

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

FORM 10-K

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

For the fiscal year ended December 31 , 2023

OR

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

Commission file number 000-29599

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

Connecticut
(State or other jurisdiction of
incorporation or organization)

06-1559137
(I.R.S. Employer
Identification No.)

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

06901
(Zip Code)

(203) 252-5900
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	PNBK	NASDAQ Global Market

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

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

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

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

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

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

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input checked="" type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>
Emerging growth company	<input type="radio"/>		

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

Indicate by check mark whether the registrant has filed a report on an attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issues its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐ o

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

As of June 30, 2023, the aggregate market value of the voting stock held by non-affiliates of the registrant based on the last sale price on June 30, 2023 as reported on the NASDAQ Global Market: \$ 27.1 million.

Number of shares of the registrant's Common stock, \$0.01 par value per share, [3,976,073](#) shares outstanding as of April 1, 2024.

PATRIOT NATIONAL BANCORP, INC.

ANNUAL REPORT ON FORM 10-K For the Year Ended December 31, 2023

TABLE OF CONTENTS

“Safe Harbor” Statement Under Private Securities Litigation Reform Act of 1995	1
PART I	2
ITEM 1. Business	2
ITEM 1A. Risk Factors	7
ITEM 1B. Unresolved Staff Comments	15
ITEM 1C. Cybersecurity	15
ITEM 2. Properties	17
ITEM 3. Legal Proceedings	17
ITEM 4. Mine Safety Disclosures	17
PART II	18
ITEM 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	18
ITEM 6.[Reserved]	19
ITEM 7. Management's Discussion and Analysis - Financial Condition & Results of Operations	20
ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk	36
ITEM 8. Financial Statements and Supplementary Data	38
ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	105
ITEM 9A. Controls and Procedures	105
ITEM 9B. Other Information	106
ITEM 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	106
PART III	107
ITEM 10. Directors, Executive Officers and Corporate Governance	107
ITEM 11. Executive Compensation	112
ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	114
ITEM 13. Certain Relationships and Related Transactions, and Director Independence	116
ITEM 14. Principal Accountant Fees and Services	117
Part IV	118
ITEM 15. Exhibits and Financial Statement Schedules	118
ITEM 16. Form 10-K Summary	118
SIGNATURES	120

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

This Annual Report on Form 10-K contains statements that relate to future events and expectations and, as such, constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements, other than purely historical information, including estimates, projections, statements relating to our strategies, outlook, business and financial prospects, business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements.” These forward-looking statements generally are identified by the words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Forward-looking statements are not guarantees of future performance. Although Patriot believes that the expectations reflected in any forward-looking statements are based on reasonable assumptions, these expectations may not be attained and it is possible that actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks, uncertainties and changes in circumstances, many of which are beyond Patriot’s control.

For a discussion of some of the specific factors that could cause actual results to differ materially from the information contained in this report, see the following sections of this report: Part I, Item 1A. “Risk Factors,” Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” including the disclosures under “Critical Accounting Policies.” Patriot disclaims any intention or obligation to update publicly any forward-looking statements, whether in response to new information, future events or otherwise, except as required by applicable law.

PART I

ITEM 1. Business

General

Patriot National Bancorp, Inc. (the "Company" or "PNBK"), a Connecticut corporation, is a one-bank holding company for Patriot Bank, N.A, a national banking association headquartered in Stamford, Fairfield County, Connecticut (the "Bank") (collectively, "Patriot"). The Bank received its charter and commenced operations as a national bank on August 31, 1994. The Bank has a total of nine branch offices comprised of eight branch offices located in Fairfield and New Haven Counties, Connecticut and one branch office located in Westchester County, New York as of December 31, 2023.

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

On October 15, 2010, pursuant to a Securities Purchase Agreement (the "Securities Purchase Agreement"), the Company issued and sold to PNBK Holdings LLC ("Holdings"), an investment limited liability company controlled by Michael Carrazza, 3.36 million shares of its common stock at a purchase price of \$15.00 per share (adjusted for a 1-for-10 reverse stock split discussed below) for an aggregate purchase price of \$50.4 million. The shares sold to Holdings represented 87.6% of the Company's then issued and outstanding common stock. In connection with the reverse stock split, the par value of the common stock was changed to \$0.01 per share. Also, in connection with the sale of the shares, certain directors and officers of both the Company and the Bank resigned. Such directors and officers were replaced with nominees of Holdings and Michael Carrazza became the Chairman of the Board of Directors (the "Board") of the Company. Pursuant to its Operating Agreement, on March 31, 2021, Holdings completed a pro-rata in-kind distribution of shares of restricted common stock of Patriot. Following these distributions, Holdings no longer owns any shares of Patriot.

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

Business Operations

The Bank offers commercial real estate loans, commercial business loans, SBA loans originated under the U.S. Small Business Administration ("SBA") 7(a) program, and a variety of consumer loans with an emphasis on serving the needs of individuals, small and medium-sized businesses and professionals. The Bank's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County in New York, although the Bank's loan business is not necessarily limited to these areas.

