PATRIOT NATIONAL BANCORP INC
Form 10-Q
May 09, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended March 31, 2014

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Connecticut	06-1559137
(State of	(I.R.S. Employer

incorporation) **Identification Number)**

900 Bedford Street, Stamford, Connecticut 06901

(Address of principal executive offices)

(203) 324-7500

(Registrant s telephone number)

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

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

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

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-Accelerated Filer	¨	Smaller Reporting Company	x

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

State the number of shares outstanding of each of the registrant s classes of common equity, as of the latest practicable date.

Common stock, $0.01 par value per share, 39,160,627 shares outstanding as of the close of business April 30, 2014.

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PART I FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements
PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

	(in thousands, except shares)	
	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	$ 1,503	$ 1,570
Interest bearing deposits	58,254	33,296
Total cash and cash equivalents	59,757	34,866
Securities:		
Available for sale securities, at fair value (Note 2)	36,815	37,701
Other Investments	4,450	4,450
Federal Reserve Bank stock, at cost	1,444	1,444
Federal Home Loan Bank stock, at cost	4,143	4,143
Total securities	46,852	47,738
Loans receivable (net of allowance for loan losses: 2014: $ 5,480 2013: $5,681) (Note 3)	415,123	418,148
Accrued interest and dividends receivable	1,578	1,566
Premises and equipment, net	14,866	15,061
Cash surrender value of life insurance	22,146	22,025
Other real estate owned	264	
Deferred tax asset (Note 6)		
Other assets	1,902	1,844
Total assets	$ 562,488	$ 541,248
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits (Note 4):		
Noninterest bearing deposits	$ 57,967	$ 55,358
Interest bearing deposits	370,002	374,846
Total deposits	427,969	430,204
Federal Home Loan Bank borrowings	80,000	57,000
Junior subordinated debt owed to unconsolidated trust	8,248	8,248
Accrued expenses and other liabilities	3,659	3,955
Total liabilities	519,876	499,407
Commitments and Contingencies (Note 9)		
Shareholders equity (Notes 5 and 10)		
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; 2014 39,134,164 shares issued; 39,122,459 shares outstanding. 2013 :38,786,680 shares issued; 38,774,975 shares outstanding	391	388
Additional paid-in capital	105,540	105,484
Accumulated deficit	(62,365)	(62,684)

Less: Treasury stock, at cost: 2013 and 2012, 11,705 shares		(160)		(160)
Accumulated other comprehensive income		(794)		(1,187)
Total shareholders equity		42,612		41,841
Total liabilities and shareholders equity	$	562,488	$	541,248

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	(in thousands, except per share amounts) Three Months Ended March 31,	
	2014	2013
Interest and Dividend Income		
Interest and fees on loans	4,691	5,196
Interest on investment securities	135	248
Dividends on investment securities	41	29
Other interest income	12	28
Total interest and dividend income	**4,879**	**5,501**
Interest Expense		
Interest on deposits	637	1,129
Interest on Federal Home Loan Bank borrowings	33	351
Interest on subordinated debt	200	71
Interest on other borrowings		76
Total interest expense	**870**	**1,627**
Net interest income	**4,009**	**3,874**
Provision for Loan Losses (Note 3)		(30)
Net interest income after provision for loan losses	**4,009**	**3,904**
Non-Interest Income		
Mortgage banking activity		46
Loan application, inspection & processing fees	66	38
Fees and service charges	219	171
Earnings on cash surrender value of life insurance	121	127
Other income	187	105
Total non-interest income	**593**	**487**
Non-Interest Expense		
Salaries and benefits (Note 5)	1,971	3,005
Occupancy and equipment expense	922	1,039
Data processing expense	250	371
Advertising and promotional expenses	51	42
Professional services and other outside services	471	889
Loan administration and processing expenses	17	77
Regulatory assessments	230	374
Insurance expense	97	79
Other real estate operations	16	2
Material and communications	93	106
Other operating expenses	165	385

Total non-interest expense	**4,283**	**6,369**
Income (loss) before income taxes	**319**	**(1,978)**
Benefit for Income Taxes		(21)
Net income (loss)	**319**	**(1,957)**
Basic and diluted income (loss) per share (Note 7)	**0.01**	**(0.05)**

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	(in thousands) Three Months Ended March 31,	
	2014	2013
Net income (loss)	$ 319	$ (1,957)
Other comprehensive income:		
Unrealized holding gains arising during the period	393	55
Total	393	55
Comprehensive income (loss)	**$ 712**	**$ (1,902)**

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

(in thousands, except shares)	Number of Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Three months ended March 31, 2013							
Balance at December 31, 2012	38,480,114	$ 385	$ 105,356	$ (55,395)	$ (160)	$ (618)	$ 49,568
Comprehensive loss							
Net loss				(1,957)			(1,957)
Unrealized holding gain on available for sale securities, net of taxes						55	55
Total comprehensive loss							(1,902)
Share-based compensation expense			7				7
Balance, March 31, 2013	38,480,114	$ 385	$ 105,363	$ (57,352)	$ (160)	$ (563)	$ 47,673
Three months ended March 31, 2014							
Balance at December 31, 2013	38,774,975	$ 388	$ 105,484	$ (62,684)	$ (160)	$ (1,187)	$ 41,841
Comprehensive income							
Net income				319			319
Unrealized holding gain on available for sale securities, net of taxes						393	393

Total comprehensive income							712
Share-based compensation expense			59				59
Issuance of restricted stock	347,484	3	(3)				
Balance, March 31, 2014	39,122,459	$ 391	$ 105,540	$ (62,365)	$ (160)	$ (794)	$ 42,612

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	(in thousands) Three Months Ended March 31,	
	2014	2013
Cash Flows from Operating Activities:		
Net income (loss):	$ 319	$ (1,957)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of investment premiums, net	66	38
Amortization and accretion of purchase loan premiums and discounts, net	18	2
Provision for loan losses		(30)
Gain on sale of mortgage loans		(42)
Originations of mortgage loans held for sale		(7,154)
Proceeds from sales of mortgage loans held for sale		2,171
Earnings on cash surrender value of life insurance	(121)	(127)
Depreciation and amortization	293	289
Gain on sale of other real estate owned		(200)
Share-based compensation	59	7
Changes in assets and liabilities:		
(Increase) in net deferred loan costs	(13)	(58)
(Increase) decrease in accrued interest and dividends receivable	(12)	8
(Increase) decrease in other assets	(58)	42
Decrease in accrued expenses and other liabilities	(296)	(1,521)
Net cash provided by (used in) operating activities	**255**	**(8,532)**
Cash Flows from Investing Activities:		
Principal repayments on available for sale securities	1,213	632
Proceeds from repurchase of excess stock by Federal Reserve Bank		37
Proceeds from repurchase of excess stock by Federal Home Loan Bank		201
Net decrease in loans	3,020	2,938
Purchase of other real estate owned	(264)	
Proceeds from sale of other real estate owned		1,310
Purchase of bank premises and equipment, net	(98)	(239)
Net cash provided by investing activities	**3,871**	**4,879**
Cash Flows from Financing Activities:		
Net increase in demand, savings and money market deposits	5,073	7,245
Net decrease in time certificates of deposits	(7,308)	(12,842)
Increase in FHLB borrowings	23,000	
Net cash provided by (used in) financing activities	**20,765**	**(5,597)**
Net increase (decrease) in cash and cash equivalents	**24,891**	**(9,250)**
Cash and Cash Equivalents:		
Beginning	34,866	71,014

Ending	$	59,757	$	61,764

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued

(Unaudited)

	(in thousands) Three Months Ended March 31,			
	2014		2013	
Supplemental Disclosures of Cash Flow Information				
Interest paid	$	669	$	1,561
Income taxes paid	$		$	
Supplemental disclosures of noncash operating, investing and financing activities:				
Unrealized holding gain on available for sale securities arising during the period	$	393	$	55
Transfer of loans to other real estate owned	$	264	$	
Reduction in deposits held for sale	$		$	3,777
Reduction in branch assets held for sale	$		$	8

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1: Basis of Financial Statement Presentation

The Consolidated Balance Sheet at December 31, 2013 has been derived from the audited financial statements of Patriot National Bancorp, Inc. (Bancorp or the Company) at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The accompanying unaudited financial statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements and related notes should be read in conjunction with the audited financial statements of Bancorp and notes thereto for the year ended December 31, 2013.

The information furnished reflects, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results of operations that may be expected for the remainder of 2014.

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Note 2: Investment Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available-for-sale securities at March 31, 2014 and December 31, 2013 are as follows:

(in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
March 31, 2014:								
U. S. Government agency bonds	$	7,500	$		$	(255)	$	7,245
U. S. Government agency mortgage-backed securities		21,109				(477)		20,632
Corporate bonds		9,000				(62)		8,938
	$	37,609	$		$	(794)	$	36,815
December 31, 2013:								
U. S. Government agency bonds	$	7,500	$		$	(421)	$	7,079
U. S. Government agency mortgage-backed securities		22,388				(636)		21,752
Corporate bonds		9,000				(130)		8,870
	$	38,888	$		$	(1,187)	$	37,701

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The following table presents the gross unrealized loss and fair value of Bancorp s available-for-sale securities, aggregated by the length of time the individual securities have been in a continuous loss position, at March 31, 2014 and December 31, 2013:

	Less Than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2014:						
U. S. Government agency bonds	$ 7,245	$ (255)	$	$	$ 7,245	$ (255)
U. S. Government agency mortgage - backed securities	8,402	(233)	12,204	(244)	20,606	(477)
Corporate bonds			8,938	(62)	8,938	(62)
Totals	$ 15,647	$ (488)	$ 21,142	$ (306)	$ 36,789	$ (794)
December 31, 2013:						
U. S. Government agency bonds						
U. S. Government agency mortgage - backed securities	$ 7,079	$ (421)	$	$	$ 7,079	$ (421)
Corporate bonds	8,871	(291)	12,856	(345)	21,727	(636)
Totals			8,870	(130)	8,870	(130)
	$ 15,950	$ (712)	$ 21,726	$ (475)	$ 37,676	$ (1,187)

At March 31, 2014, eleven securities had unrealized holding losses with aggregate depreciation of 2.1% from the amortized cost. At December 31, 2013, eleven securities had unrealized losses with aggregate depreciation of 3.2% from the amortized cost.

