

PATRIOT NATIONAL BANCORP INC

Form 10-Q

May 14, 2013

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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, 2013

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Connecticut
(State of

06-1559137
(I.R.S. Employer

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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 ☒ No ☐

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

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

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-Accelerated Filer ☐

Smaller Reporting Company ☒

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

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, 38,480,114 shares outstanding as of the close of business April 30, 2013.

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	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	\$ 3,338,200	\$ 2,736,486
Interest bearing deposits	57,714,304	67,567,155
Short-term investments	711,024	710,766
Total cash and cash equivalents	61,763,528	71,014,407
Securities:		
Available for sale securities, at fair value (Note 2)	41,105,130	41,719,320
Other Investments	3,500,000	3,500,000
Federal Reserve Bank stock, at cost	1,693,750	1,730,200
Federal Home Loan Bank stock, at cost	4,142,600	4,343,800
Total securities	50,441,480	51,293,320
Loans receivable (net of allowance for loan losses: 2013: \$5,717,148 2012: \$6,015,636) (Note 3)	455,941,164	458,793,536
Loans held for sale	6,551,648	1,527,299
Accrued interest and dividends receivable	1,886,436	1,894,292
Premises and equipment, net	4,246,274	4,288,372
Cash surrender value of life insurance	21,628,812	21,501,703
Other real estate owned	3,764,640	4,873,844
Deferred tax asset (Note 6)		
Other assets	2,538,163	2,580,118
Other branch related assets held for sale	80,445	88,244
Total assets	\$ 608,842,590	\$ 617,855,135
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Note 4):		
Noninterest bearing deposits	\$ 57,081,233	\$ 61,459,959
Interest bearing deposits	413,676,955	411,117,558
Deposits held for sale	20,928,103	24,705,381
Total deposits	491,686,291	497,282,898
Borrowings:		
Repurchase agreements	7,000,000	7,000,000
Federal Home Loan Bank borrowings	50,000,000	50,000,000
Total borrowings	57,000,000	57,000,000
Junior subordinated debt owed to unconsolidated trust	8,248,000	8,248,000
Accrued expenses and other liabilities	4,234,856	5,756,439
Total liabilities	561,169,147	568,287,337

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Commitments and Contingencies (Note 9)

Shareholders' equity

Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding

Common stock, \$.01 par value, 100,000,000 shares authorized; 2013 & 2012: 38,491,819 shares

issued; 38,480,114 shares outstanding 384,918 384,918

Additional paid-in capital 105,363,331 105,355,680

Accumulated deficit (57,351,962) (55,394,995)

Less: Treasury stock, at cost: 2013 and 2012 11,705 shares (160,025) (160,025)

Accumulated other comprehensive loss (562,819) (617,780)

Total shareholders' equity 47,673,443 49,567,798

Total liabilities and shareholders' equity \$ 608,842,590 \$ 617,855,135

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents**PATRIOT NATIONAL BANCORP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended	
	March 31,	
	2013	2012
Interest and Dividend Income		
Interest and fees on loans	\$ 5,195,892	\$ 6,665,792
Interest on investment securities	247,736	477,030
Dividends on investment securities	28,858	33,281
Other interest income	28,360	10,478
Total interest and dividend income	5,500,846	7,186,581
Interest Expense		
Interest on deposits	1,128,714	1,516,844
Interest on Federal Home Loan Bank borrowings	351,020	356,837
Interest on subordinated debt	70,629	76,567
Interest on other borrowings	76,081	76,926
Total interest expense	1,626,444	2,027,174
Net interest income	3,874,402	5,159,407
Provision for Loan Losses	(29,786)	(845,402)
Net interest income after provision for loan losses	3,904,188	6,004,809
Non-interest Income		
Mortgage banking activity	46,234	12,420
Loan application, inspection & processing fees	38,030	14,727
Fees and service charges	171,511	228,668
Gain on sale of loans		263,646
Loss on sale of investment securities		(8,042)
Earnings on cash surrender value of life insurance	127,109	142,669
Other income	104,597	95,909
Total non-interest income	487,481	749,997
Non-interest Expense		
Salaries and benefits	3,005,314	2,890,724
Occupancy and equipment expense	1,038,808	1,123,584
Data processing	371,446	346,021
Advertising and promotional expense	42,481	17,729
Professional and other outside services	888,590	615,082
Loan administration and processing expense	77,486	8,280
Regulatory assessments	373,502	410,001
Insurance expense	78,758	169,245
Other real estate operations	1,846	(150,247)
Material and communications	106,079	131,178

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Restructuring charges and asset disposals (Note 12)		368,477
Other operating expense	385,406	279,202
Total non-interest expense	6,369,716	6,209,276
(Loss) income before income taxes	(1,978,047)	545,530
Benefit for Income Taxes	(21,080)	
Net (loss) income	\$ (1,956,967)	\$ 545,530
Basic and diluted (loss) income per share (Note 7)	\$ (0.05)	\$ 0.01

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended	
	March 31,	
	2013	2012
Net (loss) income	\$ (1,956,967)	\$ 545,530
Other comprehensive income:		
Unrealized holding gains on securities, net of taxes:		
Unrealized holding gains arising during the period	54,961	67,385
Less reclassification adjustment for net gains included in net income		(4,986)
Total	54,961	62,399
Comprehensive (loss) income	\$ (1,902,006)	\$ 607,929

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

	Number of Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Three months ended March 31, 2012							
Balance at December 31, 2011	38,362,727	\$ 383,744	\$ 105,050,433	\$ (54,858,831)	\$ (160,025)	\$ 134,339	\$ 50,549,660
Comprehensive income							
Net income				545,530			545,530
Unrealized holding gain on available for sale securities, net of taxes						62,399	62,399
Total comprehensive income							607,929
Share-based compensation expense			79,631				79,631
Issuance of restricted stock	104,346	1,043	(1,043)				
Balance, March 31, 2012	38,467,073	\$ 384,787	\$ 105,129,021	\$ (54,313,301)	\$ (160,025)	\$ 196,738	\$ 51,237,220
Three months ended March 31, 2013							
Balance at December 31, 2012	38,480,114	\$ 384,918	\$ 105,355,680	\$ (55,394,995)	\$ (160,025)	\$ (617,780)	\$ 49,567,798
Comprehensive loss							
Net loss				(1,956,967)			(1,956,967)
Unrealized holding gain on available for sale securities, net of taxes						54,961	54,961
Total comprehensive loss							(1,902,006)
Share-based compensation expense			7,651				7,651
Balance, March 31, 2013	38,480,114	\$ 384,918	\$ 105,363,331	\$ (57,351,962)	\$ (160,025)	\$ (562,819)	\$ 47,673,443

