shareholders of the Bank or any of its affiliates. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of the Agreement;
- By December 31, 2018, the Board of the Bank shall develop and implement a written program to provide for effective Board and management supervision of the Bank. The program shall address the weaknesses in Board and management supervision;
- By December 31, 2018, the Board of the Bank shall develop and implement formalized standards governing the performance and compensation of all senior executives and executive management, including that of the Chief Executive Officer;
- By December 31, 2018, the Board of the Bank shall ensure that it receives and reviews sufficient information from management regarding the operation of the Bank and the Bank's compliance with the Agreement, to enable the Board to provide oversight and fulfill their fiduciary duties, other responsibilities under law, and in accordance with safe and sound standards. At least annually, the Board of the Bank shall perform an assessment of the adequacy of the information provided by management;
- The Board of the Bank shall maintain a Lead Independent Director that has sufficient authority and expertise to ensure that the Bank is not subject to undue influence from any executive officer or director;
- By December 31, 2018, the Board of the Bank shall develop and implement a written, comprehensive conflict of interest policy applicable to the Bank and the Company's directors, principal shareholders, executive officers, affiliates, and employees;
- By December 31, 2018, the Board of the Bank shall provide the OCC with a written 3-year strategic and capital plan for the Bank, establishing objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, and capital adequacy, together with strategies to achieve those objectives;
- By December 31, 2018, the Board of the Bank shall revise and implement an internal audit program that is consistent with safe and sound standards for internal audit;
- Within 60 days of the date of the Agreement, the Board of the Bank shall revise and implement a written liquidity and asset/liability management policy that is consistent with safe and sound standards for liquidity and asset/liability management;
- By December 31, 2018, the Board of the Bank shall revise and submit to OCC for review a written program to improve the Bank's commercial loan administration;
- Within 60 days of the date of the Agreement, the Board of the Bank shall revise and submit to OCC for review a program designed to ensure the Bank's leveraged lending policies and procedures conform with safe and sound practices for leveraged lending;

By November 30, 2018, the Bank shall revise and submit to OCC for review written policies and procedures for the maintenance of an adequate allowance for loan and lease losses;

By December 31, 2018, the Bank shall revise the asset liability management policy to ensure that the Bank management documents, monitors and updates key assumptions used in the Bank's interest rate risk model that are consistent with safe and sound standards for such models;

As a result of the Agreement, the Bank is designated by the OCC to be in "troubled condition" as set forth in 12 C.F.R. §5.51(c)(7)(ii) and not an "eligible bank" for purposes of 12 C.F.R. §5.3(g) and 12 C.F.R. §24.2(e).

Patriot has provided the documents requested in each of the items in the Agreement and awaits further assessment by the OCC. Patriot will continue to respond and address enhancements requested by the OCC, if any.

The foregoing description of the terms of the Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the form of the Agreement filed as Exhibit 99(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 filed on November 14, 2018, which is incorporated herein by reference.

Termination of Purchase Agreement with Hana SBL

On March 30, 2019, the Company, Hana SBL and three wholly-owned subsidiaries of Hana SBL agreed to terminate a purchase agreement to acquire Hana SBL's SBA Lending business by the Company, which was entered into by and among the parties on February 06, 2018 and amended on August 2, 2018. The termination agreement provides for the release of escrowed funds back to the Company.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

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

The Company has previously adopted a Code of Conduct for its senior financial officers, which was filed as Exhibit 14 to the Company’s Annual Report on Form 10 -KSB for the year ended December 31, 2004, filed with the SEC on March 25, 2015. In addition, the Company adopted a Code of Ethics and Conflict of Interest Policy on October 24, 2018, amended as of March 27, 2019, which is filed herewith as Exhibit 14.2. Copies of these codes will be provided to any person so requesting by writing to Patriot National Bancorp Inc., 900 Bedford Street, Stamford, Connecticut 06901, Attn: Joseph D. Perillo, Chief Financial Officer.

ITEM 11. Executive Compensation

The information required by Item 402 of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement or Information Statement to be filed within 120 days following December 31, 2018.

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

The information required by Item 201(d) and Item 403 of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement or Information Statement, to be filed within 120 days following December 31, 2018.

The table below provides information as of December 31, 2018, with respect to the compensation plan under which equity securities of the Company are authorized for issuance to directors, officers or employees.

Plan Category	**Number of common shares to be issued upon vesting of restricted shares**	**Weighted average grant date fair value**	**Number of common shares available for issuance under the Plan excluding unvested shares**
Equity compensation plans approved by security holders	31,790	$ 14.06	2,870,113
Equity compensation plans not approved by security holders	-	-	-
Total	31,790	$ 14.06	2,870,113

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

The information required by Items 404 and 407(a) of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement or Information Statement to be filed within 120 days following December 31, 2018.

ITEM 14. Principal Accountant Fees and Services

The information required by Item 9(e) of Schedule 14A of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement or Information Statement to be filed within 120 days following December 31, 2018.

