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PATRIOT NATIONAL BANCORP INC
Form 10QSB
August 13, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the Quarter Ended June 30, 2003 Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.
(Exact name of small business issuer as specified in its charter)

Connecticut 06-1559137
(State of incorporation) (I.R.S. Employer Identification Number)

900 Bedford Street, Stamford, Connecticut 06901
(Address of principal executive offices)

(203) 324-7500

(Issuer's telephone number)

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

Common stock, \$2.00 par value per share, 2,400,725 shares issued and outstanding as of the close of business July 31, 2003.

Transitional Small Business Disclosure Format (check one): Yes No X
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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

PATRIOT NATIONAL BANCORP, INC
CONSOLIDATED BALANCE SHEETS

	June 30, 2003	December 2002
	(Unaudited)	
ASSETS		
Cash and due from banks	\$ 6,221,221	\$ 5,388,888
Federal funds sold	21,000,000	3,000,000
Short term investments	8,217,700	3,340,000
	-----	-----
Cash and cash equivalents	35,438,921	11,728,888
Available for sale securities (at fair value)	76,263,885	60,610,000
Federal Reserve Bank stock	691,150	480,000
Federal Home Loan Bank stock	1,077,300	620,000
Loans receivable (net of allowance for loan losses: 2003 \$2,626,675; 2002 \$2,372,454)	183,599,561	170,790,000
Accrued interest receivable	1,233,828	1,310,000
Premises and equipment, net	1,201,083	780,000
Deferred tax asset, net	947,900	750,000
Goodwill	930,091	930,000
Other assets	691,169	460,000
	-----	-----
Total assets	\$302,074,888	\$248,490,000
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest bearing deposits	\$ 24,146,114	\$ 25,510,000
Interest bearing deposits	224,161,275	192,390,000
	-----	-----
Total deposits	248,307,389	217,900,000
Securities sold under agreements to repurchase	5,700,000	5,700,000
Federal Home Loan Bank borrowings	14,000,000	4,000,000
Trust preferred securities	8,000,000	
Capital lease obligation	175,949	240,000
Collateralized borrowings	299,444	340,000
Accrued expenses and other liabilities	6,778,488	1,740,000
	-----	-----
Total liabilities	283,261,270	229,950,000
	-----	-----
Shareholders' equity		
Common stock, \$2 par value: 5,333,333 shares authorized; shares issued and outstanding: 2003 - 2,400,725; 2002 - 2,400,525	4,801,450	4,800,000
Additional paid-in capital	11,485,449	11,480,000

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Retained earnings	2,270,848	1,68
Accumulated other comprehensive income - net unrealized gain on available for sale securities, net of tax	255,871	57
Total shareholders' equity	18,813,618	18,54
Total liabilities and shareholders' equity	\$302,074,888	\$248,49

See accompanying notes to consolidated financial statements.

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PATRIOT NATIONAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Mont June
	2003	2002	2003
Interest and Dividend Income			
Interest and fees on loans	\$ 3,040,352	\$ 2,438,451	\$ 5,938,354
Interest and dividends on investment securities	484,031	468,547	1,008,246
Interest on federal funds sold	45,756	39,852	56,756
Total interest and dividend income	3,570,139	2,946,850	7,003,356
Interest Expense			
Interest on deposits	1,169,853	1,081,217	2,231,746
Interest on Federal Home Loan Bank borrowings	79,423	26,106	127,373
Interest on Trust Preferred Securities	90,890	--	95,791
Interest on other borrowings	35,368	30,414	76,926
Total interest expense	1,375,534	1,137,737	2,531,836
Net interest income	2,194,605	1,809,113	4,471,520
Provision for Loan Losses	90,000	84,000	255,000
Net interest income after provision for loan losses	2,104,605	1,725,113	4,216,520
Non-Interest Income			
Mortgage brokerage referral fees	961,489	671,229	1,894,272
Loan processing fees	225,056	122,257	403,804
Fees and service charges	87,240	70,949	157,667
Gains and origination fees from loans sold .	--	249,365	--
Gain (loss) on sale of investment securities	182,575	--	307,739
Other income	21,468	18,965	56,936
Total non-interest income	1,477,828	1,132,765	2,820,418