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents**PATRIOT NATIONAL BANCORP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Three Months Ended	
	March 31,	
	2013	2012
Cash Flows from Operating Activities:		
Net (loss) income:	\$ (1,956,967)	\$ 545,530
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Restructuring charges and asset disposals		311,616
Amortization and accretion of investment premiums and discounts, net	37,623	114,285
Amortization and accretion of purchase loan premiums and discounts, net	2,013	2,333
Provision for loan losses	(29,786)	(845,402)
Gain on sale of loans		(263,646)
Gain on sale of mortgage loans	(41,750)	
Originations of mortgage loans held for sale	(7,153,791)	
Proceeds from sales of mortgage loans held for sale	2,171,192	
Loss on sale of investment securities		8,042
Earnings on cash surrender value of life insurance	(127,109)	(142,669)
Depreciation and amortization	289,020	300,970
Gain on sale of other real estate owned	(200,383)	(201,355)
Share-based compensation	7,651	79,631
Changes in assets and liabilities:		
(Increase) decrease in net deferred loan costs	(57,747)	314,763
Decrease in accrued interest and dividends receivable	7,856	210,388
Decrease (increase) in other assets	41,955	(626,693)
Decrease in accrued expenses and other liabilities	(1,521,584)	(406,919)
Net cash used in operating activities	(8,531,807)	(599,126)
Cash Flows from Investing Activities:		
Principal repayments on available for sale securities	631,528	2,690,810
Proceeds from the sale of available for sale securities		5,165,626
Proceeds from repurchase of excess stock by Federal Reserve Bank	36,450	14,850
Proceeds from repurchase of excess stock by Federal Home Loan Bank	201,200	164,500
Proceeds from sale of loans		67,126,928
Net decrease (increase) in loans	2,937,892	(32,361,045)
Proceeds from sale of other real estate owned	1,309,587	1,823,435
Capital improvements of other real estate owned		(32,943)
Purchase of bank premises and equipment, net	(239,122)	(125,141)
Net cash provided by investing activities	4,877,535	44,467,020
Cash Flows from Financing Activities:		
Net increase (decrease) in demand, savings and money market deposits	7,245,002	(4,345,839)
Net decrease in time certificates of deposits	(12,841,609)	(973,234)
Increase in FHLB borrowings		10,000,000
Net cash (used in) provided by financing activities	(5,596,607)	4,680,927

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Net (decrease) increase in cash and cash equivalents	(9,250,879)	48,548,821
Cash and Cash Equivalents:		
Beginning	71,014,407	55,425,376
Ending	\$ 61,763,528	\$ 103,974,197

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued

(Unaudited)

	Three Months Ended	
	March 31, 2013	2012
Supplemental Disclosures of Cash Flow Information		
Interest paid	\$ 1,561,157	\$ 1,950,296
Income taxes paid	\$	\$
Supplemental disclosures of noncash operating, investing and financing activities:		
Unrealized holding gain on available for sale securities arising during the period	\$ 54,961	\$ 100,645
Transfer of loans to other real estate owned	\$	\$ 1,238,144
Transfer of other real estate owned to premises and equipment	\$	\$ 950,000
Reduction in deposits held for sale	\$ 3,777,278	\$
Reduction in branch assets held for sale	\$ 7,799	\$

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, 2012 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, 2012.

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, 2013 are not necessarily indicative of the results of operations that may be expected for the remainder of 2013.

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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, 2013 and December 31, 2012 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2013:				
U. S. Government agency bonds	\$ 7,500,000	\$ 17,280	\$ (1,512)	\$ 7,515,768
U. S. Government agency mortgage-backed securities	25,167,949		(175,006)	24,992,943
Corporate bonds	9,000,000		(403,581)	8,596,419
	\$ 41,667,949	\$ 17,280	\$ (580,099)	\$ 41,105,130
December 31, 2012:				
U. S. Government agency bonds	\$ 7,500,000	\$ 26,170	\$	\$ 7,526,170
U. S. Government agency mortgage-backed securities	25,837,100		(130,209)	25,706,891
Corporate bonds	9,000,000		(513,741)	8,486,259
	\$ 42,337,100	\$ 26,170	\$ (643,950)	\$ 41,719,320

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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, 2013 and December 31, 2012:

	Less Than 12 Months Fair Value	Unrealized Loss	12 Months or More Fair Value	Unrealized Loss	Total Fair Value	Unrealized Loss
March 31, 2013:						
U. S. Government agency bonds	\$ 2,498,488	\$ (1,512)	\$	\$	\$ 2,498,488	\$ (1,512)
U. S. Government agency mortgage backed securities	24,984,401	(175,006)			24,984,401	(175,006)
Corporate bonds	2,803,191	(196,809)	5,793,228	(206,772)	8,596,419	(403,581)
Totals	\$ 30,286,080	\$ (373,327)	\$ 5,793,228	\$ (206,772)	\$ 36,079,308	\$ (580,099)
December 31, 2012:						
U. S. Government agency mortgage backed securities	\$ 25,670,832	\$ (130,209)	\$	\$	\$ 25,670,832	\$ (130,209)
Corporate bonds	2,842,368	(157,632)	5,643,891	(356,109)	8,486,259	(513,741)
Totals	\$ 28,513,200	\$ (287,841)	\$ 5,643,891	\$ (356,109)	\$ 34,157,091	\$ (643,950)

At March 31, 2013, ten securities had unrealized holding losses with aggregate depreciation of 1.6% from the amortized cost. At December 31, 2012, nine securities had unrealized losses with aggregate depreciation of 1.9% 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 corporate debt and bonds 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. 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 therefore does not consider those investments to be other-than-temporarily impaired at March 31, 2013.

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The amortized cost and fair value of available-for-sale debt securities at March 31, 2013 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:

	Amortized Cost	Fair Value
Maturity:		
Corporate bonds 5 to 10 years	\$ 9,000,000	\$ 8,596,419
U.S. Government agency bonds 5 to 10 years	7,500,000	7,515,768
U.S. Government agency mortgage-backed securities	25,167,949	24,992,943
Total	\$ 41,667,949	\$ 41,105,130

Note 3: Loans Receivable and Allowance for Loan Losses

A summary of the Company's loan portfolio at March 31, 2013 and December 31, 2012 is as follows:

	March 31, 2013	December 31, 2012
Real Estate		
Commercial	\$ 242,506,736	\$ 247,495,321
Residential	118,785,047	119,033,025
Construction	4,997,991	4,997,991
Construction to permanent	9,454,753	4,851,768
Commercial	35,743,063	36,428,751
Consumer home equity	47,391,528	49,180,908
Consumer installment	2,064,770	2,162,718
Total Loans	460,943,888	464,150,482
Premiums on purchased loans	217,636	219,649
Net deferred costs	496,788	439,041
Allowance for loan losses	(5,717,148)	(6,015,636)
Loans receivable, net	\$ 455,941,164	\$ 458,793,536

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

	Three months ended	
	March 31,	
	2013	2012
Balance, beginning of period	\$ 6,015,636	\$ 9,384,672
Provision for loan losses	(29,786)	(845,402)
Loans charged-off	(305,384)	(102,483)
Recoveries of loans previously charged-off	36,682	24,156
Balance, end of period	\$ 5,717,148	\$ 8,460,943

At March 31, 2013 and December 31, 2012, the unpaid balances of loans 90 days or more past maturity, and still accruing interest were \$6.0 million and \$2.2 million, respectively. Three of the four loans at March 31, 2013, totaling \$1.6 million, were continuing to make interest payments, were past maturity and are in the process of being renewed. The other loan totaling \$4.4 million was over 90 days past due as to payments, but was subsequently paid off.