Part IV

ITEM 15. Exhibits and Financial Statement Schedules

Exhibits No.	Description
3(i)	Certificate of Incorporation of Patriot National Bancorp, Inc. (incorporated by reference to Exhibit 3(i) to the Company's Current Report on Form 8-K filed on December 1, 1999)
3(i)(A)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated July 16, 2004 (incorporated by reference to Exhibit 3(i)(A) to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004 filed on March 25, 2005)
3(i)(B)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated June 15, 2006 (incorporated by reference to Exhibit 3(i)(B) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 filed on November 14, 2006)
3(i)(C)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp Inc., dated October 6, 2010 (incorporated by reference to Exhibit 3.l to the Company's Current Report Form 8-K filed on October 21, 2010)
3(ii)	Amended and Restated By-laws of Patriot National Bancorp Inc. (incorporated by reference to Exhibit 3(ii) to the Company's Current Report on Form 8-K filed on November 1, 2010)
4	Form of 6.25% Fixed to Floating Rate Subordinated Note (incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 filed on August 14, 2018)
10(a)(2)	2012 Stock Plan of Patriot National Bancorp Inc. (incorporated by reference from Annex A to the Proxy Statement on Form 14C filed on November 1, 2011)
10(a)(20)	Amended Financial Services Agreement, by and between Patriot National Bancorp, Inc. and PNBK Sponsor LLC, dated August 7, 2014 (incorporated by reference to Exhibit 10(a) (20) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (Commission File No. 000-29599) filed on August 8, 2014)
10(a)(25)	Agreement and Plan of Merger by and among Patriot National Bancorp, Inc., Patriot Bank, National Association, Prime Bank and Jasper J. Jaser, as stockholders' representative, dated as of August 1, 2017 (incorporated by reference to Exhibit 10(a) (21) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 filed on August 11, 2017)
10(a)(26)	Asset Purchase Agreement by and among Hana Small Business Lending, Inc.; Hana ABS 2014-1, LLC; 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 filed on March 30, 2018)
10(a)(27)	Amendment to Asset Purchase Agreement by and among Hana Small Business Lending, Inc.; Hana ABS 2014-1, LLC; Hana Investment, LLC and Patriot Bank, N.A., dated as of August 2, 2018 (incorporated by reference to Exhibit 10(5) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 filed on August 14, 2018)
10(a)(28)	Form of Subordinated Note Purchase Agreement (incorporated by reference to Exhibit 10(6) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 filed on August 14, 2018)
10(a)(29)	Form of Agreement with The Comptroller of the Currency, dated as of November 7, 2018 (incorporated by reference to Exhibit 99(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 filed on November 14, 2018)

14.1	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)
14.2	Code of Ethics and Conflict of Interest Policy, dated March 27, 2019
21	Subsidiaries of Bancorp (incorporated by reference to Exhibit 21 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1999 (Commission File No. 000-29599))

23.1	Consent of RSM US LLP
23.2	Consent of BDO USA LLP
31(1)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31(2)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications
101.INS#	XBRL Instance Document
101.SCH#	XBRL Schema Document
101.CAL#	XBRL Calculation Linkbase Document
101.LAB#	XBRL Labels Linkbase Document
101.PRE#	XBRL Presentation Linkbase Document
101.DEF#	XBRL Presentation Linkbase Document

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

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Patriot National Bancorp, Inc. and its subsidiary (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2018, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ RSM US LLP

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

New Haven, Connecticut

April 1, 2019

Report of Independent Registered Public Accounting Firm

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	**December 31, 2018**	**December 31, 2017**
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	$ 7,381	3,582
Interest bearing deposits	59,056	45,147
Total cash and cash equivalents	66,437	48,729
Investment securities:		
Available-for-sale securities, at fair value	39,496	25,576
Other investments, at cost	4,963	4,962
Total investment securities	44,459	30,538
Federal Reserve Bank stock, at cost	2,866	2,502
Federal Home Loan Bank stock, at cost	4,928	5,889
Loans receivable (net of allowance for loan and lease losses: 2018: $7,609, 2017: $6,297)	772,767	713,350
Accrued interest and dividends receivable	3,766	3,496
Premises and equipment, net	35,435	35,358
Other real estate owned	2,945	-
Deferred tax asset	10,851	10,397
Goodwill	1,728	-
Core deposit intangible, net	698	-
Other assets	4,816	1,821
Total assets	$ 951,696	852,080
Liabilities		
Deposits:		
Noninterest bearing deposits	$ 84,471	81,197
Interest bearing deposits	658,810	556,242
Total deposits	743,281	637,439
Federal Home Loan Bank and correspondent bank borrowings	100,000	120,000
Senior notes, net	11,778	11,703
Subordinated debt, net	9,723	-
Junior subordinated debt owed to unconsolidated trust, net	8,094	8,086
Note payable	1,388	1,580
Advances from borrowers for taxes and insurance	2,926	2,829
Accrued expenses and other liabilities	5,166	3,694
Total liabilities	882,356	785,331

Commitments and Contingencies

Shareholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $.01 par value, 100,000,000 shares authorized; 2018: 3,984,415 shares issued; 3,910,674 shares outstanding. 2017: 3,973,416 shares issued; 3,899,675 shares outstanding	40	40
Additional paid-in capital	107,095	106,875
Accumulated deficit	(35,790)	(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	(826)	(155)
Total shareholders' equity	69,340	66,749
Total liabilities and shareholders' equity	$ 951,696	852,080

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
(In thousands, except per share amounts)	**2018**	**2017**	**2016**
Interest and Dividend Income			
Interest and fees on loans	$37,546	31,270	24,391
Interest on investment securities	1,306	982	544
Dividends on investment securities	490	383	353
Other interest income	1,033	214	120
Total interest and dividend income	40,375	32,849	25,408
Interest Expense			
Interest on deposits	9,024	4,948	2,242
Interest on Federal Home Loan Bank borrowings	1,634	702	371
Interest on senior debt	915	915	25
Interest on subordinated debt	767	360	334
Interest on note payable and other	38	31	36
Total interest expense	12,378	6,956	3,008
Net interest income	27,997	25,893	22,400
Provision (Credit) for Loan Losses	1,303	(857)	2,464
Net interest income after provision (credit) for loan losses	26,694	26,750	19,936
Non-interest Income			
Loan application, inspection and processing fees	51	73	180
Deposit fees and service charges	524	590	600
Gains on sale of loans	162	4	-
Rental Income	413	399	414
Other income	477	378	362
Total non-interest income	1,627	1,444	1,556
Non-interest Expense			
Salaries and benefits	11,741	10,915	9,489
Occupancy and equipment expense	3,159	3,133	3,110
Data processing expense	1,313	1,139	939
Professional and other outside services	2,177	2,050	1,747
Merger and tax initiative project expenses	2,098	640	-
Advertising and promotional expense	258	322	394
Loan administration and processing expense	93	63	54
Regulatory assessments	1,142	844	603
Insurance expense	90	233	222