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Non-Interest Expenses			
Salaries and benefits	1,944,294	1,502,206	3,831,882
Occupancy and equipment expenses, net	328,284	242,816	598,708
Data processing and other outside services .	166,269	143,246	358,506
Professional services	87,577	105,790	177,242
Advertising and promotional expenses	85,952	98,442	155,274
Forms, printing and supplies	58,358	41,925	102,436
Other operating expenses	335,474	272,735	638,155
	-----	-----	-----
Total non-interest expenses	3,006,208	2,407,160	5,862,203
	-----	-----	-----
Income before income taxes	576,225	450,718	1,174,735
	-----	-----	-----
Provision for Income Taxes	227,000	163,000	460,000
	-----	-----	-----
Net income	\$ 349,225	\$ 287,718	\$ 714,735
	=====	=====	=====
Basic income per share	\$ 0.15	\$ 0.12	\$ 0.30
	=====	=====	=====
Diluted income per share	\$ 0.14	\$ 0.12	\$ 0.29
	=====	=====	=====
Dividends per share	\$ 0.030	\$ 0.025	\$ 0.055
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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PATRIOT NATIONAL BANCORP, INC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months June
	2003	2002	2003
	-----	-----	-----
Net income.....	\$ 349,225	\$ 287,718	\$ 714,735
Unrealized holding (losses) gains on securities: Unrealized holding (losses) gains arising during the period, net of taxes.....	(130,739)	249,073	(315,227)
	-----	-----	-----
Comprehensive income.....	\$ 218,486	\$ 536,791	\$ 399,508
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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PATRIOT NATIONAL BANCORP, INC.
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	Six Months June 30 2003	\$
<hr/>		
Cash Flows from Operating Activities		
Net income	714,735	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion of investment premiums and discounts, net	239,259	
Originations of loans held for sale	--	
Proceeds from sales of loans held for sale	--	
Gain on sale of loans	--	
Provision for loan losses	255,000	
(Gain) loss on sale of investment securities	(307,739)	
Depreciation and amortization	177,520	
Loss on disposal of bank premises and equipment	2,037	
Changes in assets and liabilities:		
Increase in deferred loan fees	81,310	
Decrease (increase) in accrued interest receivable	77,625	
Increase in other assets	(230,233)	
Decrease in accrued expenses and other liabilities	(72,669)	
	<hr/>	
Net cash provided by operating activities	936,845	
	<hr/>	
Cash Flows from Investing Activities		
Purchases of available for sale securities	(35,642,429)	
Proceeds from sales of available for sale securities	7,094,321	
Principal repayments on available for sale securities	11,353,924	
Proceeds from maturities of available for sale securities	6,200,000	
Purchase of Federal Home Loan Bank Stock	(456,000)	
Purchase of Federal Reserve Bank Stock	(210,100)	
Net increase in loans	(13,140,932)	
Proceeds from sale of loan receivable	--	
Purchases of bank premises and equipment	(598,343)	
Proceeds from sale of bank premises and equipment	6,900	
	<hr/>	
Net cash used in investing activities	(25,392,659)	
	<hr/>	
Cash Flows from Financing Activities		
Net (decrease) increase in demand, savings and money market deposits	(468,360)	
Net increase (decrease) in time certificates of deposits	30,864,489	
Increase in FHLB borrowings	10,000,000	
Proceeds from issuance of trust preferred securities	7,760,000	
Debt issuance costs	240,000	
Increase in securities sold under agreements to repurchase	--	
Principal payments on capital lease obligation	(67,282)	
Decrease in collateralized borrowings	(50,000)	
Dividends paid on common stock	(120,037)	
Proceeds from issuance of common stock	1,200	
	<hr/>	
Net cash provided by financing activities	48,160,010	

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Net increase (decrease) in cash and cash equivalents 23,704,196

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

	Six Months Ended June 30, 2003	
	-----	-----
Cash and cash equivalents		
Beginning	11,734,725	27
Ending	\$ 35,438,921	\$ 21
	=====	=====
Supplemental Disclosures of Cash Flow Information		
Cash paid for:		
Interest	\$ 2,447,679	\$ 2
	=====	=====
Income Taxes	\$ 607,703	\$
	=====	=====
Supplemental disclosure of noncash investing and financing activities:		
Unrealized holding (loss) gain on available for sale securities arising during the period	\$ (508,431)	\$
	=====	=====
Liabilities for securities purchased but not settled	\$ 5,091,286	\$
	=====	=====
Accrued dividends declared on common stock	\$ 72,022	\$
	=====	=====

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

(1) The Consolidated Balance Sheet at December 31, 2002 has been derived from the audited financial statements of Patriot National Bancorp, Inc.