The unpaid principal balances of loans on nonaccrual status and considered impaired were \$19.0 million at March 31, 2013 and \$23.8 million at December 31, 2012. If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded approximately \$306,000 of additional income during the quarter ended March 31, 2013 and \$280,000 during the quarter ended March 31, 2012.

For the three months ended March 31, 2013 and 2012, 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 \$125,000 and \$225,000 respectively. The average recorded investment in impaired loans for the three months ended March 31, 2013 was \$33.2 million.

At March 31, 2013, there were 9 loans totaling \$16.0 million that were considered troubled debt restructurings, as compared to December 31, 2012 when there were 8 loans totaling \$11.6 million, all of which were included in impaired loans. At March 31, 2013, 4 of the 9 loans aggregating \$9.7 million were accruing loans and 5 loans aggregating \$6.3 million were non-accruing loans.

The Company's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County, New York City and Long Island, New York. The Company originates commercial real estate loans, commercial business loans, residential real estate loans and a variety of other consumer loans. In addition, the Company had originated loans for 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 borrower's 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. These types of loans may involve some additional risks because payments on such loans are dependent upon the successful operation of the business involved, therefore, repayment of such loans may be negatively impacted by adverse changes in economic conditions affecting the borrower's businesses.

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 corporate assets, often with real estate as secondary collateral, 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. Commercial loans are often larger and may involve greater risks than other types of loans offered by the Company. 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 mortgages, multi-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. In the past, the Company funded construction of single family homes, when no contract of sale existed, 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 a decline in general economic conditions. The Company has had a moratorium in place since mid-2008 on new speculative construction loans.

Other Loans The Company also offers installment 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, 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.

	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential	Consumer	Unallocated	Total
Three months ended March 31, 2013								
Allowance for loan losses:								
Beginning Balance	\$ 941,456	\$ 3,509,395	\$ 311,297	\$ 18,720	\$ 897,368	\$ 216,698	\$ 120,702	\$ 6,015,636
Charge-offs		(15,000)			(290,384)			(305,384)
Recoveries	1,000	14,988	20,000			694		36,682
Provision	903,859	(1,017,272)	(24,099)	12,394	139,415	(99,044)	54,961	(29,786)
Ending Balance	\$ 1,846,315	\$ 2,492,111	\$ 307,198	\$ 31,114	\$ 746,399	\$ 118,348	\$ 175,663	\$ 5,717,148
Ending balance: individually evaluated for impairment	\$ 33,281	\$ 706,027	\$ 140,170	\$	\$ 116,599	\$ 2,161	\$	\$ 998,238
Ending balance: collectively evaluated for impairment	1,813,034	1,786,084	167,028	31,114	629,800	116,187	175,663	4,718,910
Total Allowance for Loan Losses	\$ 1,846,315	\$ 2,492,111	\$ 307,198	\$ 31,114	\$ 746,399	\$ 118,348	\$ 175,663	\$ 5,717,148
Total Loans ending balance	\$ 35,743,063	\$ 242,506,736	\$ 4,997,991	\$ 9,454,753	\$ 118,785,047	\$ 49,456,298	\$	\$ 460,943,888
Ending balance: individually evaluated for impairment	\$ 182,258	\$ 15,801,098	\$ 1,862,038	\$ 1,243,401	\$ 13,246,901	\$ 564,906	\$	\$ 32,900,602
Ending balance : collectively evaluated for impairment	\$ 35,560,805	\$ 226,705,638	\$ 3,135,953	\$ 8,211,352	\$ 105,538,146	\$ 48,891,392	\$	\$ 428,043,286

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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, 2012. 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.

	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential	Consumer	Unallocated	Total
2012								
Allowance for loan losses:								
Beginning Balance	\$ 882,062	\$ 4,018,746	\$ 867,159	\$ 547,333	\$ 2,550,588	\$ 458,762	\$ 60,022	\$ 9,384,672
Charge-offs	(48,414)	(49,922)	(101,391)		(84,711)	(785,918)		(1,070,356)
Recoveries	10,861	66,951				2,731		80,543
Provision	96,947	(526,380)	(454,471)	(528,613)	(1,568,509)	541,123	60,680	(2,379,223)
Ending Balance	\$ 941,456	\$ 3,509,395	\$ 311,297	\$ 18,720	\$ 897,368	\$ 216,698	\$ 120,702	\$ 6,015,636
Ending balance: individually evaluated for impairment	\$ 33,280	\$ 728,607	\$ 120,616	\$	\$ 83,543	\$ 2,368	\$	\$ 968,414
Ending balance: collectively evaluated for impairment	908,176	2,780,788	190,681	18,720	813,825	214,330	120,702	5,047,222
Total Allowance for Loan Losses	\$ 941,456	\$ 3,509,395	\$ 311,297	\$ 18,720	\$ 897,368	\$ 216,698	\$ 120,702	\$ 6,015,636
Total Loans ending balance	\$ 36,428,751	\$ 247,495,321	\$ 4,997,991	\$ 4,851,768	\$ 119,033,025	\$ 51,343,626	\$	\$ 464,150,482
Ending balance: individually evaluated for impairment	\$ 219,509	\$ 15,909,103	\$ 1,862,038	\$ 1,258,710	\$ 13,567,175	\$ 566,543	\$	\$ 33,383,078
Ending balance : collectively evaluated for impairment	\$ 36,209,242	\$ 231,586,218	\$ 3,135,953	\$ 3,593,058	\$ 105,465,850	\$ 50,777,083	\$	\$ 430,767,404

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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 impaired loans and Other Real Estate Owned (OREO) are updated annually. Additionally, appraisals on construction loans are updated four months in advance of scheduled maturity dates. 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). We are subscribers to a national real estate valuation database service and use published information regarding home sales prices in the towns/counties where our collateral is located in CT and NY.

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. All loans are reviewed annually. 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.

During the quarter ended June 30, 2012, the Bank implemented enhancements to the allowance methodology, resulting in a reduction of the allowance for loan losses of \$1.1 million for that period. In making this transition, the changes served to update and enhance the methodology to better reflect the direction of the current loan portfolio. The changes were threefold:

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First, the Bank adopted a two year, instead of a three year, weighted average historical loss factor as the basis for the calculation of its historical loss experience. This is used to calculate expected losses in the pools identified in the Accounting Standards Codification (ASC) (Topic 450-20), Loss Contingencies pools prior to the application of qualitative risk adjustment factors. This change was made to be more responsive to the changing credit environment. This shorter average historical loss period will produce results more indicative of the current and expected behavior of the portfolio.