Communications, stationary and supplies	503	381	402
Other operating expense	1,661	1,452	1,395
Total non-interest expense	24,235	21,172	18,355
Income before income taxes	4,086	7,022	3,137
Provision for Income Taxes	890	2,875	1,207
Net income	$3,196	4,147	1,930
Basic earnings per share	$0.82	1.06	0.49
Diluted earnings per share	$0.82	1.06	0.49

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	**Year Ended December 31,**		
	2018	**2017**	**2016**
Net income	$3,196	4,147	1,930
Other comprehensive income			
Unrealized holding (loss) gain on securities	(860)	(64)	52
Income tax effect	189	25	(20)
Reclassification for realized losses on sale of investment securities	-	6	-
Income tax effect	-	(2)	-
Total other comprehensive (loss) income	(671)	(35)	32
Comprehensive income	$2,525	4,112	1,962

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands, except shares)	**Number of Shares**	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Treasury Stock**	**Accumulated Other Comprehensive (Loss) Income**	**Total**
Balance at December 31, 2015	3,956,207	$ 40	106,568	(44,832)	(160)	(152)	61,464
Comprehensive income:							
Net income	-	-	-	1,930	-	-	1,930
Unrealized holding gain on available-for-sale securities, net of tax	-	-	-	-	-	32	32
Total comprehensive income	-	-	-	1,930	-	32	1,962
Purchase of treasury stock	(72,471)	-	-	-	(1,017)	-	(1,017)
Share-based compensation expense	-	-	161	-	-	-	161
Vesting of restricted stock	8,161	-	-	-	-	-	-
Balance at December 31, 2016	3,891,897	$ 40	106,729	(42,902)	(1,177)	(120)	62,570
Comprehensive income:							
Net income	-	-	-	4,147	-	-	4,147
Unrealized holding gain on available-for-sale securities, net of tax	-	-	-	-	-	(35)	(35)
Total comprehensive income	-	-	-	4,147	-	(35)	4,112
Purchase of treasury stock	(100)	-	-	-	(2)	-	(2)
Common stock dividends	-	-	-	(77)	-	-	(77)
Share-based compensation expense	-	-	146	-	-	-	146
Vesting of restricted stock	7,878	-	-	-	-	-	-
Balance at December 31, 2017	3,899,675	$ 40	106,875	(38,832)	(1,179)	(155)	66,749
Comprehensive income:							
Net income	-	-	-	3,196	-	-	3,196
Unrealized holding loss on available-for-sale securities, net of tax	-	-	-	-	-	(671)	(671)
Total comprehensive income	-	-	-	3,196	-	(671)	2,525
Common stock dividends	-	-	-	(154)	-	-	(154)
Share-based compensation expense	-	-	220	-	-	-	220
Vesting of restricted stock	10,999	-	-	-	-	-	-
Balance at December 31, 2018	3,910,674	$ 40	107,095	(35,790)	(1,179)	(826)	69,340

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	**Year Ended December 31, 2018**	**2017**	**2016**
Cash Flows from Operating Activities:			
Net income	$3,196	4,147	1,930
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of investment premiums, net	15	86	131
Amortization and accretion of purchase loan premiums and discounts	523	650	219
Amortization of debt issuance costs	97	82	9
Provision (credit) for loan losses	1,303	(857)	2,464
Depreciation and amortization	1,486	1,269	1,209
Amortization of core deposit intangible	50	-	-
Loss on sales of available-for-sale securities	-	(6)	-
Share-based compensation	220	146	161
(Increase) decrease in deferred income taxes	(265)	2,258	1,111
Net (gain) loss on sale or acquisition of other real estate owned	-	9	(11)
Changes in assets and liabilities:			
Increase in accrued interest and dividends receivable	(270)	(770)	(716)
Increase in other assets	(981)	(2)	(657)
Increase (decrease) in accrued expenses and other liabilities	211	278	(1,325)
Net cash provided by operating activities	5,585	7,290	4,525
Cash Flows from Investing Activities:			
Proceeds from maturity or sales on available-for-sale securities	37,032	16,929	7,870
Principal repayments on available-for-sale securities	2,267	2,361	-
Purchases of available-for-sale securities	(18,562)	(20,576)	(3,000)
Purchases of other investments	(513)	(512)	-
Proceeds from maturity of other investments	512	-	-
Purchases of Federal Reserve Bank stock	(364)	(393)	(34)
Redemptions (purchases) of Federal Home Loan Bank stock	961	(280)	961
Decrease (increase) in originated loans receivable, net	5,259	(63,139)	(49,373)
Purchases of loans receivable	(47,074)	(73,022)	(52,005)
Purchase of premises and equipment	(1,142)	(3,060)	(3,529)
Proceeds from sale of other real estate owned	-	842	-
Escrow deposit for pending acquisition	(500)	-	-
Net cash used in business combination	(5,071)	-	-
Net cash used in investing activities	(27,195)	(140,850)	(99,110)
Cash Flows from Financing Activities:			
Increase in deposits, net	59,658	108,115	84,659

Repayments of FHLB and correspondent bank borrowings	(29,800)	(18,000)	6,000
Proceeds from issuance of subordinated note, net	9,709	-	-
Proceeds from issuance of senior notes, net	-	-	11,708
Principal repayments of note payable	(192)	(189)	(185)
Decrease in advances from borrowers for taxes and insurance	97	153	309
Purchases of treasury stock	-	(2)	(1,017)
Dividends paid on common stock	(154)	(77)	-
Net cash provided by financing activities	39,318	90,000	101,474
Net decrease in cash and cash equivalents	17,708	(43,560)	6,889
Cash and cash equivalents at beginning of period	48,729	92,289	85,400
Cash and cash equivalents at end of period	$66,437	48,729	92,289