Bancorp performs a quarterly analysis of those securities that are in an unrealized loss position to determine if those losses qualify as other-than-temporary impairments. This analysis considers the following criteria in its determination: the ability of the issuer to meet its obligations, when the loss position is due to a deterioration in credit quality, management s plans and ability to maintain its investment in the security, the length of time and the amount by which the security has been in a loss position, the interest rate environment, the general economic environment and prospects or projections for improvement or deterioration.

Management believes that none of the unrealized losses on available-for-sale securities noted above are other than temporary due to the fact that they relate to market interest rate changes on U.S. Government agency debt, corporate debt and mortgage -backed securities issued by U.S. Government agencies. Management considers the issuers of the securities to be financially sound, the corporate bonds are investment grade and the Company expects to receive all contractual principal and interest related to these investments. Because the Company does not intend to sell the investments, and it is not more-likely-than-not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2014.

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The amortized cost and fair value of available-for-sale debt securities at March 31, 2014 by contractual maturity are presented below. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be prepaid without any penalties. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following summary:

(in thousands)	Amortized Cost	Fair Value
Maturity:		
Corporate bonds 5 to 10 years	$ 9,000	$ 8,938
U.S. Government agency bonds < 5 years	2,500	2,458
U.S. Government agency bonds 5 to 10 years	5,000	4,787
U.S. Government agency mortgage-backed securities	21,109	20,632
Total	$ 37,609	$ 36,815

Note 3: Loans Receivable and Allowance for Loan Losses

A summary of the Company s loan portfolio at March 31, 2014 and December 31, 2013 is as follows:

(in thousands)	March 31, 2014	December 31, 2013
Real Estate		
Commercial	$ 218,051	$ 223,165
Residential	103,019	106,198
Construction	260	260
Construction to permanent	12,650	11,303
Commercial	38,752	35,061
Consumer home equity	43,717	44,081
Consumer installment	3,389	2,990
Total Loans	419,838	423,058
Premiums on purchased loans	182	200
Net deferred costs	583	571
Allowance for loan losses	(5,480)	(5,681)
Loans receivable, net	$ 415,123	$ 418,148

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The changes in the allowance for loan losses for the periods shown are as follows:

(in thousands)	Three months ended March 31, 2014	2013
Balance, beginning of period	$ 5,681	$ 6,016
Provision for loan losses		(30)
Loans charged-off	(217)	(306)
Recoveries of loans previously charged-off	16	37
Balance, end of period	$ 5,480	$ 5,717

Loans past due ninety days or more, and still accruing interest were $834,000 and $866,000 at March 31, 2014, and December 31, 2013 respectively, and consisted of one loan at March 31, 2014 and two loans at December 31, 2013. The subject loan at March 31, 2014 was current as to interest payments but was past the loan s maturity date and in the process of being renewed. It was approved for renewal in April, 2014. At December 31, 2013, the previously noted loan had a balance of $841,000 and was current and a second loan for $25,000 was current within 60 days as to interest payments. Both were past their maturity date and in the process of being renewed at December 31, 2013.

The unpaid principal balances of loans on nonaccrual status and considered impaired were $10.2 million at March 31, 2014 and $12.3 million at December 31, 2013. If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded approximately $33,000 of additional income during the quarter ended March 31, 2014 and $306,000 during the quarter ended March 31, 2013.

For the three months ended March 31, 2014 and 2013, the interest collected and recognized as income on impaired loans, which includes non-accrual loans, TDRs and loans that were previously classified as TDRs that have been upgraded, was approximately $113,000 and $125,000 respectively. The average recorded investment in impaired loans for the three months ended March 31, 2014 was $21.5 million.

At March 31, 2014, there were 3 loans totaling $3.4 million that were considered troubled debt restructurings, as compared to December 31, 2013 when there were 2 loans totaling $2.2 million, all of which were included in impaired loans. At March 31, 2014, 2 of the 3 loans aggregating $2.1 million were accruing loans and 1 loan of $1.3 million was a non-accruing loan. The non-accruing loan was an existing TDR at December 31, 2013 which was restructured again in the quarter ended March 31, 2014.

The Company s lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County and New York City in New York. The Company originates commercial real estate loans, commercial business loans, and a variety of other consumer loans. In addition, the Company previously had originated loans for residential real estate, the construction of residential homes, residential developments and for land development projects. A moratorium on all new speculative construction loans was instituted by management in July 2008. All residential and commercial mortgage 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.

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The Company has established credit policies applicable to each type of lending activity in which it engages, evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 75% of the market value of the collateral for commercial real estate at the date of the credit extension depending on the Company s evaluation of the borrowers creditworthiness and type of collateral and up to 80% for residential 1-4 family real estate. In the case of construction loans, the maximum loan-to-value was 65% of the as completed market value. The market value of collateral is monitored on an ongoing basis and additional collateral is obtained when warranted. Real estate is the primary form of collateral. Other important forms of collateral are accounts receivable, inventory, other business assets, marketable securities and time deposits. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrower s ability to generate continuing cash flows on all loans not related to construction.

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

Commercial Real Estate Loans In underwriting commercial real estate loans, the Company 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 or should there be a substantial decline in the value of the property securing the loan or a decline in the general economic conditions. Where the owner occupies the property, the Company also evaluates the business s ability to repay the loan on a timely basis. In addition, the Company may require personal guarantees, lease assignments and/or the guarantee of the operating company when the property is owner occupied.

Commercial and Industrial Loans The Company s commercial and industrial loan portfolio consists primarily of commercial business loans and lines of credit to businesses and professionals. These loans are usually made to finance the purchase of inventory or new or used equipment and 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 this type of loan, the Company primarily looks to the borrower s cash flow as the source of repayment with collateral and personal guarantees, where obtained, as a secondary source. Payments on such loans are often dependent upon the successful operation of the underlying business involved. Repayment of such loans may therefore be negatively impacted by adverse changes in economic conditions, management s inability to effectively manage the business, claims of others against the borrower s assets which may take priority over the Company s claims against assets, death or disability of the borrower or loss of market for the borrower s products or services.

Residential Real Estate Loans Various loans secured by residential real estate properties are offered by the Company, including 1-4 family residential loans and a variety of home equity line of credit products. Repayment of such loans may be negatively impacted should the borrower default, should there be a significant decline in the value of the property securing the loan or should there be decline in general economic conditions.

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Construction Loans Construction loans are short-term loans (generally up to 18 months) secured by land for both residential and commercial development. The loans are generally made for acquisition and improvements. Funds are 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 the financial strength of the builder, the type and location of the property and other factors. Construction loans are generally personally guaranteed by the principal(s). Repayment of such loans may be negatively impacted by the builders inability to complete construction, by a downturn in the new construction market, by a significant increase in interest rates or by decline in general economic conditions.

Other Loans The Company also offers installments loans and reserve lines of credit to individuals. Repayments of such loans are often dependent on the personal income of the borrower which may be negatively impacted by adverse changes in economic conditions. The Company does not place an 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 typically characterized by payment delinquencies, previous charge-offs judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burdened ratios.

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The following table sets forth activity in our allowance for loan losses, by loan type, for the three months ended March 31, 2014. The following table also details the amount of loans receivable, net, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment.

(in thousands)

Three months ended March 31, 2014	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 2,285	$ 1,585	$ 260	$ 25	$ 795	$ 534	$ 197	$ 5,681
Charge-offs	(9)				(178)	(30)		(217)
Recoveries					15	1		16
Provision	95	(265)		9	72	34	55	
Ending Balance	$ 2,371	$ 1,320	$ 260	$ 34	$ 704	$ 539	$ 252	$ 5,480
Ending balance: individually evaluated for impairment	$ 1,500	$ 17	$ 260	$	$ 21	$ 2	$	$ 1,800
Ending balance: collectively evaluated for impairment	871	1,303		34	683	537	252	3,680
Total Allowance for Loan Losses	$ 2,371	$ 1,320	$ 260	$ 34	$ 704	$ 539	$ 252	$ 5,480
Total Loans ending balance	$ 38,752	$ 218,051	$ 260	$ 12,650	$ 103,019	$ 47,106	$	$ 419,838
Ending balance: individually evaluated for impairment	$ 6,052	$ 8,855	$ 260	$	$ 5,179	$ 587	$	$ 20,933
Ending balance : collectively evaluated for impairment	$ 32,700	$ 209,196	$	$ 12,650	$ 97,840	$ 46,519	$	$ 398,905

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The following table sets forth activity in our allowance for loan losses, by loan type, for the year ended December 31, 2013. The following table also details the amount of loans receivable, net, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment.

(in thousands)

2013	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 942	$ 3,509	$ 311	$ 19	$ 897	$ 217	$ 121	$ 6,016
Charge-offs	(63)	(403)	(205)		(919)	(78)		(1,668)
Recoveries	4	335	20		1	3		363
Provision	1,402	(1,856)	134	6	816	392	76	970
Ending Balance	$ 2,285	$ 1,585	$ 260	$ 25	$ 795	$ 534	$ 197	$ 5,681
Ending balance: individually evaluated for impairment	$ 1,500	$ 31	$ 260	$	$ 98	$ 2	$	$ 1,891
Ending balance: collectively evaluated for impairment	785	1,554		25	697	532	197	3,790
Total Allowance for Loan Losses	$ 2,285	$ 1,585	$ 260	$ 25	$ 795	$ 534	$ 197	$ 5,681
Total Loans ending balance	$ 35,061	$ 223,165	$ 260	$ 11,303	$ 106,198	$ 47,071	$	$ 423,058
Ending balance: individually evaluated for impairment	6,152	7,767	260	1,197	6,024	593		21,993
Ending balance : collectively evaluated for impairment	$ 28,909	$ 215,398	$	$ 10,106	$ 100,174	$ 46,478	$	$ 401,065

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The Company monitors the credit quality of its loans receivable on an ongoing manner. Credit quality is monitored by reviewing certain credit quality indicators. Management has determined that internally assigned risk ratings and loan-to-value ratios (LTVs), at period end, are the key credit quality indicators that best help management monitor the credit quality of the Company s loans receivable. Loan-to-value ratios used by management in monitoring credit quality are based on current period loan balances and original values at time of origination (unless a current appraisal has been obtained as a result of the loan being deemed impaired or the loan is a maturing construction loan).

Appraisals on properties securing non-performing loans and Other Real Estate Owned (OREO) are updated annually. We update our impairment analysis monthly based on the most recent appraisal as well as other factors (such as senior lien positions, e.g. property taxes).