Second, the Bank adopted an Internal Risk Ratings Based (IRB) approach to calculating historical loss rates. This approach calibrates expected losses with actual risk assessment and equates the likelihood of loss to the level of risk in a credit facility rating. Previously, loss history was applied to categories of loans and qualitative adjustments were apportioned by risk rating within the categories.

Third, the Bank increased the detail of analysis within the segments, particularly within Commercial Real Estate lending, which is currently the Bank's largest concentration overall, by expanding the number of ASC 450-20 pools. In all, ten sub-concentrations have been added to the analysis. The greater level of detail enables the Bank to better apply qualitative risk adjustment factors to the segments affected and to monitor changes in credit risk within the portfolio.

Charge-off generally commences in the month that the loan is classified doubtful and is fully charged off within six months of such classification. If the account is classified loss the full balance is charged off immediately. 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. Typically, consumer installment loans are charged off no later than 90 days past due.

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

CREDIT RISK PROFILE BY CREDITWORTHINESS CATEGORY

Commercial		Commercial Real Estate		Construction		Construction to Permanent		Residential Real Estate		Consumer		Other
< 75%	>= 75%	< 75%	>= 75%	< 75%	>= 75%	< 75%	>= 75%	< 75%	>= 75%	< 75%	>= 75%	
\$ 3,317,351	\$ 3,126,861	\$ 199,067,642	\$ 8,628,492	\$	\$	\$ 8,211,352	\$	\$ 81,041,574	\$ 22,002,165	\$ 44,177,701	\$ 3,811,719	\$ 72,953,573
8,172,070	173,208	3,763,012	12,565,505	3,135,953	1,862,038		1,243,401	2,517,811	3,544,286	13,394	58,000	
2,442,994	\$ 3,300,069	\$ 215,989,907	\$ 26,516,829	\$ 3,135,953	\$ 1,862,038	\$ 8,211,352	\$ 1,243,401	\$ 88,867,871	\$ 29,917,176	\$ 44,297,896	\$ 4,432,463	\$ 72,953,573

CREDIT RISK PROFILE

	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential Real Estate	Consumer	Totals
Performing	\$ 35,560,805	\$ 232,840,084	\$ 3,135,953	\$ 8,211,352	\$ 112,722,950	\$ 49,454,137	\$ 441,925,281
Non Performing	182,258	9,666,652	1,862,038	1,243,401	6,062,097	2,161	19,018,607
Total	\$ 35,743,063	\$ 242,506,736	\$ 4,997,991	\$ 9,454,753	\$ 118,785,047	\$ 49,456,298	\$ 460,943,888

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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, 2012:

CREDIT RISK PROFILE BY CREDITWORTHINESS CATEGORY

Commercial < 75%	Commercial ≥ 75%	Commercial Real Estate		Construction		Construction to Permanent		Residential Real Estate		< 75%	Consumer		Other
		< 75%	≥ 75%	< 75%	≥ 75%	< 75%	≥ 75%	< 75%	≥ 75%		< 75%	≥ 75%	
\$563,777	\$1,241,109	\$203,149,356	\$9,182,622	\$	\$	\$3,593,058	\$	\$77,368,459	\$25,617,355	\$46,102,332	\$3,752,752	\$765,014,401	\$765,014,401
234,814	164,191	11,554,971	5,374,265	3,135,953				5,310,178		98,530	564,175		
014,401	210,459	8,503,630	9,730,477		1,862,038		1,258,710	2,524,186	8,212,847	2,368	58,000		
\$812,992	\$1,615,759	\$223,207,957	\$24,287,364	\$3,135,953	\$1,862,038	\$3,593,058	\$1,258,710	\$85,202,823	\$33,830,202	\$46,203,230	\$4,374,927	\$765,014,401	\$765,014,401

CREDIT RISK PROFILE

	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential Real Estate	Consumer	Totals
Performing	\$36,209,242	\$237,764,844	\$3,135,953	\$3,593,058	\$108,295,992	\$51,341,258	\$440,340,347
Non Performing	219,509	9,730,477	1,862,038	1,258,710	10,737,033	2,368	23,810,135
Total	\$36,428,751	\$247,495,321	\$4,997,991	\$4,851,768	\$119,033,025	\$51,343,626	\$464,150,482

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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, 2013:

2013	Non-Accrual and Past Due Loans						Total Non-Accrual and Past Due Loans
	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	>90 Days Past Due and Accruing	
Commercial							
Pass	\$	\$	\$	\$	\$	\$ 250,000	\$ 250,000
Substandard			182,258	182,258		500,000	682,258
Total Commercial	\$	\$	\$ 182,258	\$ 182,258	\$	\$ 750,000	\$ 932,258
Commercial Real Estate							
Pass	\$	\$	\$	\$	\$	\$	\$
Special Mention							
Substandard	\$	\$	\$ 7,595,369	\$ 7,595,369	\$ 2,071,283	\$ 860,762	\$ 10,527,414
Total Commercial Real Estate	\$	\$	\$ 7,595,369	\$ 7,595,369	\$ 2,071,283	\$ 860,762	\$ 10,527,414
Construction							
Substandard	\$	\$	\$ 1,862,038	\$ 1,862,038	\$	\$	\$ 1,862,038
Total Construction	\$	\$	\$ 1,862,038	\$ 1,862,038	\$	\$	\$ 1,862,038
Construction to Permanent							
Substandard	\$	\$	\$	\$	\$ 1,243,401	\$	\$ 1,243,401
Total Construction to Permanent	\$	\$	\$	\$	\$ 1,243,401	\$	\$ 1,243,401
Residential Real Estate							
Special Mention	\$	\$	\$	\$	\$	\$ 4,370,724	\$ 4,370,724
Substandard			5,166,677	5,166,677	895,420		6,062,097
Total Residential Real Estate	\$	\$	\$ 5,166,677	\$ 5,166,677	\$ 895,420	\$ 4,370,724	\$ 10,432,821
Consumer							
Substandard	\$	\$	\$	\$	\$ 2,161	\$	\$ 2,161
Total Consumer	\$	\$	\$	\$	\$ 2,161	\$	\$ 2,161
Total	\$	\$	\$ 14,806,342	\$ 14,806,342	\$ 4,212,265	\$ 5,981,486	\$ 25,000,093

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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, 2012:

2012	Non-Accrual and Past Due Loans						Total Non-Accrual and Past Due Loans
	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	>90 Days Past Due and Accruing	
Commercial							
Special Mention	\$	\$	\$	\$	\$	\$ 300,000	\$ 300,000
Substandard			182,258	182,258	37,251	500,000	719,509
Total Commercial	\$	\$	\$ 182,258	\$ 182,258	\$ 37,251	\$ 800,000	\$ 1,019,509
Commercial Real Estate							
Pass	\$	\$	\$	\$	\$	\$ 566,936	\$ 566,936
Special Mention							
Substandard	\$	\$	\$ 7,629,819	\$ 7,629,819	\$ 2,100,658	\$ 867,361	\$ 10,597,838
Total Commercial Real Estate	\$	\$	\$ 7,629,819	\$ 7,629,819	\$ 2,100,658	\$ 1,434,297	\$ 11,164,774
Construction							
Substandard	\$	\$	\$ 1,862,038	\$ 1,862,038	\$	\$	\$ 1,862,038
Total Construction	\$	\$	\$ 1,862,038	\$ 1,862,038	\$	\$	\$ 1,862,038
Construction to Permanent							
Substandard	\$	\$	\$	\$	\$ 1,258,710	\$	\$ 1,258,710
Total Construction to Permanent	\$	\$	\$	\$	\$ 1,258,710	\$	\$ 1,258,710
Residential Real Estate							
Substandard	\$	\$ 358,123	\$ 10,231,542	\$ 10,589,665	\$ 147,368	\$	\$ 10,737,033
Total Residential Real Estate	\$	\$ 358,123	\$ 10,231,542	\$ 10,589,665	\$ 147,368	\$	\$ 10,737,033
Consumer							
Substandard	\$	\$	\$	\$	\$ 2,368	\$	\$ 2,368
Total Consumer	\$	\$	\$	\$	\$ 2,368	\$	\$ 2,368
Total	\$	\$ 358,123	\$ 19,905,657	\$ 20,263,780	\$ 3,546,355	\$ 2,234,297	\$ 26,044,432

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 \$19.0 million and \$23.8 million at March 31, 2013, and December 31, 2012 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 \$6.0 million and \$2.2 million at March 31, 2013, and December 31, 2012 respectively, and consisted of four loans at March 31, 2013. Three of the four loans at March 31, 2013, totaling \$1.6 million, were continuing to make interest payments, were past maturity and are in the process of being renewed. The other loan totaling \$4.4 million was over 90 days past

due as to payments, but was subsequently paid off.

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

	Performing (Accruing) Loans					Total Non-Accrual and Past Due Loans	
2013	31-60 Days Past Due	61-90 Days Past Due	Total Past Due	Current	Total Performing Loans		Total Loans
Commercial							
Pass	\$ 7,450	\$	\$ 7,450	\$ 26,186,762	\$ 26,194,212	\$ 250,000	\$ 26,444,212
Special Mention	6,664		6,664	946,909	953,573		953,573
Substandard				7,663,020	7,663,020	682,258	8,345,278
Total Commercial	\$ 14,114	\$	\$ 14,114	\$ 34,796,691	\$ 34,810,805	\$ 932,258	\$ 35,743,063
Commercial Real Estate							
Pass	\$	\$	\$	\$ 207,696,134	\$ 207,696,134	\$	\$ 207,696,134
Special Mention				18,482,085	18,482,085		18,482,085
Substandard				5,801,103	5,801,103	10,527,414	16,328,517
Total Commercial Real Estate	\$	\$	\$	\$ 231,979,322	\$ 231,979,322	\$ 10,527,414	\$ 242,506,736
Construction							
Pass	\$	\$	\$	\$	\$	\$	\$
Special Mention							
Substandard		3,135,953	3,135,953		3,135,953	1,862,038	4,997,991
Total Construction	\$	\$ 3,135,953	\$ 3,135,953	\$	\$ 3,135,953	\$ 1,862,038	\$ 4,997,991
Construction to Permanent							
Pass	\$	\$	\$	\$ 8,211,352	\$ 8,211,352	\$	\$ 8,211,352
Special Mention							
Substandard						1,243,401	1,243,401
Total Construction to Permanent	\$	\$	\$	\$ 8,211,352	\$ 8,211,352	\$ 1,243,401	\$ 9,454,753
Residential Real Estate							
Pass	\$	\$	\$	\$ 103,043,739	\$ 103,043,739	\$	\$ 103,043,739
Special Mention				5,308,487	5,308,487	4,370,724	9,679,211
Substandard						6,062,097	6,062,097
Total Residential Real Estate	\$	\$	\$	\$ 108,352,226	\$ 108,352,226	\$ 10,432,821	\$ 118,785,047
Consumer							
Pass	\$ 3,823	\$ 14,130	\$ 17,953	\$ 48,697,406	\$ 48,715,359	\$	\$ 48,715,359
Special Mention	7,670		7,670	661,875	669,545		669,545
Substandard	11,233		11,233	58,000	69,233	2,161	71,394
Total Consumer	\$ 22,726	\$ 14,130	\$ 36,856	\$ 49,417,281	\$ 49,454,137	\$ 2,161	\$ 49,456,298
Total	\$ 36,840	\$ 3,150,083	\$ 3,186,923	\$ 432,756,872	\$ 435,943,795	\$ 25,000,093	\$ 460,943,888

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The following table sets forth the detail and delinquency status of loans receivable, net, by performing and non-performing loans at December 31, 2012.

2012	Performing (Accruing) Loans				Total Performing Loans	Total Non- Accrual and Past Due Loans	Total Loans
	31-60 Days Past Due	Greater Than 60 Days	Total Past Due	Current			
Commercial							
Pass	\$ 10,171	\$	\$ 10,171	\$ 26,494,715	\$ 26,504,886	\$ 300,000	\$ 26,804,886
Special Mention				7,399,006	7,399,006		7,399,006
Substandard				1,505,350	1,505,350	719,509	2,224,859
Total Commercial	\$ 10,171	\$	\$ 10,171	\$ 35,399,071	\$ 35,409,242	\$ 1,019,509	\$ 36,428,751
Commercial Real Estate							
Pass	\$	\$	\$	\$ 211,765,042	\$ 211,765,042	\$ 566,936	\$ 212,331,978
Special Mention				16,929,236	16,929,236		16,929,236
Substandard				7,636,269	7,636,269	10,597,838	18,234,107
Total Commercial Real Estate	\$	\$	\$	\$ 236,330,547	\$ 236,330,547	\$ 11,164,774	\$ 247,495,321
Construction							
Special Mention	\$	\$	\$	\$ 3,135,953	\$ 3,135,953	\$	\$ 3,135,953
Substandard						1,862,038	1,862,038
Total Construction	\$	\$	\$	\$ 3,135,953	\$ 3,135,953	\$ 1,862,038	\$ 4,997,991
Construction to Permanent							
Pass	\$	\$	\$	\$ 3,593,058	\$ 3,593,058	\$	\$ 3,593,058
Substandard						1,258,710	1,258,710
Total Construction to Permanent	\$	\$	\$	\$ 3,593,058	\$ 3,593,058	\$ 1,258,710	\$ 4,851,768
Residential Real Estate							
Pass	\$ 40,838	\$	\$ 40,838	\$ 102,944,976	\$ 102,985,814	\$	\$ 102,985,814
Special Mention				5,310,178	5,310,178		5,310,178
Substandard						10,737,033	10,737,033
Total Residential Real Estate	\$ 40,838	\$	\$ 40,838	\$ 108,255,154	\$ 108,295,992	\$ 10,737,033	\$ 119,033,025
Consumer							
Pass	\$	\$ 12,443	\$ 12,443	\$ 50,608,110	\$ 50,620,553	\$	\$ 50,620,553
Special Mention				662,705	662,705		662,705
Substandard				58,000	58,000	2,368	60,368
Total Consumer	\$	\$ 12,443	\$ 12,443	\$ 51,328,815	\$ 51,341,258	\$ 2,368	\$ 51,343,626
Total	\$ 51,009	\$ 12,443	\$ 63,452	\$ 438,042,598	\$ 438,106,050	\$ 26,044,432	\$ 464,150,482