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(In thousands)	**Year Ended December 31,**		
Supplemental Disclosures of Cash Flow Information:	**2018**	**2017**	**2016**
Cash paid for interest	$11,246	6,424	3,413
Cash paid for income taxes	$1,243	515	360
Purchase of premises and equipment	$415	808	1,018
Increase in accrued expense and other liabilities	(415)	(808)	(1,018)
	-	**-**	**-**
Transfers of loans receivable to other real estate owned	$1,954	-	840
Increase in debt issuance costs	-	-	82
Increase in accrued expense and other liabilities	-	-	(82)
	$-	**-**	**-**
Business Combination Non-Cash Disclosures			
Assets acquired in business combination (net of cash received)	$60,173	-	-
Liabilities acquired in business combination	$56,123	-	-
Contingent liability assumed in business combination	$707	-	-

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Patriot National Bancorp, Inc. (the "Company"), a Connecticut corporation, is a bank holding company that was organized in 1999. Patriot Bank, N.A. (the "Bank") (collectively, "Patriot") is a wholly owned subsidiary of the Company. The Bank is a nationally chartered commercial bank whose deposits are insured under the Bank Insurance Fund, which is administered by the Federal Deposit Insurance Corporation. The Bank provides a full range of banking services to commercial and consumer customers through its main office in Stamford, Connecticut, seven branch offices in Connecticut and two branch offices in New York. The Bank's customers are concentrated in Fairfield and New Haven Counties in Connecticut and Westchester County in New York.

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

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

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

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

Certain prior period amounts have been reclassified to conform to current year presentation.

Summary of Significant Accounting Policies

Principles of consolidation and basis of financial statement presentation

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

Cash and cash equivalents

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

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

Federal Reserve Bank and Federal Home Loan Bank stock

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements

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

Included in the Bank's investment portfolio are shares in the FHLB and FRB of $7.8 million and $8.4 million as of December 31, 2018 and 2017, respectively. Management has evaluated its investment in the capital stock of the FHLB and FRB for impairment, based on the aforementioned criteria, and has determined that as of December 31, 2018 and 2017 there is no impairment of its investment in either the FHLB or FRB.

Investment Securities

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

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

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

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

At December 31, 2018 and 2017, the Bank's investment portfolio includes a $4.5 million investment in the Solomon Hess SBA Loan Fund ("SBA Fund"). The Bank uses this investment to satisfy its Community Reinvestment Act lending requirements. At December 31, 2018 and 2017, the investment in the SBA Fund is reported in the Consolidated Balance Sheets at cost, which management believes approximates fair value.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements

Loans receivable

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

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

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

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

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

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

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

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements

Acquired Loans

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

Acquired Impaired Loans- Purchase Credit Impaired "PCI" Loans

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

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

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

Acquired Non-impaired Loans

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

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

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Notes to consolidated financial statements

Allowance for loan and lease losses

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

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

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

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

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

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

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

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

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

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

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

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

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

portfolio.

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

In the third quarter of 2018, the Company changed its methodology to estimate its allowance for loan losses.

The Bank further segmented its loan pools by Pass, Special Mention, and Substandard risk ratings and assigned additional risk premiums to each group. The qualitative and economic factors for all of the pools and subsegments were also evaluated, with Pass loans receiving adjustments to reflect their credit profile relative to the non-impaired criticized assets. These adjustments generally flow through the qualitative factors addressing severity of past due loans and other similar conditions and the nature and volume of the portfolio and terms of the loans.

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Notes to consolidated financial statements

The Bank’s leveraged lending portfolio was evaluated relative to the rest of the Commercial & Industrial (“C&I”) pool and an additional risk premium was assigned to those loans in aggregate, and is reflected in the “commercial and industrial” category in the ALLL calculation. These loans were isolated due their risk parameters and profile, including higher leverage than the rest of the Bank’s C&I portfolio.

The change in methodology resulted in better alignment of the credit characteristics of the various risk grades and loan types with the calculated allowance. The provision of $1.3 million in 2018 incorporated these changes.

Acquired loans are marked to fair value on the date of acquisition and are evaluated on a quarterly basis to ensure the necessary purchase accounting updates are made in parallel with the allowance for loan loss calculation. Acquired loans that have been renewed since acquisition are included in the allowance for loan loss calculation since these loans have been underwritten to the Bank’s guidelines. Acquired loans that have not been renewed since acquisition, or that have a PCI mark, are excluded from the allowance for loan loss calculation.

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

Transfers of financial assets

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

Other real estate owned

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

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

Premises and equipment

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

Impairment of assets

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

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Intangible Assets

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

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

The Company evaluates goodwill for impairment on an annual basis, or more often if events or the circumstances indicate there may be impairment. The annual impairment test is conducted as of November annually. The implied fair value of goodwill is compared to its carrying amount and the impairment loss is measured by the excess of the carrying value over fair value. The fair value of each reporting unit is compared to the carrying amount of such reporting unit in order to determine if impairment is indicated. There was no goodwill impairment at December 31, 2018.

Contingent Consideration

Contingent consideration represents an estimate of the additional amount of purchase price consideration and is measured based on the probability that certain loans are restructured in accordance with the related acquisition agreement. Resolution of the contingent consideration will result in a cash payment and will be reflected in the financial statements as a measurement period adjustment as they are finalized. Changes will be recognized as an increase or decrease to goodwill, the valuation of the related loans and the contingent consideration/purchase price. The Company estimates the fair value of the contingent consideration liability by using a discounted cash flow model of future contingent payments based on interest income related to the acquired PCI loans.

Income taxes

Patriot recognizes income taxes under the asset and liability method. Under this method, deferred taxes are recognized for the estimated tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and loss carry forwards. Deferred tax assets

(“DTA”s) and liabilities (“DTL”s) are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on DTAs and DTLs of a change in tax rates is recognized in income in the period that includes the enactment date.

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

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

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

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Patriot evaluates its ability to realize its net deferred tax assets on a quarterly basis. In doing so, management considers all available evidence, both positive and negative, to determine whether it is more likely than not that the deferred tax assets will be realized. When comparing 2018 and 2017 to prior periods, management noted improvements in the results of operations, forecasted future period taxable income, the overall quality of the loan portfolio, continued efforts to reduce and control operating expenses, and net operating loss carry-forwards that do not begin to expire until the year 2030. Based upon this evidence, management concluded there was no need for a valuation allowance as of December 31, 2018 and 2017.