The majority of the Company s impaired loans have been resolved through courses of action other than via bank liquidations of real estate collateral through OREO. These include normal loan payoffs, the traditional workout process, triggering personal guarantee obligations, and troubled debt restructurings. However, as loan workout efforts progress to a point where the bank s liquidation of real estate collateral is the likely outcome, the impairment analysis is updated to reflect actual recent experience with bank sales of OREO properties.

A disposition discount is built into our impairment analysis and reflected in our allowance once a property is determined to be a likely OREO (e.g. foreclosure is probable). To determine the discount we compare the average sales prices of our prior OREO properties to the appraised value that was obtained as of the date when we took title to the property. The difference is the bank-owned disposition discount.

The Company has a risk rating system as part of the risk assessment of its loan portfolio. The Company s lending officers are required to assign an Obligor and a Facility risk rating to each loan in their portfolio at origination, which is ratified or modified by the Committee to which the loan is submitted for approval. When the lender learns of important financial developments, the risk rating is reviewed accordingly, and adjusted if necessary. Similarly, the Loan Committee can adjust a risk rating.

In addition, the Company engages a third party independent loan reviewer that performs quarterly reviews of a sample of loans, validating the Bank s risk ratings assigned to such loans. The risk ratings play an important role in the establishment of the loan loss provision and to confirm the adequacy of the allowance for loan losses. Any upgrades to classified loans must be approved by the Board 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: An asset is considered substandard if it is not adequately protected by the current net worth and paying capacity of the obligor or of 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 the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Charge off generally commences after the loan is classified doubtful to reduce the loan to its recoverable balance. If the account is classified as loss , the full balance is charged off regardless of the potential recovery from the sale of the collateral. This amount is recognized as a recovery once the collateral is sold.

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

The following table details the credit risk exposure of loans receivable, by loan type and credit quality indicator at March 31, 2014:

CREDIT RISK PROFILE BY CREDIT WORTHINESS CATEGORY

(in thousands)	**Commercial**		**Commercial Real Estate**		**Construction**		**Construction to Permanent**		**Residential Real Estate**		**Consumer**			
LTVs:	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**Other**	**Total**
Internal Risk Rating														
Pass	$ 27,343	$ 3,760	$ 195,649	$ 7,178	$	$	$ 8,050	$ 4,600	$ 81,304	$ 19,640	$ 42,661	$ 3,756	$ 654	$ 394,595
Special Mention	159		5,774	2,477										8,410
Substandard	7,490		3,664	3,309	60	200			1,576	499	35			16,833
	$ 34,992	$ 3,760	$ 205,087	$ 12,964	$ 60	$ 200	$ 8,050	$ 4,600	$ 82,880	$ 20,139	$ 42,696	$ 3,756	$ 654	$ 419,838

CREDIT RISK PROFILE

(in thousands)	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential Real Estate**	**Consumer**	**Totals**
Performing	$ 32,700	$ 216,302	$	$ 12,650	$ 100,944	$ 47,076	$ 409,672
Non Performing	6,052	1,749	260		2,075	30	10,166
Total	$ 38,752	$ 218,051	$ 260	$ 12,650	$ 103,019	$ 47,106	$ 419,838

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The following table details the credit risk exposure of loans receivable, by loan type and credit quality indicator at December 31, 2013:

CREDIT RISK PROFILE BY CREDIT WORTHINESS CATEGORY

(in thousands)	**Commercial**		**Commercial Real Estate**		**Construction**		**Construction to Permanent**		**Residential Real Estate**		**Consumer**			
LTVs:	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**Other**	**Total**
Internal Risk Rating														
Pass	$ 23,493	$ 3,898	$ 199,118	$ 7,951	$	$	$ 10,106	$	$ 82,704	$ 20,592	$ 42,542	$ 3,839	$ 650	$ 394,893
Special Mention	167		6,573	2,502										9,242
Substandard	7,503		3,690	3,331	60	200	1,197		1,976	926	9	31		18,923
	$ 31,163	$ 3,898	$ 209,381	$ 13,784	$ 60	$ 200	$ 11,303	$	$ 84,680	$ 21,518	$ 42,551	$ 3,870	$ 650	$ 423,058

CREDIT RISK PROFILE

(in thousands)	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential Real Estate**	**Consumer**	**Totals**
Performing	$ 28,909	$ 221,401	$	$ 10,106	$ 103,296	$ 47,038	$ 410,750
Non Performing	6,152	1,764	260	1,197	2,902	33	12,308
Total	$ 35,061	$ 223,165	$ 260	$ 11,303	$ 106,198	$ 47,071	$ 423,058

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The following table sets forth the detail, and delinquency status, of non-accrual loans and past due loans at March 31, 2014:

	Non-Accrual and Past Due Loans						
	Non-Accrual Loans						
(in thousands) 2014	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	>90 Days Past Due and Accruing	Total Non-Accrual and Past Due Loans
Commercial							
Substandard	$	$	$ 2	$ 2	$ 6,050	$	$ 6,052
Total Commercial	$	$	$ 2	$ 2	$ 6,050	$	$ 6,052
Commercial Real Estate							
Substandard	$	$	$ 313	$ 313	$ 1,436	$ 834	$ 2,583
Total Commercial Real Estate	$	$	$ 313	$ 313	$ 1,436	$ 834	$ 2,583
Construction							
Substandard	$	$	$ 260	$ 260	$	$	$ 260
Total Construction	$	$	$ 260	$ 260	$	$	$ 260
Residential Real Estate							
Substandard	$	$	$ 2,075	$ 2,075	$	$	$ 2,075
Total Residential Real Estate	$	$	$ 2,075	$ 2,075	$	$	$ 2,075
Consumer							
Substandard	$	$	$ 2	$ 2	$ 28	$	$ 30
Total Consumer	$	$	$ 2	$ 2	$ 28	$	$ 30
Total	$	$	$ 2,652	$ 2,652	$ 7,514	$ 834	$ 11,000

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The following table sets forth the detail, and delinquency status, of non-accrual loans and past due loans at December 31, 2013:

	Non-Accrual and Past Due Loans						
	Non-Accrual Loans						
(in thousands) 2013	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	>90 Days Past Due and Accruing	Total Non-Accrual and Past Due Loans
Commercial							
Pass	$	$	$	$	$	$ 25	$ 25
Substandard			2	2	6,150		6,152
Total Commercial	$	$	$ 2	$ 2	$ 6,150	$ 25	$ 6,177
Commercial Real Estate							
Substandard	$	$	$ 1,764	$ 1,764	$	$ 841	$ 2,605
Total Commercial Real Estate	$	$	$ 1,764	$ 1,764	$	$ 841	$ 2,605
Construction							
Substandard	$	$	$ 260	$ 260	$	$	$ 260
Total Construction	$	$	$ 260	$ 260	$	$	$ 260
Construction to Permanent							
Substandard	$	$	$	$	$ 1,197	$	$ 1,197
Total Construction to Permanent	$	$	$	$	$ 1,197	$	$ 1,197
Residential Real Estate							
Substandard	$	$	$ 2,523	$ 2,523	$ 379	$	$ 2,902
Total Residential Real Estate	$	$	$ 2,523	$ 2,523	$ 379	$	$ 2,902
Consumer							
Substandard	$	$	$ 2	$ 2	$ 31	$	$ 33
Total Consumer	$	$	$ 2	$ 2	$ 31	$	$ 33
Total	$	$	$ 4,551	$ 4,551	$ 7,757	$ 866	$ 13,174

Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The recorded balance of these non-accrual loans was $10.2 million and $12.3 million at March 31, 2014, and December 31, 2013 respectively. Generally, loans are placed on non-accruing status when they become 90 days or more delinquent, and remain on non-accrual status until they are brought current, have six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exist. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent and still be on a non-accruing status. Additionally, certain loans that cannot demonstrate sufficient global cash flow to continue loan payments in the future and certain troubled debt restructures (TDRs) are placed on non-accrual status.

Loans past due ninety days or more, and still accruing interest were $834,000 and $866,000 at March 31, 2014, and December 31, 2013 respectively, and consisted of one loan at March 31, 2014 and two loans at December 31, 2013. The subject loan at March 31, 2014 was current as to interest payments but was past the loan s maturity date and in the process of being renewed. It was approved for renewal in April, 2014. At December 31, 2013, the previously noted loan had a balance of $841,000 and was current and a second loan for $25,000 was current within 60 days as to interest payments.

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Both were past the loan s maturity date and in the process of being renewed at December 31, 2013.

The following table sets forth the detail and delinquency status of loans receivable, by performing and non-performing loans at March 31, 2014.

(in thousands) 2014	Performing (Accruing) Loans 31-60 Days Past Due	61-90 Days Past Due	Total Past Due	Current	Total Performing Loans	Total Non-Accrual and Past Due Loans	Total Loans
Commercial							
Pass	$ 120	$	$ 120	$ 30,983	$ 31,103	$	$ 31,103
Special Mention	16		16	143	159		159
Substandard				1,438	1,438	6,052	7,490
Total Commercial	$ 136	$	$ 136	$ 32,564	$ 32,700	$ 6,052	$ 38,752
Commercial Real Estate							
Pass	$ 654	$ 1,188	$ 1,842	$ 200,986	$ 202,828	$	$ 202,828
Special Mention				8,251	8,251		8,251
Substandard				4,389	4,389	2,583	6,972
Total Commercial Real Estate	$ 654	$ 1,188	$ 1,842	$ 213,626	$ 215,468	$ 2,583	$ 218,051
Construction							
Substandard	$	$	$	$	$	$ 260	$ 260
Total Construction	$	$	$	$	$	$ 260	$ 260
Construction to Permanent							
Pass	$	$	$	$ 12,650	$ 12,650	$	$ 12,650
Total Construction to Permanent	$	$	$	$ 12,650	$ 12,650	$	$ 12,650
Residential Real Estate							
Pass	$ 53	$	$ 53	$ 100,891	$ 100,944	$	$ 100,944
Substandard						2,075	2,075
Total Residential Real Estate	$ 53	$	$ 53	$ 100,891	$ 100,944	$ 2,075	$ 103,019
Consumer							

Pass	$ 4	$	$ 4	$ 47,067	$ 47,071	$	$ 47,071
Substandard				5	5	30	35
Total Consumer	$ 4	$	$ 4	$ 47,072	$ 47,076	$ 30	$ 47,106
Total	$ 847	$ 1,188	$ 2,035	$ 406,803	$ 408,838	$ 11,000	$ 419,838

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The following table sets forth the detail and delinquency status of loans receivable by performing and non-performing loans at December 31, 2013.