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

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	\$ 9,050	\$ 93,944	\$
Commercial Real Estate	10,163,815	10,973,038	
Construction			
Construction to Permanent	1,243,401	1,425,000	
Residential	12,579,962	14,901,575	
Consumer	562,745	562,744	
Total:	\$ 24,558,973	\$ 27,956,301	\$
With an allowance recorded:			
Commercial	\$ 173,208	\$ 350,000	\$ 33,281
Commercial Real Estate	5,637,283	5,956,910	706,027
Construction	1,862,038	2,013,663	140,170
Construction to Permanent			
Residential	666,939	668,604	116,599
Consumer	2,161	2,334	2,161
Total:	\$ 8,341,629	\$ 8,991,511	\$ 998,238
Commercial	\$ 182,258	\$ 443,944	\$ 33,281
Commercial Real Estate	15,801,098	16,929,948	706,027
Construction	1,862,038	2,013,663	140,170
Construction to Permanent	1,243,401	1,425,000	
Residential	13,246,901	15,570,179	116,599
Consumer	564,906	565,078	2,161
Total:	\$ 32,900,602	\$ 36,947,812	\$ 998,238

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, 2012:

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	\$ 46,301	\$ 131,195	\$
Commercial Real Estate	12,328,103	13,369,985	
Construction			
Construction to Permanent	1,258,710	1,425,000	
Residential	10,760,965	12,786,388	
Consumer	564,175	564,175	
Total:	\$ 24,958,254	\$ 28,276,743	\$
With an allowance recorded:			
Commercial	\$ 173,208	\$ 350,000	\$ 33,280
Commercial Real Estate	3,581,000	3,606,947	728,607
Construction	1,862,038	2,013,663	120,616
Construction to Permanent			
Residential	2,806,210	2,806,766	83,543
Consumer	2,368	2,506	2,368
Total:	\$ 8,424,824	\$ 8,779,882	\$ 968,414
Commercial	\$ 219,509	\$ 481,195	\$ 33,280
Commercial Real Estate	15,909,103	16,976,932	728,607
Construction	1,862,038	2,013,663	120,616
Construction to Permanent	1,258,710	1,425,000	
Residential	13,567,175	15,593,154	83,543
Consumer	566,543	566,681	2,368
Total:	\$ 33,383,078	\$ 37,056,625	\$ 968,414

The recorded investment of impaired loans at March 31, 2013 and December 31, 2012 was \$32.9 million and \$33.4 million, with related allowances of \$1.0 million and \$1.0 million, respectively.

Included in the tables above at March 31, 2013 and December 31, 2012 are loans with carrying balances of \$24.6 million and \$25.0 million that required no specific reserves in our allowance for loan losses. Loans that did not require specific reserves at March 31, 2013 and December 31, 2012 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 preserve the Company's position in the loan. If the borrower is experiencing financial difficulties and a concession has been made at the time of such modification, the loan is classified as a troubled debt restructured loan.

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

	Accrual		Non-accrual		Total	
	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount
Commercial Real Estate		\$	2	\$ 4,226,283	2	\$ 4,226,283
Residential Real Estate	1	4,370,725	2	852,507	3	5,223,232
Construction to permanent	2	4,730,324	1	1,243,401	3	5,973,725
Consumer home equity	1	562,744			1	562,744
Total Troubled Debt Restructurings	4	\$ 9,663,793	5	\$ 6,322,191	9	\$ 15,985,984

The following table presents the total troubled debt restructured loans as of December 31, 2012:

	Accrual		Non-accrual		Total	
	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount
Commercial Real Estate		\$	2	\$ 4,255,658	2	\$ 4,255,658
Residential Real Estate			3	5,519,232	3	5,519,232
Construction to permanent			1	1,258,710	1	1,258,710
Commercial			1	37,251	1	37,251
Consumer home equity	1	564,175			1	564,175
Total Troubled Debt Restructurings	1	\$ 564,175	7	\$ 11,070,851	8	\$ 11,635,026

Two loans were modified in a troubled debt restructuring during the three months ended March 31, 2013. The following table summarizes loans that were modified in a troubled debt restructuring during the three months ended March 31, 2013.

	Number of Relationships	Three months ended March 31, 2013		Number of Relationships	Post-Modification Outstanding Recorded Investment
		Pre-Modification Outstanding Recorded Investment			
Troubled Debt Restructurings					
Construction to permanent	2	4,730,324		2	4,730,324
Total Troubled Debt Restructurings	2	\$ 4,730,324		2	\$ 4,730,324

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Substantially all of our troubled debt restructured loan modifications involve lowering the monthly payments on such loans through either a reduction in interest rate below market rate, an extension of the term of the loan, or a combination of 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.

During the three months ended March 31, 2013, two construction to permanent loans to one borrower in the amount of \$3.7 million and \$1.0 million were downgraded due to the financial hardship of the borrower. One commercial loan that was a troubled debt restructured loan at December 31, 2012 for \$37,000 was paid off.

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:

	March 31, 2013	December 31, 2012
Non-interest bearing	\$ 59,814,120	\$ 65,176,125
Interest bearing		
NOW	28,496,790	30,191,403
Savings	95,437,839	77,760,967
Money market	39,026,176	42,401,428
Time certificates, less than \$100,000	150,970,564	160,610,601
Time certificates, \$100,000 or more	117,940,802	121,142,374
Total interest bearing	431,872,171	432,106,773
Total Deposits (1)	\$ 491,686,291	\$ 497,282,898

(1) Included in total deposits are \$20.9 million and \$24.7 million of deposits held for sale at March 31, 2013 and December 31, 2012, respectively.

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. 2,675,113 shares of stock remain available for issuance under the Plan as of March 31, 2013. 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 only to directors and vest in quarterly installments over a four 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. Stock options were granted at an exercise price equal to \$2.20 based on a price determined by the Compensation Committee and all have an expiration period of 10 years. The fair value of stock options granted on January 24, 2012, was estimated utilizing the Black-Scholes option pricing model using the following assumptions: an expected life of 6.28 years utilizing the simplified method, risk-free rate of return of 1.28%, volatility of 61.29% and no dividend yield. The Company is expensing the grant date fair value of all share-based compensation over the requisite vesting periods on a straight-line basis.

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During the three months ended March 31, 2013 and March 31, 2012, the Company recorded \$7,651 and \$79,631 of total stock-based compensation, respectively. During the quarter ended March 31, 2013, there were no awards granted under the 2012 Stock Plan.