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("Bancorp") 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.

- (2) 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, 2002.

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 and six months ended June 30, 2003 are not necessarily indicative of the results of operations that may be expected for all of 2003.

- (3) Bancorp is required to present basic income per share and diluted income per share in its income statements. Basic income per share amounts are computed by dividing net income by the weighted average number of common shares outstanding. Diluted income per share assumes exercise of all potential common stock in weighted average shares outstanding, unless the effect is antidilutive. Bancorp is also required to provide a reconciliation of the numerator and denominator used in the computation of both basic and diluted income per share. The following is information about the computation of income per share for the three and six months ended June 30, 2003 and 2002.

Quarter ended June 30, 2003

	Net Income	Shares	Amount
Basic Income Per Share			
Income available to common shareholders	\$ 349,225	2,400,725	\$ 0.15
Effect of Dilutive Securities			
Warrants/Stock Options outstanding	--	35,137	(0.01)
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	\$ 349,225	2,435,862	\$ 0.14

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Quarter ended June 30, 2002

	Net Income	Shares	Amount
Basic Income Per Share			
Income available to common shareholders	\$ 287,718	2,400,525	\$ 0.12
Effect of Dilutive Securities			

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Warrants/Stock Options outstanding	--	25,398	--
	-----	-----	-----
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	\$ 287,718	2,425,923	\$ 0.12
	=====	=====	=====

Six months ended June 30, 2003

	Net Income	Shares	Amount
	-----	-----	-----
Basic Income Per Share			
Income available to common shareholders	\$ 714,735	2,400,725	\$ 0.30
Effect of Dilutive Securities			
Warrants/Stock Options outstanding	--	35,986	(0.01)
	-----	-----	-----
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	\$ 714,735	2,436,711	\$ 0.29
	=====	=====	=====

Six months ended June 30, 2002

	Net Income	Shares	Amount
	-----	-----	-----
Basic Income Per Share			
Income available to common shareholders	\$ 486,500	2,400,525	\$ 0.20
Effect of Dilutive Securities			
Warrants/Stock Options outstanding	--	25,114	--
	-----	-----	-----
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	\$ 486,500	2,425,639	\$ 0.20
	=====	=====	=====

- (4) Bancorp has two reportable segments, the commercial bank and the mortgage broker. The commercial bank provides its commercial customers with products such as commercial mortgage and construction loans, working capital loans, equipment loans and other business financing arrangements, and provides its consumer customers with residential mortgage loans, home equity loans and other consumer installment loans. The commercial bank segment also attracts deposits from both consumer and commercial customers, and invests such deposits in loans, investments and working capital. The commercial bank's revenues are generated primarily from net interest income from its lending, investment and deposit activities.

The mortgage broker solicits and processes conventional mortgage loan applications from consumers on behalf of permanent investors and originates loans for sale. Revenues are generated from loan brokerage and application processing fees received from permanent investors and gains and origination fees from loans sold.

Information about reportable segments and a reconciliation of such information to the consolidated financial statements for the three and six

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months ended June 30, 2003 and 2002 is as follows (in thousands):

Quarter ended June 30, 2003

	Bank	Mortgage Broker	Consolidated Totals
Net interest income	\$ 2,195	\$ --	\$ 2,195
Non-interest income	303	1,175	1,478
Non-interest expense	2,071	935	3,006
Provision for loan losses	90	--	90
Income before taxes	336	240	576
Assets	301,067	1,008	302,075

Quarter ended June 30, 2002

	Bank	Mortgage Broker	Consolidated Totals
Net interest income	\$ 1,809	\$ --	\$ 1,809
Non-interest income	317	816	1,133
Non-interest expense	1,774	633	2,407
Provision for loan losses	84	--	84
Income before taxes	268	183	451
Assets	220,734	1,054	221,788