	Performing (Accruing) Loans						
(in thousands) 2013	31-60 Days Past Due	61-89 Days Past Due	Total Past Due	Current	Total Loan Balances	Total Non-Accrual and Past Due Loans	Total Loans Receivable
Commercial							
Pass	$ 725	$	$ 725	$ 26,641	$ 27,366	$ 25	$ 27,391
Special Mention				167	167		167
Substandard				1,351	1,351	6,152	7,503
Total Commercial	$ 725	$	$ 725	$ 28,159	$ 28,884	$ 6,177	$ 35,061
Commercial Real Estate							
Pass	$ 1,858	$ 266	$ 2,124	$ 204,944	$ 207,068	$	$ 207,068
Special Mention				9,075	9,075		9,075
Substandard				4,417	4,417	2,605	7,022
Total Commercial Real Estate	$ 1,858	$ 266	$ 2,124	$ 218,436	$ 220,560	$ 2,605	$ 223,165
Construction							
Substandard	$	$	$	$	$	$ 260	$ 260
Total Construction	$	$	$	$	$	$ 260	$ 260
Construction to Permanent							
Pass	$	$	$	$ 10,106	$ 10,106	$	$ 10,106
Substandard						1,197	1,197
Total Construction to Permanent	$	$	$	$ 10,106	$ 10,106	$ 1,197	$ 11,303
Residential Real Estate							
Pass	$ 32	$	$ 32	$ 103,264	$ 103,296	$	$ 103,296
Substandard						2,902	2,902
Total Residential Real Estate	$ 32	$	$ 32	$ 103,264	$ 103,296	$ 2,902	$ 106,198
Consumer							
Pass	$ 350	$ 560	$ 910	$ 46,121	$ 47,031	$	$ 47,031

Substandard	7		7		7	33	40
Total Consumer	$ 357	$ 560	$ 917	$ 46,121	$ 47,038	$ 33	$ 47,071
Total	$ 2,972	$ 826	$ 3,798	$ 406,085	$ 409,884	$ 13,174	$ 423,058

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The following table summarizes impaired loans as of March 31, 2014:

(in thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	$ 2	$ 160	$
Commercial Real Estate	8,699	9,537	
Construction			
Construction to Permanent			
Residential	4,680	7,203	
Consumer	585	664	
Total:	$ 13,966	$ 17,564	$
With an allowance recorded:			
Commercial	$ 6,050	$ 6,050	$ 1,500
Commercial Real Estate	156	210	17
Construction	260	487	260
Construction to Permanent			
Residential	499	545	21
Consumer	2	2	2
Total:	$ 6,967	$ 7,294	$ 1,800
Commercial	$ 6,052	$ 6,210	$ 1,500
Commercial Real Estate	8,855	9,747	17
Construction	260	487	260
Construction to Permanent			
Residential	5,179	7,748	21
Consumer	587	666	2
Total:	$ 20,933	$ 24,858	$ 1,800

Impaired loans consist of non-accrual loans, TDRs and loans that were previously classified as TDRs that have been upgraded.

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The following table summarizes impaired loans as of December 31, 2013:

(in thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	$ 2	$ 151	$
Commercial Real Estate	7,597	8,316	
Construction			
Construction to Permanent	1,197	1,425	
Residential	5,098	7,632	
Consumer	591	670	
Total:	$ 14,485	$ 18,194	$
With an allowance recorded:			
Commercial	$ 6,150	$ 6,150	$ 1,500
Commercial Real Estate	170	215	31
Construction	260	487	260
Construction to Permanent			
Residential	926	1,066	98
Consumer	2	2	2
Total:	$ 7,508	$ 7,920	$ 1,891
Commercial	$ 6,152	$ 6,301	$ 1,500
Commercial Real Estate	7,767	8,531	31
Construction	260	487	260
Construction to Permanent	1,197	1,425	
Residential	6,024	8,698	98
Consumer	593	672	2
Total:	$ 21,993	$ 26,114	$ 1,891

The recorded investment of impaired loans at March 31, 2014 and December 31, 2013 was $20.9 million and $22.0 million, with related allowances of $1.8 million and $1.9 million, respectively.

Included in the tables above at March 31, 2014 and December 31, 2013 are loans with carrying balances of $14.0 million and $14.5 million that required no specific reserves in our allowance for loan losses. Loans that did not require specific reserves have sufficient collateral values, less costs to sell, supporting the carrying balances of the loans. In some cases, there may be no specific reserves because the Company already charged-off the specific impairment. Once a borrower is in default, the Company is under no obligation to advance additional funds on unused commitments.

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On a case-by-case basis, the Company may agree to modify the contractual terms of a borrower s loan to remain competitive and assist customers who may be experiencing financial difficulty, as well as to preserve the Company s position in the loan. If the borrower is experiencing financial difficulties and a concession has been made, the loan is classified as a troubled debt restructured loan.

The following table presents the total troubled debt restructured loans as of March 31, 2014:

	Accrual		Non-accrual		Total	
(Dollars in thousands)	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount
Commercial Real Estate	2	$ 2,128	1	$ 1,280	3	$ 3,408
Total Troubled Debt Restructurings	2	$ 2,128	1	$ 1,280	3	$ 3,408

The following table presents the total troubled debt restructured loans as of December 31, 2013:

	Accrual		Non-accrual		Total	
(Dollars in thousands)	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount
Construction to permanent	1	$ 991	1	$ 1,197	2	$ 2,188
Total Troubled Debt Restructurings	1	$ 991	1	$ 1,197	2	$ 2,188

Two loans, including a loan which had been modified in a prior year, were modified in a troubled debt restructuring during the three months ended March 31, 2014. The following table summarizes loans that were modified in a troubled debt restructuring during the three months ended March 31, 2014.

	Three months ended March 31, 2014			
(Dollars in thousands)	Number of Relationships	Pre-Modification Outstanding Recorded Investment	Number of Relationships	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings				
Commercial Real Estate	2	$ 2,439	2	$ 2,430
Total Troubled Debt Restructurings	2	$ 2,439	2	$ 2,430

Substantially all of our troubled debt restructured loan modifications involve lowering the monthly payments on such loans through either a reduction in interest rate, an extension of the term of the loan, or a combination of these two methods. These modifications rarely result in the forgiveness of principal or accrued interest. In addition, we frequently obtain additional collateral or guarantor support when modifying commercial loans. If the borrower had demonstrated performance under the previous terms and our underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.

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All troubled debt restructurings are impaired loans, which are individually evaluated for impairment.

Note 4: Deposits

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

(in thousands)	March 31, 2014	December 31, 2013
Non-interest bearing	$ 57,967	$ 55,358
Interest bearing		
NOW	25,464	28,618
Savings	86,409	80,983
Money market	29,502	29,310
Time certificates, less than $100,000	121,955	129,548
Time certificates, $100,000 or more	106,672	106,387
Total interest bearing	370,002	374,846
Total Deposits	$ 427,969	$ 430,204

Note 5: Share-Based Compensation

The Company maintains the Patriot National Bancorp, Inc. 2012 Stock Plan to provide an incentive to directors and employees of the Company by the grant of options, restricted stock awards or phantom stock units. The Plan provides for the issuance of up to 3,000,000 shares of the Company s common stock subject to certain Plan limitations. 2,240,268 shares of stock remain available for issuance under the Plan as of March 31, 2014. The vesting of restricted stock awards and options may be accelerated in accordance with terms of the plan. The Compensation Committee shall make terms and conditions applicable to the vesting of restricted stock awards and stock options. Restricted stock grants are available to directors and employees and vest in quarterly or annual installments over a three, four or five year period from the date of grant. The Compensation Committee accelerated the vesting of the initial grant of restricted stock in 2012, whereby the first year of the tranche vested immediately. The Company is expensing the grant date fair value of all share-based compensation over the requisite vesting periods on a straight-line basis.

During the three months ended March 31, 2014 and March 31, 2013, the Company recorded $59,000 and $7,000 of total stock-based compensation, respectively. During the quarter ended March 31, 2014, there were 347,484 awards granted under the 2012 Stock Plan.

The following is a summary of the status of the Company s restricted shares as of March 31, 2014, and changes therein during the period then ended.

	Number of Shares Awarded	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2013	281,835	$ 1.26
Granted	347,484	1.01
Vested	4,435	1.73
Non-vested at March 31, 2014	624,884	$ 1.12

Expected future stock award expense related to the non-vested restricted awards as of March 31, 2014, is $648,000 over an average period of 2.8 years.

The company had no outstanding stock options at March 31, 2014.

Note 6: Income Taxes

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. The deferred tax position has been affected by several significant transactions in prior years. These transactions include provision for loan losses, the levels of non-accrual loans and other-than-temporary impairment write-offs of certain investments, as well as a loss on the bulk sale of loans in 2011. As a result, the Company was in a cumulative net loss position in 2011 and under the applicable accounting guidance, had concluded that it was not more-likely-than-not that the Company would be able to realize its deferred tax assets and, accordingly, had established a full valuation allowance totaling $14.4 million against the deferred tax asset balance remaining after the IRC 382 write-down (see below).

As measured under the rules of the Tax Reform Act of 1986, the Company has undergone a greater than 50% change of ownership in 2010. Consequently, use of the Company s net operating loss carry forward and certain built in deductions available against future taxable income in any one year are limited. The maximum amount of carry forwards available in a given year is limited to the product of the Company s fair market value on the date of ownership change and the federal long-term tax-exempt rate, plus any limited carry forward not utilized in prior years.

The Company analyzed the impact of its ownership change in 2010 and calculated the annual limitation under IRC 382 to be $284,000. Based on the analysis, the Company had determined that the pre-change net operating losses and net unrealized built-in deductions were approximately $36.2 million. Based on a 20 year carry forward period, the Company could utilize approximately $5.6 million of the pre-change net operating losses and built-in deductions. Therefore, the Company wrote-off approximately $10.4 million of deferred tax assets in 2011. Accordingly, the write-off of the deferred tax asset did not affect the consolidated financial statements as there was a full valuation allowance against the deferred tax asset.

Management has reviewed the deferred tax position of the Company at March 31, 2014. The valuation allowance is analyzed quarterly for changes affecting the deferred tax asset. At March 31, 2014, the company reported taxable income for the second consecutive quarter. However, based on current accounting guidance the Company has not generated taxable income for a sufficient length of time in order to reverse the DTA valuation allowance and, accordingly, had an allowance totaling $17.8 million at March 31, 2014. In the future, when the Company has generated taxable income on a more sustained basis, management s conclusion regarding the need for a deferred tax asset valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation allowance.