The following table is a summary of the Company's non-vested stock options as of March 31, 2013, and changes therein during the period then ended:

	Number of Stock Options	Weighted Average Grant Date Fair Value	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Outstanding December 31, 2012	850,000	\$ 0.90	\$ 2.20	10
Granted				
Exercised				
Forfeited	(642,500)	0.90	2.20	10
Outstanding March 31, 2013	207,500	\$ 0.90	\$ 2.20	10
Exercisable March 31, 2013	207,500	\$	\$	

There is no expected future stock option expense related to the non-vested options outstanding as of March 31, 2013. See discussion on Management Changes on page 55.

The following is a summary of the status of the Company's restricted shares as of March 31, 2013, and changes therein during the period then ended.

	Number of Shares Awarded	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2012	44,566	\$ 1.73
Vested	(4,435)	1.65
Non-vested at March 31, 2013	40,131	\$ 1.73

Expected future stock award expense related to the non-vested restricted awards as of March 31, 2013, is \$69,226 over an average period of 2.37 years.

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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. Management has reviewed the deferred tax position of the Company at March 31, 2013. The deferred tax position has been affected by several significant transactions in prior years. These transactions include increased 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 is in a cumulative net loss position at March 31, 2013, and under the applicable accounting guidance, has concluded that it is not more-likely-than-not that the Company will be able to realize its deferred tax assets and, accordingly, has established a full valuation allowance totaling \$15.8 million against its deferred tax asset at March 31, 2013. The valuation allowance is analyzed quarterly for changes affecting the deferred tax asset. If, in the future, the Company generates taxable income on a 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.

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 carryforward and certain built in deductions available against future taxable income in any one year are limited. The maximum amount of carryforwards 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 carryforward not utilized in prior years.

The Company has analyzed the impact of its recent ownership change and has calculated the annual limitation under IRC 382 to be \$284,000. Based on the analysis, the Company has determined that the pre-change net operating losses and net unrealized built-in deductions were approximately \$36.2 million. Based on a 20 year carryforward 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.

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.

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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, 2013 and 2012:

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	\$ (1,956,967)	38,435,597	\$ (0.05)

Three months ended March 31, 2012

	Net Income	Weighted Average Common Shares O/S	Amount
Basic and Diluted Income Per Share			
Income attributable to common shareholders	\$ 545,530	38,372,271	\$ 0.01

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, 2013			Three Months Ended March 31, 2012		
	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	\$ 54,961	\$	\$ 54,961	\$ 108,687	\$ (41,302)	\$ 67,385
Reclassification adjustment for losses recognized in income				(8,042)	3,056	(4,986)
Unrealized holding gains on available for sale securities, net of taxes	\$ 54,961	\$	\$ 54,961	\$ 100,645	\$ (38,246)	\$ 62,399

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.

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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, 2013 are as follows:

Commitments to extend credit:	
Future loan commitments	\$ 19,864,658
Home equity lines of credit	30,713,406
Unused lines of credit	36,328,703
Undisbursed construction loans	5,399,318
Financial standby letters of credit	7,000
	\$ 92,313,085

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. Based on an analysis of unfunded commitments, the bank has established a reserve of \$16,491 as of March 31, 2013.

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.

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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, 2013 and December 31, 2012 were:

(dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2013						
The Company:						
Total Capital (to Risk Weighted Assets)	\$ 61,587	14.40%	\$ 34,215	8.00%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	56,236	13.15%	17,106	4.00%	N/A	N/A
Tier 1 Capital (to Average Assets)	56,236	9.22%	24,397	4.00%	N/A	N/A
The Bank:						
Total Capital (to Risk Weighted Assets)	\$ 60,378	14.13%	\$ 34,184	8.00%	\$ 42,730	10.00%
Tier 1 Capital (to Risk Weighted Assets)	56,503	12.88%	17,548	4.00%	26,321	6.00%
Tier 1 Capital (to Average Assets)	56,503	9.03%	25,029	4.00%	31,286	5.00%
December 31, 2012						
The Company:						
Total Capital (to Risk Weighted Assets)	\$ 63,253	15.64%	\$ 32,354	8.00%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	58,186	14.39%	16,174	4.00%	N/A	N/A
Tier 1 Capital (to Average Assets)	58,186	9.33%	24,946	4.00%	N/A	N/A
The Bank:						
Total Capital (to Risk Weighted Assets)	\$ 61,908	15.31%	\$ 32,349	8.00%	\$ 40,468	10.00%
Tier 1 Capital (to Risk Weighted Assets)	56,840	14.05%	16,182	4.00%	24,280	6.00%
Tier 1 Capital (to Average Assets)	56,840	9.11%	24,957	4.00%	31,191	5.00%

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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, 2013, 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.

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.

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.

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Note 11: Fair Value and Interest Rate Risk

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

Fair value measurements focus on exit prices in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

The Company's fair value measurements are classified into a fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three categories within the hierarchy are as follows:

Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lower level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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 and corporate bonds. 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.

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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 values of the Company's other real estate owned (OREO) properties are 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 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, 2013 and December 31, 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine fair value:

	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, 2013				March 31, 2013
U.S. Government agency mortgage-backed securities	\$	\$ 24,992,943	\$	\$ 24,992,943
U.S. Government agency bonds		7,515,768		7,515,768
Corporate bonds		8,596,419		8,596,419
Securities available for sale	\$	\$ 41,105,130	\$	\$ 41,105,130
	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, 2012				December 31, 2012
U.S. Government agency mortgage-backed securities	\$	\$ 25,706,891	\$	\$ 25,706,891
U.S. Government agency bonds		7,526,170		7,526,170
Corporate bonds		8,486,259		8,486,259
Securities available for sale	\$	\$ 41,719,320	\$	\$ 41,719,320

There were no transfers of assets between levels 1, 2 or 3 as of March 31, 2013 or December 31, 2012. 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, 2013 and December 31, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
March 31, 2013				
Impaired Loans ⁽¹⁾	\$	\$	\$ 8,341,629	\$ 8,341,629
Other real estate owned ⁽²⁾	\$	\$	\$ 3,764,640	\$ 3,764,640
December 31, 2012				
Impaired Loans ⁽¹⁾	\$	\$	\$ 8,424,786	\$ 8,424,786
Other real estate owned ⁽²⁾	\$	\$	\$ 4,873,844	\$ 4,873,844

⁽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, 2013 and December 31, 2012 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, 2013 and December 31, 2012 (in thousands):

		March 31, 2013		December 31, 2012	
	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	\$ 3,338	\$ 3,338	\$ 2,736	\$ 2,736
Interest-bearing deposits due from banks	Level 1	57,714	57,714	67,567	67,567
Short-term investments	Level 1				

IDT Payment Services and IDT Telecom have performance bonds issued through third parties for the benefit of various states in order to comply with the states' financial requirements for money remittance licenses and telecommunications resellers, respectively. At April 30, 2016, we had aggregate performance bonds of \$13.3 million outstanding.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

Foreign Currency Risk

Revenues from our international operations were 30% of our consolidated revenues for the nine months ended April 30, 2016 and 2015. A significant portion of these revenues is in currencies other than the U.S. Dollar. Our foreign currency exchange risk is somewhat mitigated by our ability to offset a portion of these non U.S. Dollar-denominated revenues with operating expenses that are paid in the same currencies. While the impact from fluctuations in foreign exchange rates affects our revenue and expenses denominated in foreign currencies, the net amount of our exposure to foreign currency exchange rate changes at the end of each reporting period is generally not

material.