Quarter ended June 30, 2003

	Bank	Mortgage Broker	Consolidated Totals
Net interest income	\$ 4,472	\$ --	\$ 4,472
Non-interest income	546	2,274	2,820
Non-interest expense	4,042	1,820	5,862
Provision for loan losses	255	--	255
Income before taxes	721	454	1,175
Assets	301,067	1,008	302,075

Quarter ended June 30, 2002

	Bank	Mortgage Broker	Consolidated Totals
Net interest income	\$ 3,576	\$ --	\$ 3,576
Non-interest income	357	1,620	1,977
Non-interest expense	3,364	1,270	4,634
Provision for loan losses	158	--	158
Income before taxes	411	350	761
Assets	220,734	1,054	221,788

- (5) Certain 2002 amounts have been reclassified to conform with the 2003 presentation. Such reclassifications had no effect on net income.

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- (6) 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 June 30, 2003			Six Months Ended June 30, 2003	
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect
Unrealized holding loss arising during the period	\$ (28,295)	\$ 10,752	\$ (17,543)	\$ (200,692)	\$ 76,263
Reclassification adjustment for gains recognized in income	(182,575)	69,379	(113,196)	(307,739)	116,941
Unrealized holding loss on available for sale securities, net of taxes	<u>\$ (210,870)</u>	<u>\$ 80,131</u>	<u>\$ (130,739)</u>	<u>\$ (508,431)</u>	<u>\$ 193,204</u>

	Three Months Ended June 30, 2002			Six Months Ended June 30, 2002	
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect
Unrealized holding gain arising during the period	\$ 395,375	\$ (146,302)	\$ 249,073	\$ 108,872	\$ (33,810)
Reclassification adjustment for losses recognized in income	--	--	--	31,275	(9,711)
Unrealized holding gain on available for sale securities, net of tax	<u>\$ 395,375</u>	<u>\$ (146,302)</u>	<u>\$ 249,073</u>	<u>\$ 140,147</u>	<u>\$ (43,521)</u>

- (7) At the end of the first quarter of 2003, Bancorp created a statutory trust of which Bancorp owns 100% of the capital stock. The trust issued \$8.0 million in preferred securities to investors at an initial rate of 4.41%, which rate may adjust quarterly based on changes to LIBOR. The duration of the trust is 35 years with early redemption at par at the Company's option after five years, or earlier in the event of certain regulatory or tax changes. The proceeds from the issuance of the preferred securities were used to purchase junior subordinated debt from Bancorp. Bancorp primarily invested the funds from the issuance of the debt in the Bank, which in turn used the proceeds to fund general operations of the Bank. The securities qualify for up to 25% of Bancorp's Tier 1 Capital with the remainder qualifying as Tier 2 Capital.

- (8) During the three months ended June 30, 2003 the Bank entered into \$10 million in borrowing transactions with the Federal Home Loan Bank as part of a leveraging strategy; these advances have original terms of three

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months to four years with interest rates ranging from 1.30% to 2.96%

- (9) Bancorp has executed a ten-year lease renewal for its main office location which lease currently expires August 2004 and a ten-year lease for a new branch location scheduled to open in the beginning of the fourth quarter of 2003. The future minimum rental commitments under these leases total \$2.6 million.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

(a) Plan of Operation

Not applicable since Bancorp had revenues from operations in each of the last two fiscal years.

(b) Management's Discussion and Analysis of Financial Condition and Results of Operations

SUMMARY

Bancorp had net income of \$349,000 (\$0.15 basic income per share and \$0.14 diluted income per share) for the quarter ended June 30, 2003, compared to net income of \$288,000 (\$0.12 basic income per share and \$0.12 diluted income per share) for the quarter ended June 30, 2002. For the six-month period ended June 30, 2003, net income was \$715,000 (\$0.30 basic income per share and \$0.29 diluted income per share) as compared to net income of \$487,000 (\$0.20 basic income per share and \$0.20 diluted income per share) for the six months ended June 30, 2002.