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

Patriot had a net deferred tax asset of $10.9 million at December 31, 2018 as compared to a net deferred tax asset of $10.4 million at December 31, 2017.

Unrecognized tax benefits

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

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

In 2018, the Bank recorded an uncertain tax position (“UTP”) of $1.1 million related to the utilization of certain federal net operating losses. At December 31, 2017, there were no uncertain tax positions recognized in the Consolidated Financial Statements. Additionally, Patriot has no pending or on-going audits in any tax jurisdiction.

The Company’s policy is to recognize interest and penalties related to income tax matters in income tax expense.

Earnings per Share

Basic earnings per share represents earnings accruing to common shareholders and are computed by dividing net income by the weighted average number of common shares outstanding.

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

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

Share-based compensation plan

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

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

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

Treasury Stock

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

Comprehensive income

Accounting principles generally require that recognized revenues, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of shareholders' equity in the Consolidated Balance Sheets, such items, along with net income, are components of comprehensive income.

Segment reporting

Patriot’s only business segment is Community Banking. During the years ended December 31, 2018, 2017 and 2016, this segment represented all the revenues and income of Patriot.

Fair value

Patriot uses fair value measurements to record adjustments to the carrying amounts of certain assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices.

However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate sale or settlement of the asset or liability, respectively.

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

Derivatives

In 2018, Patriot entered into two interest rate swaps ("swaps"), one with a loan customer to provide a facility to mitigate the fluctuations in the variable rate on the respective loan. The customer swap is matched in offsetting terms to another swap that Patriot entered into with an outside third party. These two swaps are reported at fair value in other assets or other liabilities. Patriot's swaps qualify as derivatives, but are not designated as hedging instruments, thus any net gain or loss resulting from changes in the fair value is recognized in other noninterest income.

The credit risk associated with derivatives executed with customers is similar as that involved in extending loans and is subject to normal credit policies. Collateral is obtained based on management's assessment of the customer. The positions of customer derivatives are recorded at fair value and changes in value are included in noninterest income on the consolidated statement of income.

Neither of the two swaps entered into in 2018 are designated as cash flow hedges.

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Advertising Costs

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

Revenue Recognition

ASC 606, Revenue from Contracts with Customers ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, letters of credit, derivatives and investment securities, as well as revenue related to our mortgage servicing activities, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Descriptions of our revenue-generating activities that are within the scope of ASC 606, which are presented in our income statements as components of non-interest income are as follows:

Service charges on deposit accounts - these represent general service fees for monthly account maintenance and activity- or transaction based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

Other non-interest income primarily includes items such as letter of credit fees, dividends on FHLB and FRB stock and other general operating income, none of which are subject to the requirements of ASC 606.

Recently Adopted and Issued Accounting Standards

Accounting Standards Adopted During 2018

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

ASU 2014-09

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

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

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ASU 2016-01 and ASU 2018-03

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

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 December 31, 2018, Patriot did not have any debt prepayment or extinguishment, debt-instrument settlement, or beneficial interests in securitization transactions. Contingent consideration payments post-business combination were classified as a specific item under cash flows from financing activities.

ASU 2016-18

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

ASU 2017-09

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

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ASU 2018-02

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income:* This update requires a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate tax rate. The amount of the reclassification would be the difference between the historical 35% corporate income tax rate and the newly enacted 21% corporate tax rate. The amendments would be effective for all entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption of the amendments would be permitted including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued and all other entities for reporting periods for which financial statements have not yet been made available for issuance. An entity would apply the amendments in the update 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 of 2017 is recognized. The Company elected to adopt this update as of December 31, 2018. This ASU did not have a material impact on the Company's Consolidated Financial Statements.

ASU 2018-04

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

ASU 2018-05

ASU 2018-05 - Income Taxes (Topic 740): Amendment to clarify situations where a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting under ASC 740 for certain income tax effects of the Tax Cuts and Jobs Act for the reporting period. As of December 31, 2017, the Company partially completed the accounting for the tax effects of enactment of the Tax Cuts and Jobs Act, and management made reasonable estimates of the effects of a reduced federal corporate income tax rate on its existing deferred tax balances. The Company continues to make and refine its calculations during the one-year re-measurement period.

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. The amendments in this ASU require lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases. Accounting by lessors will remain largely unchanged. In July 2018, the FASB issued a subsequent update which introduced a new transition method, under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The guidance will be effective for the Company on January 1, 2019, with early adoption permitted. Management has elected the transition practical expedient option. There was no significant impact of cumulative-effect adjustment to the opening balance of retained earnings at the time of adoption on January1, 2019.The standard will have a material impact on the Company's Consolidated Balance Sheets, but will not have an impact on its Consolidated Income Statements. The most significant impact will be recognition of right-of-use (“ROU”) assets and lease liabilities for operating leases, while the accounting for finance leases will remain substantially unchanged. The Company is expecting the addition of $3.4 million in right-of-use assets and lease liabilities to be added its Consolidated Balance Sheets.

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.

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ASU 2017-04

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

ASU 2017-08

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

ASU 2018-13

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820) - Changes to the Disclosure Requirements for Fair Value Measurement*, to modify the disclosure requirements on fair value measurements. This ASU removes requirements to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. ASU 2018-13 clarifies that disclosure regarding measurement uncertainty is intended to communicate information about the uncertainty in measurement as of the reporting date. ASU 2018-13 adds certain disclosure requirements, including disclosure of changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively, while all other amendments should be applied retrospectively for all periods presented upon their effective date. Management is currently evaluating the impact of adopting the new guidance on the Consolidated Financial Statements, but it is not expected to have a material impact.