The Bank previously had offered loans on residential real estate but discontinued doing so during 2013. Since 2016, Patriot has purchased residential real estate loans. During 2023, the Bank began the process of establishing its own national mortgage origination business, with new originations expected to begin in early 2024. Further information of the purchased residential real estate loans is set forth in Note 4 to the consolidated financial statements.

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

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

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

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

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

In addition to traditional retail banking services, the Bank generates deposit balances through its digital payments division (DPD). The DPD works with fully vetted and approved program managers to serve as their co-partner in processing high-volume payment transactions. The business is an increasing source of lower cost deposit balances and non-interest income to the Bank.

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

Employees

As of December 31, 2023, Patriot had 117 full-time equivalent employees. None of Patriot's employees are covered by a collective bargaining agreement.

Competition

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

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

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

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

Supervision and Regulation

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Requirements

In July 2013, the Fed, the FDIC, and the OCC approved final rules establishing a new comprehensive capital framework for U.S. Banking organizations (the "New Capital Rules"). The New Capital Rules generally implemented the Basel Committee on Banking Supervision's (the "Basel Committee") December 2010 final capital framework (referred to as "Basel III") for strengthening international capital standards. The New Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including Patriot.

In September 2019, the community bank leverage ratio (CBLR) framework was jointly issued by the FDIC, OCC and Federal Reserve Bank ("FRB"). The final rule gives qualifying community banks the option to use a simplified measure of capital adequacy instead of risk based capital, beginning with their March 31, 2020 Call Report. Under the final rule a community bank may qualify for the CBLR framework if it has a Tier 1 leverage ratio of greater than 9%, less than \$10 billion in total consolidated assets, and limited amounts of off-balance sheet exposures and trading assets and liabilities. The CARES Act directed the federal banking agencies to issue an interim rule temporarily lowering the CBLR ratio to 8% which the agencies did with a transition back to 9% beginning January 1, 2022. The Bank adopted the CBLR framework from September 30, 2021 to September 30, 2023. In the fourth quarter of 2023, the Bank elected to shift to the use the risk-based capital framework. Under this framework, the Bank reports leverage and risk-based capital ratios and compares those ratios to its own internally designed risk-based capital policy.

Federal regulations require FDIC-insured depository institutions, including national banks, to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets ratio of 8% and a Tier 1 capital to total assets leverage ratio of 4%.

For purposes of the regulatory capital requirements, common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for credit losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale securities). The Bank exercised the opt-out regarding the treatment of AOCI. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In addition to establishing the minimum regulatory capital requirements, regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was fully implemented at 2.5% on January 1, 2019.

At December 31, 2023, the Bank's capital exceeded all applicable regulatory requirements, the Bank was considered well-capitalized under the prompt corrective action framework, as subsequently discussed, and it had a capital conservation buffer above the applicable requirement.

Recent Developments with Regulators

In November 2018 the Bank entered into a formal written agreement (the "Agreement") with the Office of the OCC. The Agreement stated that the Board and the Bank would develop, implement and revise written documents and policies related to executive compensation, conflict of interest, internal audit, liquidity and asset/liability management, commercial loan administration, leveraged lending, practices relating to the allowance for loan and lease losses, and assumptions used in the Bank's interest rate risk model. Under the Agreement the Bank agreed to provide a revised written 3-year strategic and capital plan for the Bank. The existence of this Agreement also resulted in increased supervision from the SBA with respect to the Bank's SBA division and the loss of its preferred lender status.

On September 1, 2021, the OCC terminated the Agreement concluding that the safety and soundness of the Bank and its now established compliance with laws and regulations did not require continued existence of the Agreement. Shortly after the termination of the Agreement, the SBA removed the increased supervision. In October 2022, the SBA renewed the Bank's Preferred Lender Program ("PLP") status, with an expiration date of November 15, 2023. As a normal course of business, the PLP is renewed on an annual basis by the SBA. The Bank received a satisfactory audit by the SBA in 2022 and expects its PLP status to be renewed for another term prior to the current expiration period.

Available Information

The Company's website address is <https://www.bankpatriot.com>; however, information found on, or that can be accessed through, the website is not incorporated by reference into this Form 10-K. The Company makes available free of charge on its website (under the links entitled "For Investors", then "SEC filings", then "Documents"), its annual report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act, as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC.

ITEM 1A. Risk Factors

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

Risks Related to General Economic and Market Conditions

We have been and may continue to be adversely affected by national financial markets and economic conditions, as well as local conditions.

Our business and results of operations are affected by the financial markets and general economic conditions in the United States, including factors such as the level and volatility of interest rates, inflation, home prices, unemployment and under-employment levels, bankruptcies, household income, consumer spending, investor confidence and the strength of the U.S. economy. The deterioration of any of these conditions can adversely affect our securities and loan portfolios, our level of charge-offs and provision for credit losses, our capital levels, liquidity and our results of operations.