Total assets increased \$53.6 million from \$248.5 million at December 31, 2002 to \$302.1 million at June 30, 2003. Cash and cash equivalents increased \$23.7 million to \$35.4 million at June 30, 2003 from \$11.7 million at December 31, 2002. The available for sale securities portfolio increased \$15.7 million to \$76.3 million at June 30, 2003 from \$60.6 million at December 31, 2002. The net loan portfolio increased \$12.8 million from \$170.8 million at December 31, 2002 to \$183.6 million at June 30, 2003. Deposits increased \$30.4 million to \$248.3 million at June 30, 2003 from \$217.9 million at December 31, 2002. Borrowings and other liabilities increased \$22.9 million to \$34.9 million at June 30, 2003 from \$12.0 million at December 31, 2002. Total shareholders' equity increased \$269,000 to \$18.8 million at June 30, 2003 from \$18.5 million at December 31, 2002.

FINANCIAL CONDITION

Assets

Bancorp's total assets increased \$53.6 million from \$248.5 million at December 31, 2002 to \$302.1 million at June 30, 2003. Cash and cash equivalents increased \$23.7 million to \$35.4 million at June 30, 2003. Cash and due from banks increased \$0.8 million; federal funds sold increased \$18.0 million and short term investments increased \$4.9 million. The increases in federal funds sold and short term investments is due primarily to increases in deposits largely as a result of the opening of two new branch offices during the second quarter of 2003. Available for sale securities increased \$15.7 million, net of principal

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repayments on mortgage backed securities; this increase represents the investment of funds from the closing of the trust preferred securities offering at the end of the first quarter of 2003 and an interest rate leveraging strategy which was funded by Federal Home Loan Bank borrowings during the second quarter of 2003.

Loans

Bancorp's net loan portfolio increased \$12.8 million from \$170.8 million at December 31, 2002 to \$183.6 million at June 30, 2003. Increases in construction loans of \$8.5 million, commercial real estate loans of \$5.7 million, commercial loans of \$1.7 million, and consumer loans of \$0.4 million were partially offset by decreases in residential real estate loans of \$3.5 million. At June 30, 2003, the net loan to deposit ratio was 73.9% and the net loan to total assets ratio was 60.8%. At December 31, 2002, the net loan to deposit ratio was 78.4% and the net loan to total assets ratio was 68.7%. Based on loan applications in process management anticipates strong loan growth during the remainder of 2003.

Critical Accounting Policies

In the ordinary course of business, Bancorp has made a number of estimates and assumptions relating to reporting results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes the following discussion addresses Bancorp's only critical accounting policy, which is the policy that is most important to the portrayal of Bancorp's financial results and requires management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Allowance for Loan Losses

The allowance for loan losses, a material estimate susceptible to significant change in the near-term, is established as losses are estimated to have occurred through a provision for loan losses charged against operations and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Management's judgment in determining the adequacy of the allowance is inherently subjective and is based on the evaluation of individual loans, the known and inherent risk characteristics and size of the loan portfolios, the assessment of current economic and real estate market conditions, estimates of the current value of underlying collateral, past loan loss experience, review of regulatory authority examination reports and evaluations of specific loans and other relevant factors.

The allowance for loan losses is maintained at a level that management believes is adequate to absorb probable losses on existing loans based on an evaluation of the collectibility of loans and prior loan loss experience. A risk rating system is utilized to measure the adequacy of the allowance for loan losses. Under this system, each loan is assigned a risk rating between one and nine, which has a corresponding loan loss factor assigned, with one being the least risk and nine reflecting the most risk or a complete loss. Risk ratings are

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assigned by the originating loan officer or loan committee at the initiation of the transactions and are reviewed and changed, when necessary, during the life of the loan. Loan loss reserve factors are multiplied against the balances in each risk rating category to arrive at the appropriate level for the allowance for loan losses. Loans assigned a risk rating of six or above are monitored more closely by the credit administration officers. Loan quality control is continually monitored by management subject to oversight by the board of directors through its members who serve on the loan committee, and the adequacy of the allowance for loan losses is presented to and reviewed by the board of directors on a quarterly basis. The methodology for determining the adequacy of the allowance for loan losses is consistently applied; however, revisions may be made to the methodology and assumptions based on historical information related to charge-off and recovery experience and management's evaluation of the current loan portfolio.

Based upon this evaluation, management believes the allowance for loan losses of \$2.6 million at June 30, 2003, which represents 1.41% of gross loans outstanding, is adequate, under prevailing economic conditions, to absorb losses on existing loans which may become uncollectible. At December 31, 2002, the allowance for loan losses was \$2.4 million or 1.37% of gross loans outstanding.