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ASU 2017-12

"Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 was issued to ease the burden associated with assessing hedge effectiveness and to promote better financial statement alignment of the recognition and presentation of the effects of the hedging instrument and the hedged item. This guidance requires entities to present the earnings effect of the hedging instrument in the same income statement line item with the earnings effect on the hedged item. In October 2018, FASB issued ASU 2018-16, "Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financial Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes." ASU 2018-16 was issued to expand the list of benchmark interest rates for hedge accounting. The effective date for the amendment is the same as the effective date for ASU 2017-12. For public business entities, ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. ASU 2017-12 and ASU 2018-16 are not expected to have any impact on the Consolidated Financial Statements.

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Note 2. Business Combinations

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

<u>Acquisition of Prime Bank</u>

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

The acquisition will enable Patriot to expand its consumer and small business relationships, lending operations, and community presence, all of which will improve key operating metrics. The goodwill recognized results from the expected synergies and potential earnings from this combination, including some future cost savings related to the operations of Prime Bank. Patriot incurred $707,000 acquisition costs, charged to operations during the year ended December 31, 2018. The acquisition costs are included in merger and tax initiative project expenses in the Consolidated Statements of Income.

The assets acquired and liabilities assumed from Prime Bank were recorded at their fair value as of the closing date of the acquisition. Goodwill of $2.1 million was recorded at the time of the acquisition, and was adjusted to $1.7 million as of December 31, 2018, primarily due to updating of fair value of the core deposit intangibles and adjustment of cash and contingent considerations. The goodwill is all deductible for income taxes over 15 years.

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

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

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

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

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

(In thousands)	**Initially Recorded at Acquisition Date**	**Measurement Period Adjustments**	**Adjusted Values**
Consideration Paid			
Cash consideration	$ 5,888	$ 335	$ 6,223
Contingent consideration	1,761	(1,054)	707
Recognized amounts of identifiable assets acquired and liabilities assumed			
Cash and cash equivalents	$ 1,152	$ -	$ 1,152
Securities	35,532	-	35,532
Loans	21,605	(223)	21,382
Premises and equipment	6	-	6
Other real estate owned	991	-	991
Core deposit intangibles	552	196	748
Other assets	1,514	-	1,514
Total assets acquired	**$ 61,352**	**$ (27)**	**$ 61,325**
Deposits	46,184	-	46,184
Borrowings	9,800	-	9,800
Other liabilities	111	28	139
Total liabilities assumed	**$ 56,095**	**$ 28**	**$ 56,123**
Identifiable net assets acquired	**$ 5,257**	**$ (55)**	**$ 5,202**
Goodwill resulting from acquisition	**$ 2,392**	**$ (664)**	**$ 1,728**

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

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

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

Pursuant to a letter agreement, Patriot will make payments for up to one year after the acquisition date. These additional payments (contingent consideration) are to be determined based on the curing of certain loan deficiencies. On August 29, 2018 Patriot paid $1.28 million to the shareholders of Prime Bank pursuant to the agreement. The maximum remaining amount payable under the letter agreement is $1.57 million and the liability under the agreement is currently estimated to be $707,000. This estimate has been measured based on Patriots assessment of the probability that certain loans are cured in accordance with the agreement.

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

The nature of the measurement period adjustments noted in the table above were a result of a series of payments in August 2018 and pursuant to ongoing negotiations between the parties, and information obtained subsequent to our initial reporting of provisional fair values but prior to finalizing our fair values as of December 31, 2018. Such information was determined to be a condition in existence as of acquisition date. There were no income effects resulting from the recorded measurement period adjustments for the year ended December 31, 2018.

Information on goodwill for the year ended December 31, 2018 is as follows:

(In thousands)	**For the Year Ended December 31, 2018**	
Balance, resulting from acquisition	$	1,728
Impairment		-
Balance, end of period	$	1,728

The Company tests for goodwill impairment annually as of November 30th. No impairment was required to be recorded on goodwill for 2018.

The table below provides information regarding the carrying amounts and accumulated amortization of amortized intangible assets as of the dates set forth below. The remaining net intangible asset as of December 31, 2018 will be amortized over a period of approximately 10 years.

(In thousands)	**Gross Intangible**	**Accumulated**	**Net Intangible**

	Asset	Amortization	Asset
December 31, 2018			
Core deposit intangible	$ 748	50	698

Pending Acquisition and Subsequent Termination

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

On August 2, 2018, the Company, Hana SBL and three wholly-owned subsidiaries of Hana SBL, entered into an amendment to the purchase agreement, pursuant to which, the closing date of the above referenced transaction had been extended from August 2, 2018 to August 1, 2019.

On October 29, 2018 the Company withdrew its initial application to the OCC requesting approval of the acquisition of Hana SBL. As of March 30, 2019, the Company has not received regulatory non-objection.

On March 30, 2019 the Company and Hana SBL mutually agreed to terminate the purchase agreement as amended between the parties. The termination agreement provides for the release of escrowed funds back to the Company.

To date the Company incurred $1.15 million of merger and acquisition expenses related to the Hana SBL acquisition for the year ended December 31, 2018.

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Note 3. Restrictions on Cash and Due from Banks

Federal Reserve System regulations require depository institutions to maintain cash reserves against their transaction accounts, primarily interest-bearing and regular checking accounts. The required cash reserves can be in the form of vault cash and, if vault cash does not fully satisfy the required cash reserves, in the form of a balance maintained with Federal Reserve Banks. The Board of Governors of the Federal Reserve System generally makes annual adjustments to the tiered cash reserve requirements. Based on Patriot's deposits in transaction accounts, which were less than the exemption amount of $16 million, the Bank was not subject to a reserve requirement as of December 31, 2018 and 2017.