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Note 7: Income (loss) per share

The Company is required to present basic income (loss) per share and diluted income (loss) per share in its consolidated statements of operations. Basic income (loss) per share amounts are computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted income (loss) per share reflects additional common shares that would have been outstanding if potentially dilutive common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and are determined using the treasury stock method. The Company is also required to provide a reconciliation of the numerator and denominator used in the computation of both basic and diluted income (loss) per share.

The stock options and non-vested restricted stock awards did not have an impact on the diluted earnings per share. The following is information about the computation of income (loss) per share for the three months ended March 31, 2014 and 2013:

Three months ended March 31, 2014	**Net Income**	**Weighted Average Common Shares O/S**	**Amount**
Basic and Diluted Income Per Share			
Income attributable to common shareholders	$ 319,000	38,493,189	$ 0.01

Three months ended March 31, 2013	Net Loss	Weighted Average Common Shares O/S	Amount
Basic and Diluted Loss Per Share			
Loss attributable to common shareholders	$ (1,957,000)	38,435,597	$ (0.05)

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Note 8: Other Comprehensive Income

Other comprehensive income, which is comprised solely of the change in unrealized gains and losses on available-for-sale securities, is as follows:

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
(in thousands)	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Unrealized holding gains arising during the period	$ 393	$	$ 393	$ 55	$	$ 55

Note 9: Financial Instruments with Off-Balance Sheet Risk

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

The contractual amount of commitments to extend credit and standby letters of credit represent the total amount of potential accounting loss should: the contracts be fully drawn upon; the customers default; and the value of any existing collateral becomes worthless. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments and evaluates each customer s creditworthiness on a case-by-case basis. Management believes that the Company controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

Financial instruments whose contractual amounts represent credit risk at March 31, 2014 are as follows:

	(in thousands)
Commitments to extend credit:	
Future loan commitments	$ 15,526
Home equity lines of credit	27,708
Unused lines of credit	36,871
Undisbursed construction loans	2,174
Financial standby letters of credit	1,118
	$ 83,397

Standby letters of credit are written commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Guarantees that are not derivative contracts are recorded on the Company s consolidated balance sheet at their fair value at inception.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates, or other termination clauses, and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the counterparty. Collateral held varies, but may include residential and commercial property, deposits and securities. The bank has established a reserve of $12,000 as of March 31, 2014.

Note 10: Regulatory and Operational Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company s and the Bank s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company s and the Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). In addition, due to the Bank s asset profile and current economic conditions in its markets, the Bank s capital plan pursuant to the Agreement described below does target a minimum 9% Tier 1 leverage capital ratio.

In February 2009 the Bank entered into a formal written agreement (the Agreement) with the Office of the Comptroller of the Currency. Under the terms of the Agreement, the Bank has appointed a Compliance Committee of outside directors and the Chief Executive Officer. The Committee must report quarterly to the Board of Directors and to the OCC on the Bank s progress in complying with the Agreement. The Agreement requires the Bank to review, adopt and implement a number of policies and programs related to credit and operational issues. The Agreement further provides for limitations on the acceptance of certain brokered deposits and the extension of credit to borrowers whose loans are criticized. The Bank may pay dividends during the term of the Agreement only with prior written permission from the OCC. The Agreement also requires that the Bank develop and implement a three-year capital plan. The Bank has taken or put into process all of the steps required by the Agreement, and does not anticipate that the restrictions included within the Agreement will impair its current business plan.

In June 2010 the company entered into a formal written agreement (the Reserve Bank Agreement) with the Federal Reserve Bank of New York (the Reserve Bank). Under the terms of the Reserve Bank Agreement, the Board of Directors of the Company are required to take appropriate steps to fully utilize the Company s financial and managerial resources to serve as a source of strength to the Bank including taking steps to insure that the Bank complies with the Agreement with the OCC. The Reserve Bank Agreement requires the Company to submit, adopt and implement a capital plan that is acceptable to the Reserve Bank. The Company must also report to the Reserve Bank quarterly on the Company s progress in complying with the Reserve Bank Agreement. The Agreement further provides for certain restrictions on the payment or receipt of dividends, distributions of interest or principal on subordinate debentures or trust preferred securities and the Company s ability to incur debt or to purchase or redeem its stock without the prior written approval of the Reserve Bank. The Company has taken or put into process all of the steps required by the Reserve Bank Agreement, and does not anticipate that the restrictions included within the Reserve Bank Agreement will impair its current business plan.

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The Company s and the Bank s actual capital amounts and ratios at March 31, 2014 and December 31, 2013 were:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2014						
The Company:						
Total Capital (to Risk Weighted Assets)	$ 56,405	14.12%	$ 31,952	8.00%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	51,406	12.87%	15,976	4.00%	N/A	N/A
Tier 1 Capital (to Average Assets)	51,406	9.56%	21,507	4.00%	N/A	N/A
The Bank:						
Total Capital (to Risk Weighted Assets)	$ 56,342	14.12%	$ 31,919	8.00%	$ 39,898	10.00%
Tier 1 Capital (to Risk Weighted Assets)	51,349	12.87%	15,959	4.00%	23,939	6.00%
Tier 1 Capital (to Average Assets)	51,349	9.56%	21,491	4.00%	26,864	5.00%
December 31, 2013						
The Company:						
Total Capital (to Risk Weighted Assets)	$ 56,060	13.95%	$ 32,153	8.00%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	51,027	12.70%	16,076	4.00%	N/A	N/A
Tier 1 Capital (to Average Assets)	51,027	9.33%	21,888	4.00%	N/A	N/A
The Bank:						
Total Capital (to Risk Weighted Assets)	$ 55,758	13.86%	$ 32,153	8.00%	$ 32,187	10.00%
Tier 1 Capital (to Risk Weighted Assets)	50,730	12.61%	16,076	4.00%	24,140	6.00%
Tier 1 Capital (to Average Assets)	50,730	9.28%	21,888	4.00%	27,340	5.00%

Restrictions on dividends, loans and advances

The Company s ability to pay dividends is dependent on the Bank s ability to pay dividends to the Company. Pursuant to the February 9, 2009 Agreement between the Bank and the OCC, the Bank can pay dividends to the Company only 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 Agreement, 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. As of March 31, 2014, the Bank had an accumulated deficit; therefore, dividends may not be paid to the Company. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements.

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The Company s ability to pay dividends and incur debt is also restricted by the Reserve Bank Agreement. Under the terms of the Reserve Bank Agreement, the Company has agreed that it shall not declare or pay any dividends or incur, increase or guarantee any debt without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation (the Director) of the Board of Governors.

Loans or advances to the Company from the Bank are limited to 10% of the Bank s capital stock and surplus on a secured basis.

Recent Legislative Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Act) was signed into law on July 21, 2010. The Act is a significant piece of legislation that continues to have a major impact on the financial services industry, including the organization, financial condition and operations of banks and bank holding companies. Management continues to evaluate the impact of the Act; however, uncertainty remains as to its operational impact, which could have a material adverse impact on the Company s business, results of operations and financial condition. Many of the provisions of the Act are aimed at financial institutions that are significantly larger than the Company and the Bank. Notwithstanding this, there are many other provisions that the Company and the Bank are subject to and will have to comply with, including any new rules applicable to the Company and the Bank promulgated by the Bureau of Consumer Financial Protection, a new regulatory body dedicated to consumer protection. As rules and regulations are promulgated by the agencies responsible for implementing and enforcing the Act, the Company and the Bank will have to address each to ensure compliance with applicable provisions of the Act and compliance costs are expected to increase.

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

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

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

Note 11: Fair Value and Interest Rate Risk

The Company used fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. A description of the valuation methodologies used for assets and liabilities recorded at fair value, and for estimating fair value for financial and non-financial instruments not recorded at fair value, is set forth below.

Cash and due from banks, federal funds sold, short-term investments and accrued interest receivable and payable: The carrying amount is a reasonable estimate of fair value. These financial instruments are not recorded at fair value on a recurring basis.

Available-for-Sale Securities: These financial instruments are recorded at fair value in the financial statements. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted prices are not available, then fair values are estimated by using pricing models (i.e., matrix pricing) or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. Examples of such instruments include U.S. government agency bonds and mortgage-backed securities, corporate bonds and money market preferred equity securities. The prices for these instruments are obtained through an independent pricing service or dealer market participants with whom the Company has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricings. The fair value measurements considered observable data may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. Management reviews the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data. Level 3 securities are instruments for which significant unobservable input are utilized. Available-for-sale securities are recorded at fair value on a recurring basis.

Loans: For variable rate loans, which reprice frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the portfolios. The fair value of fixed rate loans is estimated by discounting the future cash flows using the period end rates, estimated by using local market data, at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the portfolios. The Company does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral-dependent impaired loans are recorded to reflect partial write-downs based on the observable market price or current appraised value of collateral. Fair values estimated in this manner do not fully incorporate an exit-price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Other Real Estate Owned: The fair value of the Company s OREO properties is based on the estimated current property valuations less estimated selling costs. When the fair value is based on current observable appraised values, OREO is classified within Level 2. The Company classifies the OREO within Level 3 when unobservable adjustments are made to appraised values. The Company does not record other real estate owned at fair value on a recurring basis.

Deposits: The fair value of demand deposits, regular savings and certain money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit and other time deposits is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities, estimated using local market data, to a schedule of aggregated expected maturities on such deposits. The Company does not record deposits at fair value on a recurring basis.

Short-term borrowings: The carrying amounts of borrowings under short-term repurchase agreements and other short-term borrowings maturing within 90 days approximate their fair values. The Company does not record short-term borrowings at fair value on a recurring basis.

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

Federal Home Loan Bank Borrowings: The fair value of the advances is estimated using a discounted cash flow calculation that applies current Federal Home Loan Bank interest rates for advances of similar maturity to a schedule of maturities of such advances. The Company does not record these borrowings at fair value on a recurring basis.

Other Borrowings: The fair values of longer term borrowings and fixed rate repurchase agreements are estimated using a discounted cash flow calculation that applies current interest rates for transactions of similar maturity to a schedule of maturities of such transactions. The Company does not record these borrowings at fair value on a recurring basis.

Off-balance sheet instruments: Fair values for the Company s off-balance-sheet instruments (lending commitments) are based on interest rate changes and fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing. The Company does not record its off-balance-sheet instruments at fair value on a recurring basis.