Analysis of Allowance for Loan Losses

(Thousands of dollars)	June 30,	
	2003	2002
Balance at beginning of period	\$ 2,373	\$ 1,894
Charge-offs	(1)	--
Recoveries	--	10
Net (charge-offs) recoveries	(1)	10
Provision charged to operations	255	158
Balance at end of period	\$ 2,627	\$ 2,062
	=====	=====
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.00%)	0.01%
	=====	=====

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Non-Accrual, Past Due and Restructured Loans

The following table presents non-accruing and past due loans:

(Thousands of dollars)	June 30, 2003	December 31, 2002
Loans delinquent over 90 days still accruing	\$ 385	\$1,172
Non-accruing loans	150	201
Total	\$ 535	\$1,373
	=====	=====

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% of Total Loans	0.29%	0.79%
% of Total Assets	0.18%	0.56%

Potential Problem Loans

At June 30, 2003, Bancorp had no loans, other than those disclosed in the table above, as to which management has significant doubts as to the ability of the borrower to comply with the present repayment terms.

Deposits

Total deposits increased \$30.4 million from \$217.9 million at December 31, 2002 to \$248.3 million at June 30, 2003. Noninterest bearing deposits decreased \$1.4 million due primarily to fluctuations in personal demand deposit accounts. Although the balances in demand accounts decreased in the period end comparison, the trend in the average balances shows an overall increase in balances. Interest bearing deposits increased \$31.8 million. Money market fund accounts and certificates of deposit increased \$2.2 million and \$30.9 million, respectively; savings accounts decreased \$1.5 million. Increases in certificates of deposit are due primarily to two new branch opening promotions.

Trust Preferred Securities

As indicated in Note 7, Bancorp created a statutory trust which issued \$8.0 million in preferred securities to investors. Management elected to create the trust for the reason that it provides an inexpensive means of raising new capital to support core growth and leverage without diluting the rights of existing shareholders. In addition to the favorable regulatory treatment of these securities, there are favorable tax reasons that support this decision. The proceeds of the trust will be used to fund general operations of the Bank.

Borrowings

During the second quarter Bancorp executed a leveraging strategy by purchasing \$10 million in mortgage backed securities which was funded by \$10 million in Federal Home Loan Bank borrowings.

Other Liabilities

At the end of the second quarter, Bancorp purchased mortgage backed securities which settled in July; this transaction of \$5.1 million was recorded on the basis of the trade date method of accounting and as such is reflected in other liabilities.

RESULTS OF OPERATIONS

Interest and dividend income and expense

Bancorp's interest and dividend income increased \$623,000 or 21.2% for the quarter ended June 30, 2003 as compared to the same period in 2002. Interest and

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fees on loans increased 24.7% or \$602,000 from \$2.4 million for the quarter ended June 30, 2002 to \$3.0 million for the quarter ended June 30, 2003. For the six months ended June 30, 2003, interest and dividend income was \$7.0 million which represents an increase of \$1.1 million or 19.1% compared to interest and dividend income of \$5.9 million for the same period last year. These increases are the result of the increase in the investment and loan portfolios despite a decrease in the interest rate environment.

Bancorp's interest expense increased 20.9% or \$238,000 for the quarter ended June 30, 2003 as compared to the same period in 2002. Increases in interest bearing deposits accounts resulted in an increase of 8.2% or \$89,000 in interest expense for the quarter ended June 30, 2003 compared to the same period last year. Increases in borrowing transactions resulted in an increase of \$149,000 in interest expense for the quarter ended June 30, 2003 as compared to the same period in 2002. For the six months ended June 30, 2003, total interest expense increased \$228,000 or 9.9% to \$2.5 million as compared to \$2.3 million for the six months ended June 30, 2002. Included in interest expense for the three and six months ended June 30, 2003 is \$91,000 and \$96,000, respectively, due to the closing of an offering of trust preferred securities at the end of the first quarter of 2003. These increases in interest expenses are due to higher levels of interest bearing liabilities partially offset by a lower interest rate environment.