We enter into foreign exchange forward contracts as hedges against unfavorable fluctuations in the U.S. Dollar – Norwegian Krone, or NOK, exchange rate. Zedge is based in New York and Norway and much of its operations are located in Norway. While this limits the downside risk of adverse foreign exchange movements, it also limits future gains from favorable movements. We do not apply hedge accounting to these contracts, therefore the changes in fair value are recorded in earnings. By using derivative instruments to mitigate exposures to changes in foreign exchange rates, we are exposed to credit risk from the failure of the counterparty to perform under the terms of the contract. We minimize the credit or repayment risk by entering into transactions with high-quality counterparties.

Our outstanding contracts at April 30, 2016 were as follows:

Settlement Date	U.S. Dollar Amount	NOK Amount
May 2016	1,000,000	8,238,600
July 2016	1,000,000	8,200,000
October 2016	500,000	4,087,318

Investment Risk

In addition to, but separate from our primary business, we hold a portion of our assets in marketable securities and hedge funds for strategic and speculative purposes. At April 30, 2016, the carrying value of our marketable securities and investments in hedge funds was \$46.6 million and \$8.1 million, respectively. Investments in marketable securities and hedge funds carry a degree of risk, and depend to a great extent on correct assessments of the future course of price movements of securities and other instruments. There can be no assurance that our investment managers will be able to accurately predict these price movements. The securities markets have in recent years been characterized by great volatility and unpredictability. Accordingly, the

value of our investments may go down as well as up and we may not receive the amounts originally invested upon redemption.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer and Principal Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures were effective as of April 30, 2016.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting during the quarter ended April 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Legal proceedings in which we are involved are more fully described in Note 11 to the Consolidated Financial Statements included in Item 1 to Part I of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in Item 1A to Part I of our Form 10-K for the year ended July 31, 2015, except for the following:

We could be harmed by network disruptions, security breaches, or other significant disruptions or failures of our IT infrastructure and related systems or of those we operate for certain of our customers.

To be successful, we need to continue to have available, for our and our customers' use, a high capacity, reliable and secure network and other IT infrastructure and systems. We face the risk, as does any company, of a security breach, whether through cyber-attacks, malware, computer viruses, sabotage, or other significant disruption of our IT infrastructure and related systems. As such, there is a risk of a security breach or disruption of the systems we operate, including possible unauthorized access to our and our customers' proprietary or classified information. We are also subject to the risk of breaches of our network resulting in unauthorized utilization of our services or products, which subject us to the costs of providing those products or services, which are likely not recoverable.

We also rely on internet-based systems for certain interactions with customers and disruptions in the functioning and availability of our websites could impact our revenues and customer relationships. Such disruptions could be caused by malicious action on the part of third parties, or deliberate or negligent action on the part of service providers or third parties.

The secure maintenance and transmission of our and our customers' information is a critical element of our operations. Our information technology and other systems that maintain and transmit customer information, or those of service providers or business partners, may be compromised by a malicious third party penetration of our network security, or that of a third party service provider or business partner, or impacted by advertent or inadvertent actions or inactions by our employees, or those of a third party service provider or business partner. As a result, our or our customers' information may be lost, disclosed, accessed or taken without the customers' consent, or our products and services may be used without payment.

Although we make significant efforts to maintain the security and integrity of these types of information and systems, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging, especially in light of the growing sophistication of cyber-attacks and intrusions. We may be unable to anticipate all potential types of attacks or intrusions or to implement adequate security barriers or other preventative measures. Certain of our business units have been the subject of attempted and successful cyber-attacks in the past. We have researched the situations and do not believe any material information, internal or customer, has been compromised.

In the second quarter of fiscal 2016, we were subject to several separate denial of service attacks on our internet telephony and web infrastructures. Two of these attacks were short in duration, and volumetric in nature and the others were of a non-volumetric nature. The attacks lasted between several minutes and five hours. We do not believe that these attacks resulted in any breach in or misappropriation of internal or customer data. The

non-volumetric attacks displayed considerable knowledge of weaknesses in leading industry security products, and appeared to require some knowledge of our systems or inside information to implement. We have not suffered any material direct impact from these attacks, but there were limited direct losses, possible lost revenue opportunities and internal costs in responding, investigating and mitigating the events.

We have implemented additional measures to protect ourselves and enhance our ability to respond and are evaluating several possible solutions that would provide even more robust protection. We are also considering changes to certain policies related to customer, distributor and reseller interfaces to bolster protection and plug perceived areas of vulnerability.

In addition, we have been subject to other attempts to breach security, including phishing e-mails, attempted delivery of malware and emails purported to be from our executives. We do not believe that we have suffered any significant security breaches, or that we have had any damages to date from this sort of activity.

Network disruptions, security breaches and other significant failures of the above-described systems or other platforms could (i) disrupt the proper functioning of our networks and systems and therefore our operations or those of certain of our customers; (ii) result in the unauthorized use of our services or products without payment, (iii) result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or our customers, including trade secrets, which others could use to compete against us or for disruptive, destructive or otherwise harmful purposes and outcomes; (iv) require significant management attention or financial resources to remedy the damages that result or to change our systems and processes; (v) subject us to claims for contract breach, damages, credits, fines, penalties, termination or other remedies; or (vi) result in a loss of business, damage our reputation among our customers and the public generally, subject us to additional regulatory scrutiny or expose us to litigation. Any or all of which could have a negative impact on our results of operations, financial condition and cash

flows.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to purchases by us of our shares during the third quarter of fiscal 2016:

	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares as part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
February 1-29, 2016	—	\$ —	—	8,000,000
March 1-31, 2016	—	\$ —	—	8,000,000
April 1-30, 2016	—	\$ —	—	8,000,000
Total	—	\$ —	—	

On January 22, 2016, our Board of Directors approved a stock repurchase program to purchase up to 8.0 million shares of our Class B common stock and cancelled the (1) previous stock repurchase program originally approved by the Board of Directors on June 13, 2006, which had 4,636,741 shares remaining available for repurchase.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
31.1*	Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document

101.PRE* XBRL Taxonomy Extension Presentation
Linkbase Document

*Filed or furnished herewith.

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SIGNATURES

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

IDT CORPORATION

June 9, 2016 By: /s/ Shmuel Jonas

Shmuel Jonas

Chief Executive Officer

June 9, 2016 By: /s/ Marcelo Fischer

Marcelo Fischer

Senior Vice President of Finance

(Principal Financial Officer)