Note 4. Available-for-sale securities

At December 31, 2018 and 2017, the amortized cost, gross unrealized gains, gross unrealized losses and approximate fair value of available-for-sale securities was as follows:

(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
<u>December 31, 2018:</u>				
U. S. Government agency mortgage-backed securities	$ 20,626	43	(196)	20,473
Corporate bonds	14,000	-	(1,026)	12,974
Subordinated notes	4,500	64	-	4,564
U.S. Treasury notes	1,484	1	-	1,485
	$ 40,610	108	(1,222)	39,496
<u>December 31, 2017:</u>				
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 available-for-sale securities' gross unrealized losses and fair value, aggregated by the length of time the individual securities have been in a continuous loss position as of December 31, 2018 and 2017:

(In thousands)	**Less than 12 Months**		**12 Months or More**		**Total**	
	Fair Value	**Unrealized (Loss)**	**Fair Value**	**Unrealized (Loss)**	**Fair Value**	**Unrealized (Loss)**
December 31, 2018:						
U. S. Government agency mortgage-backed securities	$8,024	(38)	5,422	(158)	13,446	(196)
Corporate bonds	-	-	12,974	(1,026)	12,974	(1,026)
	$8,024	(38)	18,396	(1,184)	26,420	(1,222)
December 31, 2017:						
U. S. Government agency mortgage-backed securities	$4,118	(13)	3,106	(93)	7,224	(106)
Corporate bonds	13,804	(196)	-	-	13,804	(196)
	$17,922	(209)	3,106	(93)	21,028	(302)

At December 31, 2018 and 2017, ten out of sixteen and nine out of eleven available-for-sale securities had unrealized losses with an aggregate depreciation of 4.4% and 1.4% from amortized cost, respectively.

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Management believes that none of the losses on available-for-sale securities noted above constitute an OTTI. The noted losses are considered temporary due to market fluctuations in available interest rates on U.S. Government agency debt, mortgage-backed securities issued by U.S. Government agencies, and corporate debt. Management considers the issuers of the securities to be financially sound, the corporate bonds are investment grade, and the collectability of all contractual principal and interest payments is reasonably expected. Since it is not more-likely-than-not that Patriot would be required to sell the investments before recovery of the amortized cost basis and does not intend to sell the securities at a loss, none of the available-for-sale securities noted are considered to be OTTI as of December 31, 2018.

At December 31, 2018 and 2017, available-for-sale securities of $7.0 million and $6.7 million were pledged primarily to secure municipal deposits, respectively. In 2018, available-for-sale securities of $5.5 million were pledged to the FRB of New York, and $1.5 million were pledged to St. Louis Fed. In 2017, $6.7 million available-for sale securities were pledged to the FRB of New York.

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

(In thousands)	**Amortized Cost**				**Fair Value**			
	Due Within 5 years	**Due After 5 years through 10 years**	**Due After 10 years**	**Total**	**Due Within 5 years**	**Due After 5 years through 10 years**	**Due After 10 years**	**Total**
December 31, 2018:								
Corporate bonds	$-	9,000	5,000	14,000	-	8,537	4,437	12,974
Subordinated notes	-	4,500	-	4,500	-	4,564	-	4,564
U.S. Treasury notes	1,484	-	-	1,484	1,485	-	-	1,485
Available-for-sale securities with single maturity dates	1,484	13,500	5,000	19,984	1,485	13,101	4,437	19,023
U. S. Government agency mortgage-backed securities	6,842	5,668	8,116	20,626	6,844	5,530	8,099	20,473
	$8,326	19,168	13,116	40,610	8,329	18,631	12,536	39,496

December 31, 2017:								
Corporate bonds	$-	9,000	5,000	14,000	-	8,928	4,876	13,804
Subordinated notes	-	4,500	-	4,500	-	4,548	-	4,548
Available-for-sale securities with single maturity dates	-	13,500	5,000	18,500	-	13,476	4,876	18,352
U. S. Government agency mortgage-backed securities	-	3,200	4,130	7,330	-	3,107	4,117	7,224
	$-	16,700	9,130	25,830	-	16,583	8,993	25,576

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Note 5. Loan Receivables and Allowance for Loan and Lease Losses

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

(In thousands)	**December 31, 2018**	**December 31, 2017**
Loan portfolio segment:		
Commercial Real Estate	$ 274,938	299,925
Residential Real Estate	157,300	146,377
Commercial and Industrial	191,852	131,161
Consumer and Other	94,569	87,707
Construction	46,040	47,619
Construction to Permanent - CRE	15,677	6,858
Loans receivable, gross	780,376	719,647
Allowance for loan and lease losses	(7,609)	(6,297)
Loans receivable, net	$ 772,767	713,350

Patriot's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County in New York, and the five Boroughs of New York City. Patriot originates commercial real estate loans, commercial business loans, a variety of consumer loans, and construction loans, and has recently 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.

In connection with the Prime Bank merger in May 2018 loans were acquired, a subset of these loans was determined to have evidence of credit deterioration at the acquisition date, which was accounted for in accordance with ASC 310-30. The purchased credit impaired ("PCI") loans presently maintain a carrying value of $615,000 as of December 31, 2018. The loans were evaluated for impairment through the periodic reforecasting of expected cash flows.

Income is recognized on PCI loans pursuant to ASC Topic 310-30. A portion of the fair value discount has been ascribed as an accretable yield that is accreted into interest income over the estimated remaining life of the loans. The remaining non-accretable difference represents cash flows not expected to be collected.

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The table below summarizes the total contractually required principal and interest cash payments, management's estimate of expected total cash payments and fair value of the loans at acquisition date. Contractually required principal and interest payments have been adjusted for estimated prepayments.

(In thousands)	**Acquisition Date**
Contractually required principal and interest at acquisition	$ 5,816
Contractual cash flows not expected to be collected (nonaccretable discount)	(2,064)
Expected cash flows at acquisition	3,752
Interest component of expected cash flows (accretable discount)	(1,316)
Fair value of acquired loans	$ 2,436

A summary of changes in the accretable discount for PCI loans for the year ended December 31, 2018 follows:

(In thousands)	**For the Year Ended December 31, 2018**
Accretable discount, beginning of period	$ (1,316)
Accretion	92
Other changes, net	432
Accretable discount, end of period	$ (792)

The accretion of the accretable discount for PCI loans for the year end December 31, 2018 was $92,000. The table above includes $887,000 additional expected cash flows at acquisition, and $887,000 additional accretable discount, both resulting from a revised acquisition date estimate of PCI loans performance.