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The following table details the financial assets measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine fair value:

(in thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance as of March 31, 2014**
March 31, 2014				
U.S. Government agency mortgage- backed securities	$	$ 20,632	$	$ 20,632
U.S. Government agency bonds		7,245		7,245
Corporate bonds		8,938		8,938
Securities available for sale	$	$ 36,815	$	$ 36,815

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2013
December 31, 2013				
U.S. Government agency mortgage- backed securities	$	$ 21,752	$	$ 21,752
U.S. Government agency bonds		7,079		7,079
Corporate bonds		8,870		8,870
Securities available for sale	$	$ 37,701	$	$ 37,701

There were no transfers of assets between levels 1, 2 or 3 as of March 31, 2014 or December 31, 2013. Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

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The following tables reflect financial assets measured at fair value on a non-recurring basis as of March 31, 2014 and December 31, 2013, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
March 31, 2014				
Impaired Loans [1]	**$**	**$**	**$ 6,855**	**$ 6,855**
Other real estate owned [2]	**$**	**$**	**$ 264**	**$ 264**
December 31, 2013				
Impaired Loans [1]	$	$	$ 7,508	$ 7,508
Other real estate owned [2]	$	$	$	$

(1) Represents carrying value for which adjustments are based on the appraised value of the collateral.
(2) Represents carrying value for which adjustments are based on the appraised value of the property.

The Company discloses fair value information about financial instruments, whether or not recognized in the consolidated balance sheet, for which it is practicable to estimate that value. Certain financial instruments are excluded from disclosure requirements and, accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The estimated fair value amounts have been measured as of March 31, 2014 and December 31, 2013 and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair value of these financial instruments subsequent to the respective reporting dates may be different than amounts reported on those dates.

The information presented should not be interpreted as an estimate of the fair value of the Company since a fair value calculation is only required for a limited portion of the Company s assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company s disclosures and those of other bank holding companies may not be meaningful.

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The following is a summary of the carrying amounts and estimated fair values of the Company s financial instruments not measured and not reported at fair value on the consolidated balance sheets at March 31, 2014 and December 31, 2013 (in thousands):

		March 31, 2014		December 31, 2013	
(in thousands)	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:					
Cash and noninterest bearing balances due from banks	Level 1	$ 1,503	$ 1,503	$ 1,570	$ 1,570
Interest-bearing deposits due from banks	Level 1	58,254	58,254	33,295	33,295
Other investments	Level 2	4,450	4,450	4,450	4,450
Federal Reserve Bank stock	Level 1	1,444	1,444	1,444	1,444
Federal Home Loan Bank stock	Level 1	4,143	4,143	4,143	4,143
Loans receivable, net	Level 3	415,123	420,486	418,148	424,831
Accrued interest receivable	Level 1	1,578	1,578	1,566	1,566
Financial Liabilities:					
Demand deposits	Level 1	$ 57,967	$ 57,967	$ 55,358	$ 55,358
Savings deposits	Level 1	86,409	86,409	80,983	80,983
Money market deposits	Level 1	29,502	29,502	29,310	29,310
NOW accounts	Level 1	25,464	25,464	28,618	28,618
Time deposits	Level 2	228,627	229,231	235,935	236,602
FHLB Borrowings	Level 2	80,000	80,000	57,000	57,000
Subordinated debentures	Level 2	8,248	8,248	8,248	8,248
Accrued interest payable	Level 1	1,589	1,589	1,388	1,388

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company s financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company s overall interest rate risk.

Off-balance sheet instruments

Loan commitments on which the committed interest rate is less than the current market rate were insignificant at March 31, 2014 and December 31, 2013. The estimated fair value of fee income on letters of credit at March 31, 2014 and December 31, 2013 was insignificant.

Note 12: Recent Accounting Pronouncements

ASU No. 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. ASU No. 2013-12 is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted this guidance on January 1, 2013 and it did not have a material impact on the consolidated financial statements.

Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurements (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,* was issued as a result of the effort to develop common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). While ASU No. 2011-04 is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands the existing disclosure requirements for fair value measurements and clarifies the existing guidance or wording changes to align with IFRS No. 13. Many of the requirements for the amendments in ASU No. 2011-04 do not result in a change in the application of the requirements in Topic 820. The Company adopted ASU No. 2011-04 on January 1, 2012 and it did not have a material impact on the consolidated financial statements.

ASU No. 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income, requires an entity to present components of comprehensive income either in a single continuous statement of comprehensive income or in two separate consecutive statements. These amendments made the financial statement presentation of other comprehensive income more prominent by eliminating the alternative to present comprehensive income within the statement of equity. As originally issued, ASU No. 2011-05 required entities to present reclassification adjustments out of accumulated other comprehensive income by component in the statement in which net income is presented and the statement in which other comprehensive income is presented (for both interim and annual financial statements). This requirement was deferred by *ASU No. 2011-12, Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards* . ASU No. 2011-05 is effective for all interim and annual periods beginning on or after December 15, 2011. The Company adopted this guidance in the first quarter of 2012 and elected to present comprehensive income in a separate consolidated statement of comprehensive income.

ASU 2014-01: Accounting for Investments in Qualified Affordable Housing Projects (Topic 323) allows an entity that invests in low income housing projects and meets all the specified conditions to use the proportional amortization method to account for the costs of those investments. The effective date is for annual periods and interim periods within those annual periods beginning after December 15, 2014. The company is in the process of evaluating the impact of ASU 2014-01 on its financial statement and processes.

In January 2014, the FASB issued ASU 2014-04, *Receivables Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure*, to clarify that when an in substance repossession or foreclosure occurs, a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014-04 is effective for annual reporting periods beginning after December 15, 2014. The company is in the process of evaluating the impact of ASU 2014-04 on its financial statements and processes.

Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations
SAFE HARBOR STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained in Bancorp s public reports, including this report, 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 Bancorp s interest earning assets and the interest paid on its interest bearing liabilities; (2) the timing of repricing of Bancorp 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 Bancorp 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 Bancorp to provide products and services which it is impracticable for Bancorp to provide; (7) the state of the economy and real estate values in Bancorp s market areas, and the consequent effect on the quality of Bancorp s loans, customers, vendors and communities; (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 Bancorp; (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 Bancorp.

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

CRITICAL ACCOUNTING POLICIES

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

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Summary

Bancorp reported net income of $319,000 ($0.01 basic and diluted income per share) for the quarter ended March 31, 2014, compared to net loss of $2.0 million ($0.05 basic and diluted loss per share) for the quarter ended March 31, 2013. The primary reason for the increase in the quarterly comparison is a reduction in non-interest expense of $2.1 million, or 33%, and is a result of cost reduction initiatives implemented. This decrease included lower salaries and benefits of $1.0 million and lower professional services expense of $0.4 million.

Bancorp s net interest income for the quarter ended March 31, 2014 was $4.0 million compared to $3.9 million for the quarter ended March 31, 2013, an increase of $135,000. Included in net interest income for the quarter ending March 31, 2014 was an unfavorable adjustment related to prior period interest expense on subordinated debt of $117,000. Excluding this adjustment, net interest income increased $252,000 as compared to the quarter ended March 31, 2013. The net interest income increase was due to interest expense decrease of $757,000, partially offset by interest income reduction of $622,000. The decrease in interest expense was primarily due to strategic reduction of rates paid on term deposits, in addition to lower interest expense on borrowings. From April 2013 to September 2013, the Bank prepaid high rate borrowings, replacing these with borrowings at lower rates. The decline in interest income was due primarily to lower average loan balances primarily due to loan payoffs in excess of new loan originations, in addition to lower investment yields.

Total assets increased $21.3 million from $541.2 million at December 31, 2013 to $562.5 million at March 31, 2014. Cash and cash equivalents increased $24.9 million from $34.9 million at December 31, 2013 to $59.8 million at March 31, 2014. The net loan portfolio decreased $3.0 million from $418.1 million at December 31, 2013 to $415.1 million at March 31, 2014. The decrease was primarily a result of loan payoffs in excess of new origination of loans. Decreases in commercial real estate loans of $5.1 million and residential loans of $3.2 million were partially offset with increases in commercial loans of $3.7 million. Deposits decreased $2.2 million from $430.2 million at December 31, 2013 to $428.0 million at March 31, 2014. This was primarily due to decreases in certificates of deposit (CDs) of $7.3 million due to maturities of higher cost deposit accounts. Partially offsetting the CD decrease was an increase of $5.4 million in savings accounts reflecting increases in both consumer and commercial savings accounts. The overall cost of deposits decreased from 0.69% for the quarter ended December 31, 2013 to 0.61% for the quarter ended March 31, 2014. Borrowings increased $23.0 million to $88.2 million from $65.2 million.

FINANCIAL CONDITION

Cash and Cash Equivalents

Cash and cash equivalents increased $24.9 million, or 71%, to $59.8 million at March 31, 2014 compared to $34.9 million at December 31, 2013. This increase was primarily the result of a $23.0 million increase in borrowings, reflecting the Bank s actions to increase liquidity.

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Investments

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

(in thousands)	March 31, 2014	December 31, 2013
U.S. Government Agency bonds	$ 7,245	$ 7,079
U.S. Government Agency mortgage- backed securities	20,632	21,752
Corporate bonds	8,938	8,870
Total Available-for-Sale Securities	$ 36,815	$ 37,701

Available-for-sale securities decreased $886,000, or 2.4%, from $37.7 million at December 31, 2013 to $36.8 million at March 31, 2014. This decrease was primarily due to principal pay downs of $1.2 million on mortgage backed securities partially offset by $393,000 in unrealized gains.

Loans

The following table is a summary of Bancorp s loan portfolio at the dates shown:

(in thousands)	March 31, 2014	December 31, 2013
Real Estate		
Commercial	$ 218,051	$ 223,165
Residential	103,019	106,198
Construction	260	260
Construction to permanent	12,650	11,303
Commercial	38,752	35,061
Consumer home equity	43,717	44,081
Consumer installment	3,389	2,990
Total Loans	419,838	423,058
Premiums on purchased loans	182	200
Net deferred costs	583	571
Allowance for loan losses	(5,480)	(5,681)
Loans receivable, net	$ 415,123	$ 418,148

Bancorp s net loan portfolio decreased $3.0 million, or 0.7%, from $418.1 million at December 31, 2013 to $415.1 million at March 31, 2014. The decrease was primarily a result of loan payoffs. Decreases in commercial real estate loans of $5.1 million and residential loans of $3.2 million were partially offset with increases in commercial loans of $3.7 million.