Non-interest income

Non-interest income increased 30.5% or \$345,000 to \$1.5 million for the quarter ended June 30, 2003 as compared to \$1.1 million for the comparable period last year. The continued favorable interest rate environment for borrowers has resulted in the

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maintenance of an historical high level of mortgage brokerage and referral fee income. Mortgage brokerage and referral fees increased 43.2% or \$290,000 to \$961,000 for the quarter ended June 30, 2003 as compared to \$671,000 for the same period last year. Loan processing fees increased 84.1% or \$103,000 to \$225,000 for the quarter ended June 30, 2003 compared to \$122,000 for the same period in 2002. During the second quarter of 2003 Bancorp recorded gains on sales of investment securities of \$183,000. Included in the results for the quarter ended June 30, 2002 is a gain of \$249,000 from the sale of a nonperforming loan.

For the six months ended June 30, 2003, non-interest income increased \$844,000 or 42.3% to \$2.8 million as compared to \$2.0 million for the same period in 2002. Mortgage brokerage and referral fees increased \$567,000 or 42.7% to \$1.9 million for the six months ended June 30, 2003 from \$1.3 million for the six months ended June 30, 2002. Loan processing fees increased 63.5% or \$157,000 from \$247,000 for the six months ended June 30, 2002 to \$404,000 for the six months ended June 30, 2003. The favorable interest rate environment for borrowers cited earlier resulted in the increases in mortgage brokerage and referral fees and loan processing fees. Included in the results for the six months ended June 30, 2003 are gains on sales of investment securities of \$308,000, some of which is attributable to a gain of \$117,000 on an investment security for which Bancorp recorded a write-down in 2001 made for the impairment of a debt security due to the deterioration in the financial condition of the issuer; in March 2003 Bancorp received the proceeds from a tender offer made by the issuer at a price of 100% of par for the above security under a comprehensive refinancing plan. Included in the results for the six months ended June 30, 2002 is a gain of \$249,000 from the sale of a nonperforming loan.

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Non-interest expenses

Non-interest expenses increased 24.9% or \$599,000 to \$3.0 million for the quarter ended June 30, 2003 from \$2.4 million for the quarter ended June 30, 2002. Salaries and benefits expense increased 29.4%, or \$442,000, to \$1.9 million for the quarter ended June 30, 2003 from \$1.5 million for the quarter ended June 31, 2002, due primarily to higher levels of commissions and production related incentive compensation accruals, as well as to staffing additions made for the opening of two new branch offices. Occupancy and equipment expense, net increased \$85,000 or 35% to \$328,000 for the quarter ended June 30, 2003 from \$243,000 for the quarter ended June 30, 2002 due primarily to the establishment of additional branch locations. Other non-interest expenses increased \$62,000 or 23.0% to \$335,000 for the quarter ended June 30, 2003 from \$273,000 for the quarter ended June 30, 2002; this increase is due to increases in loan processing expenses as a result of increased loan volumes due to the low interest rate environment.

For the six months ended June 30, 2003, non-interest expenses increased \$1.2 million or 26.5% to \$5.9 million from \$4.6 million for the same period last year for similar reasons cited above. Salary and benefits expense increased \$921,000; occupancy and equipment

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expense, net increased \$94,000. Other non-interest expenses increased \$145,000; \$115,000 of this increase is due to increases in loan processing expenses.

Bancorp has received regulatory approval to establish an additional branch location which will result in additional capital expenditures as well as increases in salaries and benefits and occupancy and equipment expenses. Management anticipates that this branch will open in the beginning of the fourth quarter of 2003.

Income Taxes

Bancorp recorded income tax expense of \$227,000 for the quarter ended June 30, 2003 as compared to \$163,000 for the quarter ended June 30, 2002. For the six months ended June 30, 2003, income tax expense was \$460,000 as compared to \$274,000 for the same period last year. These changes are related primarily to the change in pre-tax income as well as to an increase in the Connecticut tax rate. The effective tax rates for the quarters ended June 30, 2003 and June 30, 2002 were 39.3% and 36.2%, respectively; the effective tax rates for the six months ended June 30, 2003 and June 30, 2002 were 39.1% and 36.0%, respectively.