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 2018 and 2017, Patriot purchased $25.6 million and $73.0 million of residential real estate loans, respectively.

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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, auto loans, 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.

During 2018, $21.4 million education loans were purchased. No education loans were purchased in 2017.

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”)

These loans allow a single closing for a construction facility leading to conversion to an amortizing mortgage loan. Construction to permanent loans combine a short-term period similar to a construction loan, generally with a variable rate, and a longer term CRE loan typically 20-25 years, resetting every five years to the FHLB rate.

Fulfillment 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.

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SBA Loans:

Patriot originates SBA 7(a) loans, on which the SBA has historically provided guarantees of up to 75 percent of the principal balance. The guaranteed portion of the Company's SBA loans is generally sold in the secondary market with the nonguaranteed portion held in the portfolio as a loan held for investment. SBA loans are for the purpose of providing working capital, financing the purchase of equipment, inventory or commercial real estate and for other business purposes. Loans are guaranteed by the businesses' major owners. SBA loans are made based primarily on the historical and projected cash flow of the business and secondarily on the underlying collateral provided.

Allowance for Loan and Lease Losses

The following tables summarize the activity in the allowance for loan and lease losses, allocated to segments of the loan portfolio, for each year in the three-year period ended December 31, 2018:

(In thousands)	**Commercial Real Estate**	**Residential Real Estate**	**Commercial and Industrial**	**Consumer and Other**	**Construction**	**Construction to Permanent - CRE**	**Unallocated**	**Total**
As of and for the Year ended December 31, 2018								
Allowance for loan and lease losses:								
December 31, 2017	$ 2,212	959	2,023	568	481	54	-	6,297
Charge-offs	-	(2)	-	(33)	-	-	-	(35)
Recoveries	7	2	34	1	-	-	-	44
Provisions (credits)	(353)	100	1,501	105	(131)	54	27	1,303
December 31, 2018	$ 1,866	1,059	3,558	641	350	108	27	7,609
As of and for the Year ended December 31, 2017								
Allowance for loan and lease losses:								
December 31, 2016	$ 1,853	534	740	641	712	69	126	4,675
Charge-offs	-	-	(265)	(39)	-	-	-	(304)

Recoveries	10	-	2,769	4	-	-	-	2,783
Provisions (credits)	349	425	(1,221)	(38)	(231)	(15)	(126)	(857)
December 31, 2017	$ 2,212	959	2,023	568	481	54	-	6,297
As of and for the Year ended December 31, 2016								
Allowance for loan and lease losses:								
December 31, 2015	$ 1,970	740	1,027	677	486	123	219	5,242
Charge-offs	-	(190)	(2,977)	(13)	-	-	-	(3,180)
Recoveries	80	1	66	2	-	-	-	149
Provisions (credits)	(197)	(17)	2,624	(25)	226	(54)	(93)	2,464
December 31, 2016	$ 1,853	534	740	641	712	69	126	4,675

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

(In thousands)	**Commercial Real Estate**	**Residential Real Estate**	**Commercial and Industrial**	**Consumer and Other**	**Construction**	**Construction to Permanent - CRE**	**Unallocated**	**Total**
December 31, 2018 Allowance for loan and lease losses:								
Individually evaluated for impairment	$ -	216	1,299	30	-	-	-	1,545
Collectively evaluated for impairment	1,866	843	2,259	611	350	108	27	6,064
Total allowance for loan and lease losses	$ 1,866	1,059	3,558	641	350	108	27	7,609
Loans receivable, gross:								
Individually evaluated for impairment	$ 4,606	2,302	4,646	864	8,800	-	-	21,218
PCI loans individually evaluated for impairment	-	-	615	-	-	-	-	615
Collectively evaluated for impairment	270,332	154,998	186,591	93,705	37,240	15,677	-	758,543
Total loans receivable, gross	$ 274,938	157,300	191,852	94,569	46,040	15,677	-	780,376

(In thousands)	**Commercial Real Estate**	**Residential Real Estate**	**Commercial and Industrial**	**Consumer and Other**	**Construction**	**Construction to Permanent - CRE**	**Unallocated**	**Total**
December 31, 2017 Allowance for loan and lease losses:								
Individually evaluated for impairment	$ -	-	251	2	-	-	-	253

Collectively evaluated for impairment	2,212	959	1,772	566	481	54	-	6,044
Total allowance for loan and lease losses	$ 2,212	959	2,023	568	481	54	-	6,297
Loans receivable, gross:								
Individually evaluated for impairment	$ 1,977	3,336	748	692	-	-	-	6,753
Collectively evaluated for impairment	297,948	143,041	130,413	87,015	47,619	6,858	-	712,894
Total loans receivable, gross	$ 299,925	146,377	131,161	87,707	47,619	6,858	-	719,647

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

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

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

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

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

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

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

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

In March 2017, the Bank reached a settlement agreement with its insurance carrier for a loss recognized in 2016, related to a single Commercial and Industrial loan, resulting in cash receipts of $2.8 million, net of related deductibles and other amounts excluded pursuant to the insurance policy. No recovery was received from insurance carrier in

2018.

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Loan Portfolio Aging Analysis

The following tables summarize performing and non-performing (i.e., non-accruing) loans receivable by portfolio segment, by aging category, by delinquency status as of December 31, 2018.

(In thousands)	**Performing (Accruing) Loans**							
As of December 31, 2018:	**30 - 59 Days Past Due**	**60 - 89 Days Past Due**	**90 Days or Greater Past Due**	**Total Past Due**	**Current**	**Total Performing Loans**	**Non-accruing Loans**	**Loans Receivable Gross**
Loan portfolio segment:								
Commercial Real Estate:								
Pass	$423	-	-	423	262,435	262,858	-	262,858
Special mention	-	-	958	958	2,673	3,631	-	3,631
Substandard	170	-	-	170	4,754	4,924	3,525	8,449
	593	-	958	1,551	269,862	271,413	3,525	274,938
Residential Real Estate:								
Pass	637	817	-	1,454	151,509	152,963	-	152,963
Special mention								