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At March 31, 2014, the net loan to deposit ratio was 97% and the net loan to total assets ratio was 74%. At December 31, 2013, these ratios were 97% and 77%, respectively.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management s periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses decreased $201,000 from December 31, 2013 to March 31, 2014 primarily due to the partial charge-off of a non-accrual loan, which was transferred to OREO.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due for payment unless the loan is well-secured and in process of collection. Consumer installment loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, future payments are reasonably assured, and there is 6 months of performance.

Management considers all non-accrual loans and troubled debt restructurings to be impaired. In most cases, loan payments that are past due less than 90 days, based on contractual terms, are considered collection delays and the related loans are not considered to be impaired. The Bank considers consumer installment loans to be pools of smaller balance homogeneous loans, which are collectively evaluated for impairment.

The changes in the allowance for loan losses for the periods shown are as follows:

	Three months ended	
(Dollars in thousands)	March 31, 2014	March 31, 2013
Balance at beginning of period	$ 5,681	$ 6,016
Charge-offs	(217)	(306)
Recoveries	16	37
Net Charge-offs	(201)	(269)
Provision charged to operations		(30)
Balance at end of period	$ 5,480	$ 5,717
Annualized net charge-offs during the period to average loans outstanding during the period	0.19%	0.23%
Ratio of ALL / Gross Loans	1.30%	1.24%

Based upon the overall assessment and evaluation of the loan portfolio, management believes the allowance for loan losses of $5.5 million, at March 31, 2014, which represents 1.30% of gross loans outstanding, is adequate under prevailing economic conditions, to absorb existing losses in the loan portfolio.

Non-Accrual, Past Due and Restructured Loans

The following table presents non-accruing loans and loans past due 90 days or more and still accruing:

(Dollars in thousands)	March 31, 2014	December 31, 2013
Loans past due over 90 days still accruing	$ 834	$ 866
Non accruing loans	10,166	12,308
Total	$ 11,000	$ 13,174
% of Total Loans	2.62%	3.11%
% of Total Assets	1.96%	2.43%

Impaired loans are primarily attributable to the lingering effects of the downturn in the economy, which has severely impacted the real estate market and placed unprecedented stress on credit markets. The Bank s customers, many of whom are associated with the financial services industry, have been affected by the impact of the poor economy on employment and real estate values.

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The $10.2 million of non-accrual loans at March 31, 2014 is comprised of 12 loans, for which a specific reserve of $1.8 million has been established. In all cases, the Bank has obtained appraisal reports from independent licensed appraisal firms and discounted those values for estimated selling costs to determine estimated impairment. Of the $10.2 million of non-accrual loans at March 31, 2014 borrowers of 4 loans with aggregate balances of $7.5 million continue to make loan payments and these loans are current within one and two months as to payments.

Potential Problem Loans

In addition to the above, there are $6.7 million of substandard accruing loans comprised of 11 loans and $8.4 million of special mention loans comprised of 16 loans for which management has a concern as to the ability of the borrowers to comply with the present repayment terms. All of the substandard accruing and all of the special mention loans with the exception of one loan of $15,000 continue to make timely payments and are within 30 days at March 31, 2014. Subsequently, one $2.6 million special mention loan paid off.

Other Real Estate Owned

The following table is a summary of Bancorp s other real estate owned at the dates shown:

(in thousands)		March 31, 2014		December 31, 2013
Residential real estate	$	264	$	
Other real estate owned	$	264	$	

The balance of other real estate owned at March 31, 2014 was comprised of 1 property with an aggregate carrying value of $264,000. The Company had a contract for the sale of this property at March 31, 2014.

Deferred Taxes

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. Management has reviewed the deferred tax position of the Company at March 31, 2014. The valuation allowance is analyzed quarterly for changes affecting the deferred tax asset. At March 31, 2014, the company reported taxable income for the second consecutive quarter and was anticipating earnings to be positive in the future. However, based on current accounting guidance the Company has not generated taxable income for a sufficient length of time in order to reverse the DTA valuation allowance and, accordingly, had an allowance totaling $17.8 million at March 31, 2014. In the future, when the Company has generated taxable income on a more sustained basis, management s conclusion regarding the need for a deferred tax asset valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation allowance.

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Deposits

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

(in thousands)	March 31, 2014	December 31, 2013
Non-interest bearing	$ 57,967	$ 55,358
Interest bearing		
NOW	25,464	28,618
Savings	86,409	80,983
Money market	29,502	29,310
Time certificates, less than $100,000	121,955	129,548
Time certificates, $100,000 or more	106,672	106,387
Total interest bearing	370,002	374,846
Total Deposits	$ 427,969	$ 430,204

Deposits decreased $2.2 million from $430.2 million at December 31, 2013 to $428.0 million at March 31, 2014. This was primarily due to decreases in certificates of deposit (CDs) of $7.3 million due to maturities of higher rate deposit accounts and decrease in NOW balance by $3.2 million primarily due to lower IOLTA account balances. Partially offsetting the CD decrease was an increase of $5.4 million in savings accounts reflecting increases in both consumer and commercial savings accounts and a non-interest bearing balance increase of $2.6 million.

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Borrowings

At March 31, 2014 and December 31, 2013, total borrowings were $88.2 million and $65.2 million respectively. In addition to the outstanding borrowings disclosed in the consolidated balance sheet, the Bank has the ability to borrow approximately $38.0 million in additional advances from the Federal Home Loan Bank of Boston (FHLB), including a $2.0 million overnight line of credit. The Bank has also established a line of credit at the Federal Reserve Bank. Subsequent to March 31, 2014, the Bank was in the process of collateralization of additional loans with the FHLB which will increase the Bank s borrowing capacity with the FHLB from $38.0 million to approximately $85.0 million.

The subordinated debentures of $8,248,000 are unsecured obligations of the Company and are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. The Company has entered into a guarantee, which together with its obligations under the subordinated debentures and the declaration of trust governing the Trust provides a full and unconditional guarantee of amounts on the capital securities. The subordinated debentures, which bear interest at three-month LIBOR plus 3.15% (3.3851% at March 31, 2014), mature on March 26, 2033. Beginning in the second quarter of 2009, the Company began deferring interest payments on the subordinated debentures as permitted under the terms of the debentures. Interest is still being accrued and charged to operations. The Company may only defer the payment of interest for 20 consecutive quarters, or through March 2014, and all accrued interest must be paid at the completion of the deferral period, which is June 2014. As of March 31, 2014, the accrued interest payable was approximately $1.6 million. The Company is prepared to pay the full amount of interest due pending approval from its regulators.

The duration of the trust is 30 years, with an early redemption feature at the company s option on a quarterly basis which commenced March 26, 2008.

Capital

Capital increased $771,000 compared to December 31, 2013 primarily as a result of net income of $319,000 for the three months ended March 31, 2014, comprehensive income of $393,000 and $59,000 of share based compensation.

Off-Balance Sheet Arrangements

Bancorp s off-balance sheet arrangements, which primarily consist of commitments to lend, increased by $4.1 million from $79.3 million at December 31, 2013 to $83.4 million at March 31, 2014, primarily due to increases of $8.4 million in future loan commitments offset by decreases of $3.3 million in unused lines of credit and $1.0 million in home equity lines of credit.

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RESULTS OF OPERATIONS

Interest and dividend income and expense

The following tables present average balance sheets (daily averages), interest income, interest expense and the corresponding yields earned and rates paid for major balance sheet components:

	Three months ended March 31					
	2014			2013		
(in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Interest earning assets:						
Loans	$ 417,468	$ 4,691	4.56%	$ 465,895	$ 5,196	4.52%
Investments	47,386	176	1.51%	51,622	277	2.17%
Interest bearing deposits in banks	34,937	12	0.15%	57,095	28	0.20%
Total Interest earning assets	499,791	4,879	3.96%	574,612	5,501	3.88%
Cash and due from banks	1,886			5,504		
Premises and equipment, net	14,971			3,991		
Allowance for loan losses	(5,620)			(6,017)		
Other assets	25,720			30,923		
Total Assets	$ 536,748			$ 609,013		
Interest bearing liabilities:						
Deposits	$ 370,034	$ 637	0.70%	$ 427,770	$ 1,129	1.07%
FHLB advances	57,922	33	0.23%	50,000	351	2.85%
Subordinated debt [(1)]	8,248	200	9.83%	8,248	71	3.47%
Other borrowings			N/A	7,000	76	4.41%
Total interest bearing liabilities	436,204	870	0.81%	493,018	1,627	1.34%
Demand deposits	54,226			61,255		
Accrued expenses and other liabilities	3,913			5,635		
Shareholders equity	42,405			49,105		
Total liabilities and equity	$ 536,748			$ 609,013		
Net interest income		$ 4,009			$ 3,874	
Interest margin			3.25%			2.73%
Interest spread			3.15%			2.54%

(1) Includes $117,000 applicable to prior year adjustment.

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The following rate volume analysis reflects the impact that changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities had on net interest income during the periods indicated. Information is provided in each category with respect to changes attributable to changes in volume (changes in volume multiplied by prior rate), changes attributable to changes in rates (changes in rates multiplied by prior volume) and the total net change. The change resulting from the combined impact of volume and rate is allocated proportionately to the change due to volume and the change due to rate.

	Three months ended March 31 2014 vs 2013 Increase (decrease) in Interest Income/Expense Due to change in:		
(in thousands)	Volume	Rate	Total
Interest earning assets:			
Loans	$ (551)	$ 46	$ (505)
Investments	(25)	(76)	(101)
Interest bearing deposits in banks	(13)	(3)	(16)
Total interest earning assets	(589)	(33)	(622)
Interest bearing liabilities:			
Deposits	$ (170)	$ (322)	$ (492)
FHLB advances	63	(381)	(318)
Subordinated debt	0	129	129
Other borrowings	(76)	0	(76)
Total interest bearing liabilities	(183)	(574)	(757)
Net interest income	$ (406)	$ 541	$ 135

For the quarter ended March 31, 2014, interest income was $4,879,000, a decrease of $622,000 from interest income of $5,501,000 for the quarter ended March 31, 2013. Average interest earning assets decreased $74.8 million, or 13.0%, to $499.8 million from $574.6 million and was responsible for $589,000 of the reduction in interest income. Lower investment yields partially offset by higher yields on loans was responsible for most of the remaining interest income reduction.