LIQUIDITY

Bancorp's liquidity ratio was 37.0% and 35.5% at June 30, 2003 and 2002, respectively. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets as described in the accompanying consolidated balance sheets are considered liquid assets: cash and due from banks, federal funds sold, short term investments and available for sale securities. Liquidity is a measure of Bancorp's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposit accounts and increases in its loan portfolio. Management believes Bancorp's short-term assets have sufficient liquidity to cover loan demand, potential fluctuations in deposit accounts, the costs related to opening new branch offices and to meet

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other anticipated cash requirements.

CAPITAL

The following table illustrates Bancorp's regulatory capital ratios at June 30, 2003 and December 31, 2002 respectively:

	June 30, 2003	December 31, 2002
	-----	-----
Leverage Capital	8.61%	6.99%
Tier 1 Risk-based Capital....	11.25%	9.13%
Total Risk-based Capital.....	13.34%	10.39%

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The following table illustrates the Bank's regulatory capital ratios at June 30, 2003 and December 31, 2002 respectively:

	June 30, 2003	December 31, 2002
	-----	-----
Leverage Capital	8.96%	6.98%
Tier 1 Risk-based Capital	11.71%	9.11%
Total Risk-based Capital	12.95%	10.36%

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. Based on the above ratios, both Bancorp and the Bank are considered to be "well capitalized" at June 30, 2003 under applicable regulations. To be considered "well-capitalized," an institution must generally have a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%.

The increase in capital ratios is due primarily to the formation in the first quarter of 2003 of a statutory trust as indicated in Note 7.

IMPACT OF INFLATION AND CHANGING PRICES

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

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

Certain statements contained in Bancorp's public reports, including this report, and in particular in this "Management's Discussion and Analysis of Financial Condition and Results of Operation," may be forward looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on Bancorp's interest earning assets and the interest paid on its

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interest bearing liabilities, (2) the timing of repricing of Bancorp's interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the effect of changes in regulations applicable to Bancorp and the conduct of its business, (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks and the impact of recently enacted federal legislation,

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(6) the ability of competitors which are larger than Bancorp to provide products and services which it is impracticable for Bancorp to provide, (7) the effects of Bancorp's opening of branches, and (8) the effect of any decision by Bancorp to engage in any business not historically permitted to it. Other such factors may be described in Bancorp's future filings with the SEC.

ITEM 3. CONTROLS AND PROCEDURES

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

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

There were no changes in Bancorp's internal control over financial reporting identified in connection with the evaluation described in the preceding paragraph that occurred during Bancorp's fiscal quarter ended June 30, 2003 that has materially affected, or is reasonably likely to materially affect, Bancorp's internal control over financial reporting.

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PART II - OTHER INFORMATION.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) The Annual Meeting of Shareholders (the "Annual Meeting") of Patriot National Bancorp, Inc was held on June 17, 2003.
- (b) Not applicable pursuant to Instruction 3 to Item 4 of Part II of Form10-QSB.

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(c) The following is a brief description of the matters voted upon at the Annual Meeting and the number of votes cast for, against or withheld as well as the number of abstentions to each such matter:

(i) The election of eleven directors for the ensuing year:

	For	Withheld Authority to Vote For
Angelo De Caro	21,712,119	635,899
Fred A. DeCaro, Jr.	21,539,096	988,922
John J. Ferguson	21,737,419	610,599
John A. Geoghegan	21,737,419	610,599
L. Morris Glucksman	21,711,019	636,999
Charles F. Howell	21,713,219	634,799
Michael Intrieri	21,675,357	672,661
Richard Naclerio	21,734,119	613,899
Robert F. O'Connell	21,713,219	634,799
Paul C. Settelmeyer	21,675,952	671,066
Philip W. Wolford	21,711,624	636,394

(ii) The consideration of a proposal to ratify the appointment of McGladrey & Pullen, LLP as independent auditors for Bancorp for the year ending December 31, 2003.

For	Against	Abstain
2,026,983	2,955	1,700

(d) Not applicable.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a)	No.	Description
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	31(1)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
	31(2)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
	32	Section 1350 Certification

(b) The issuer filed no reports on Form 8-K during the second quarter of 2003.

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the

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registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PATRIOT NATIONAL BANCORP, INC.
(Registrant)

By: /s/ Robert F. O'Connell

Robert F. O'Connell,
Senior Executive Vice President
Chief Financial Officer

(On behalf of the registrant and as
chief financial officer)

August 13, 2003