Total interest expense for the quarter ended March 31, 2014 of $870,000 represents a decrease of $757,000, or 46.5%, compared to interest expense of $1.6 million for the same period last year. The decrease in interest expense was primarily due to strategic reduction of rates paid on term deposits, and resulting term deposit balance reduction of $44.4 million, in addition to lower interest expense on borrowings due to rate reductions. From April 2013 to September 2013, the Bank prepaid high rate borrowings, replacing these with borrowings at lower rates. The Bank incurred a one-time charge of $117,000 during the most recent quarter related to prior period subordinated debt. Excluding this charge, the total rate on interest bearing liabilities was 0.70% as compared to 1.34% for the quarter ended March 31, 2013.

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As a result of the above, Bancorp s net interest income increased $135,000 or 3.5%, to $4.0 million for the three months ended March 31, 2014 compared to $3.9 million for the same period last year. The net interest margin for the three months ended March 31, 2014 was 3.25% as compared to 2.73% for the three months ended March 31, 2013 primarily due to the Bank s reduction s in average funding rates. The Bank s margin excluding the previously noted one-time charge of $117,000 was 3.35%.

Provision for Loan Losses

Based on management s most recent evaluation of the adequacy of the allowance for loan losses, the provision for loan losses was unchanged for the three months ended March 31, 2014, compared to $30,000 reduction of the loan loss provision for the three months ended March 31, 2013 due to the reduction of the loan portfolio and improvement in credit quality. The allowance for loan losses decreased by $201,000 from December 31, 2013 to March 31, 2014 primarily due to partial charge-off of a non-accrual loan, which was transferred to OREO.

An analysis of the changes in the allowance for loan losses is presented under Allowance for Loan Losses.

Non-interest income

Non-interest income increased $106,000 from $487,000 for the quarter ended March 31, 2013 to $593,000 for the quarter ended March 31, 2014. This is primarily due to increased rental income resulting from the Bank s purchase of the previously leased Greenwich branch building in November, 2013 and Stamford branch building in May, 2013.

Non-interest expense

Non-interest expense decreased $2.1 million or 33% from $6,369,000 for the quarter ended March 31, 2013 to $4,283,000 for the quarter ended March 31, 2014. This decrease included lower salaries and benefits of $1.0 million and lower professional services expense of $0.4 million, both resulting from management initiatives to reduce non-interest expense.

LIQUIDITY

Bancorp s liquidity ratio was 15.5% at March 31, 2014 compared to 11.5% at December 31, 2013. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets, as described in the accompanying consolidated balance sheets, are considered liquid assets: cash and due from banks, federal funds sold, short-term investments and unpledged available-for-sale securities. Liquidity is a measure of Bancorp s ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposit accounts and increases in its loan portfolio. Management believes Bancorp s short-term assets provide sufficient liquidity to cover loan demand, potential fluctuations in deposit accounts and to meet other anticipated cash operating requirements.

CAPITAL

The following table illustrates Bancorp s regulatory capital ratios at March 31, 2014 and December 31, 2013 respectively:

	March 31, 2014	December 31, 2013
Tier 1 Leverage Capital	9.56%	9.33%
Tier 1 Risk-based Capital	12.87%	12.70%
Total Risk-based Capital	14.12%	13.95%

The following table illustrates the Bank s regulatory capital ratios at March 31, 2014 and December 31, 2013 respectively:

	March 31, 2014	December 31, 2013
Tier 1 Leverage Capital	9.56%	9.28%
Tier 1 Risk-based Capital	12.87%	12.61%
Total Risk-based Capital	14.12%	13.86%

IMPACT OF INFLATION AND CHANGING PRICES

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

MANAGEMENT CHANGES

There were no changes in executive management during the quarter.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

Market risk is defined as the sensitivity of income to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices and other market-driven rates or prices. Based upon the nature of Bancorp s business, the primary source of market risk is interest rate risk, which is the impact that changing interest rates have on current and future earnings. In addition, Bancorp s loan portfolio is primarily secured by real estate in the company s market area. As a result, the changes in valuation of real estate could also impact Bancorp s earnings.

Qualitative Aspects of Market Risk

Bancorp s goal is to maximize long term profitability while minimizing its exposure to interest rate fluctuations. The first priority is to structure and price Bancorp 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 are 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 meets on a monthly basis, but may convene more frequently as conditions dictate. 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 on a monthly basis regarding its activities. 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 Bank policies.

Quantitative Aspects of Market Risk

Management analyzes Bancorp 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 Bancorp s interest rate risk exposure at a particular point in time. Management regularly reviews the potential effect changes in interest rates could have on the repayment of rate sensitive assets and funding requirements of rate sensitive liabilities.

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

Net Interest Income and Economic Value

Summary Performance

March 31, 2014

	Net Interest Income			Net Portfolio Value		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+200	16,270	(420)	-2.5%	60,115	(9,609)	-13.8%
+100	16,602	(88)	-0.5%	64,884	(4,840)	-6.9%
BASE	16,690			69,724		
-100	16,821	131	0.8%	76,482	6,758	9.7%
-200	16,685	(5)	0.0%	80,825	11,101	15.9%

December 31, 2013

	Net Interest Income			Net Portfolio Value		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+200	16,147	(780)	-4.6%	59,238	(11,808)	-16.6%
+100	16,656	(271)	-1.6%	65,079	(5,967)	-8.4%
BASE	16,927			71,046		
-100	17,124	197	1.2%	78,332	7,286	10.3%
-200	16,864	(63)	-0.4%	82,687	11,641	16.4%

Item 4: Controls and Procedures

Based on an evaluation of the effectiveness of Bancorp s disclosure controls and procedures performed by Bancorp s management, with the participation of Bancorp s Chief Executive Officer and its Chief Financial Officer as of the end of the period covered by this report, Bancorp s Chief Executive Officer and Chief Financial Officer concluded that Bancorp s disclosure controls and procedures have been effective.

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

There were no changes in Bancorp s internal controls over financial reporting identified in connection with the evaluation described in the preceding paragraph that occurred during Bancorp s fiscal quarter ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, Bancorp s internal controls over financial reporting.

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PART II OTHER INFORMATION.

Item 1: Legal Proceedings

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

Item 1A: Risk Factors

During the three months ended March 31, 2014, there were no material changes to the risk factors relevant to Bancorp s operations, which are described in the Annual Report on Form 10-K for the year ended December 31, 2013.

Item 6: Exhibits

No.	Description
2	Agreement and Plan of Reorganization dated as of June 28, 1999 between Bancorp and the Bank (incorporated by reference to Exhibit 2 to Bancorp s Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
2.1	Securities Purchase Agreement by and among Patriot National Bancorp, Inc., Patriot National Bank and PNBK Holdings LLC dated as of December 16, 2009 (incorporated by reference to Exhibit 10.1 to Bancorp s Current Report on Form 8-K dated December 17, 2009).
2.2	Amendment to Securities Purchase Agreement by and among Patriot National Bancorp, Inc., Patriot National Bank and PNBK Holdings LLC dated as of May 3, 2010 (incorporated by reference to Exhibit 10(a) to Bancorp s Current Report on Form 8-K dated May 4, 2010).
3(i)	Certificate of Incorporation of Bancorp, (incorporated by reference to Exhibit 3(i) to Bancorp s Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
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 Bancorp s Annual Report on Form 10- KSB for the year ended December 31, 2004 (Commission File No. 000-29599)).
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 Bancorp s Quarterly Report of Form 10-Q for the quarter ended September 30, 2006 (commission File No. 000-29599)).

No.	Description
3(i)(C)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. (incorporated by reference to Exhibit 3(i) to Bancorp s current report Form 8-K dated October 21, 2010.
3(ii)	Amended and Restated By-laws of Bancorp (incorporated by reference to Exhibit 3(ii) to Bancorp s Current Report on Form 8-K dated November 1, 2010 (Commission File No. 000-29599))
10(a)(2)	2012 Stock Plan of Bancorp (incorporated by reference from Annex A to the Proxy Statement on Form 14C filed November 1, 2011.
10(a)(14)	Change of Control Agreement, dated as of January 1, 2007 among Philip W. Wolford, Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(14) to Bancorp s Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(15)	Formal Written Agreement between Patriot National Bank and the Office of the Comptroller of the Currency (incorporated by reference to Exhibit 10(a)(15) to Bancorp s Current Report on Form 8-K dated February 9, 2009 (Commission File No. 000-29599)).
10(a)(16)	Formal Written Agreement between Patriot National Bank and the Federal Reserve Bank of New York (incorporated by reference to Exhibit 10(a)(16) to Bancorp s Annual Report on Form 10-K for the year ended December 31, 2010 (Commission File No. 000-29599)).
10(a)(17)	Financial Services Agreement dated November 8, 2011 of Bancorp (incorporated by reference to Exhibit 10(a)(20) on the Quarterly Report on Form 10-Q dated November 10, 2011.
14	Code of Conduct for Senior Financial Officers (incorporated by reference to Exhibit 14 to Bancorp s Annual Report on Form 10 -KSB for the year ended December 31, 2004 (Commission File No. 000-29599).
21	Subsidiaries of Bancorp (incorporated by reference to Exhibit 21 to Bancorp s Annual Report on Form 10-KSB for the year ended December 31, 1999 (Commission File No. 000-29599)).
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

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No.	Description
101.INS#	XBRL Instance Document
101.SCH#	XBRL Schema Document
101.CAL#	XBRL Calculation Linkbase Document
101.LAB#	XBRL Labels Linkbase Document
101.PRE#	XBRL Presentation Linkbase Document
101.DEF#	XBRL Definition Linkbase Document

The exhibits marked with the section symbol (#) are interactive data files. Pursuant to Rule 406T of Regulations S-T, these interactive data files (i) are not deemed filed or part of a registration statement of prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, irrespective of any general incorporation language included in any such filings, and otherwise are not subject to liability under these sections; and (ii) are deemed to have complied with Rule 405 of Regulations S-T (Rule 405) and are not subject to liability under the anti-fraud provisions of the Section 17(a)(1) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 or under any other liability provision if we have made a good faith attempt to comply with Rule 405 and, after we become aware that the interactive data files fail to comply with Rule 405, we promptly amend the interactive data files.

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SIGNATURES

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

PATRIOT NATIONAL BANCORP, INC.
(Registrant)

By: /s/ Christina L. Maier
Christina L. Maier
Executive Vice President
Chief Financial Officer

(On behalf of the registrant and as
Chief Financial Officer)

May 9, 2014