In addition, we are affected by the economic conditions within our Connecticut and New York trade areas. Unlike larger banks that are more geographically diversified, the Bank has a total of nine branch offices comprised of eight branch offices located in Fairfield and New Haven Counties, Connecticut and one branch office located in Westchester County, New York. Therefore, any decline in the economy of the Fairfield or New Haven counties of Connecticut or the New York metropolitan area could have an adverse impact on us.

Our loans, the ability of borrowers to repay these loans, and the value of collateral securing these loans are impacted by economic conditions. Our financial results, the credit quality of our existing loan portfolio, and the ability to generate new loans with acceptable yield and credit characteristics may be adversely affected by changes in prevailing economic conditions, including declines in real estate values, changes in interest rates, adverse employment conditions and the monetary and fiscal policies of the federal government.

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

The Company is exposed to changes in economic conditions and general downturns in the U.S. economy, and particularly an economic slowdown in the Fairfield or New Haven counties of Connecticut and the New York metropolitan area could result in the following consequences, any of which may have a material detrimental effect on the Bank's business:

- Increases in:
 - Loan delinquencies;
 - Problem assets and foreclosures; or
- Decreases in:
 - Demand for the Bank's products and services;
 - Customer borrowing power that is caused by declines in the value of assets and/or collateral supporting the Bank's loans, especially real estate.

During the years 2007 through 2009, the general economic conditions and specific business conditions in the United States, including in Connecticut and New York deteriorated, resulting in increases in loan delinquencies, problem assets and foreclosures, and declines in the value and collateral associated with the Bank's loans. Two significant impacts resulting from the financial crisis included the housing market suffering falling home prices leading to increased foreclosures and our customer base experiencing rampant unemployment and sustained under-employment. These conditions negatively impacted the credit performance of mortgage and construction loans, and resulted in significant asset-value write-downs by financial institutions, including government-sponsored enterprises, as well as major commercial and investment banks. The loss of mortgage and construction loan asset-value caused many financial institutions to seek additional capital, to merge with larger and financially stronger financial institutions and, in some cases, to fail. Many lenders and institutional investors reduced or ceased providing funding to borrowers, including other financial institutions.

During 2010 through 2019, however, the economic climate generally improved, contributing to decreases in the Bank's problem assets, delinquencies and foreclosures from the levels experienced in the earlier period of economic turbulence. During the course of the COVID-19 pandemic covering all of 2020 and a significant portion of 2021 and 2022, a temporary disruption and level of uncertainty existed. For a period of time, delinquencies, deferrals and problem assets rose, however foreclosures were relatively unaffected due to the moratorium that was issued by many states. Much of this has stabilized and returned to previous operating levels. The Company is unable to predict, however, future economic conditions and their impact on the Company's business.

Market turmoil, and the tightening of credit by the Fed, could lead to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility, and generally widespread reductions in business activity. The resulting economic pressure on consumers and lack of confidence in the financial markets could adversely affect the Company's business, financial condition, and results of operations. A worsening of these conditions could likely exacerbate the adverse effects these difficult market conditions could have on the Company and other financial institutions. In particular:

- Less than optimal economic conditions may continue to affect market confidence levels and may cause adverse changes in payment patterns, thereby causing increased delinquencies, which could affect the Bank's provision for credit losses and charge-off of loans receivable.
- The ability to assess the creditworthiness of the Bank's customers, or to accurately estimate loan collateral value, may be impaired if the models and approaches the Bank uses becomes less predictive of future behaviors, valuations, assumptions, or estimates due to the unpredictable economic climate.
- Increasing consolidation of financial services companies, as a result of current market conditions, could have unexpected adverse effects on the Bank's ability to compete effectively.

Market Risk

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

Patriot is unable to predict, with any degree of certainty, fluctuations of market interest rates, which are affected by many factors including inflation, recession, a rise in unemployment, a tightening money supply, domestic and international disorder, and instability in domestic and foreign financial markets. Changes in the interest rate environment may reduce Patriot's profits. Patriot realizes income from the differential or "spread" between the interest earned on loans, securities, and other interest-earning assets and interest paid on deposits, borrowings, and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. In addition, an increase in the general level of interest rates may adversely affect the ability of some borrowers to pay the interest on and principal of their obligations.

Although Patriot has implemented strategies which are designed to reduce the potential effects of changes in interest rates on operations, these strategies may not always be successful. Accordingly, changes in levels of market interest rates could materially and adversely affect Patriot's net interest spread, asset quality, levels of prepayments, liquidity and cash flow, as well as the market value of its securities portfolio and overall profitability.

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

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

Inflationary pressures and rising prices may affect our results of operations and financial condition.

Inflation risk is the risk that the value of assets or income from investments will be worthless in the future as inflation decreases the value of money. Inflation has risen sharply since the end of 2021 to levels not seen in more than 40 years. Small to medium-sized businesses may be impacted more during periods of high inflation, as they are not able to leverage economics of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business customers to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to the Company to increase, which could adversely affect our results of operations and financial condition.

Credit Risk

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

The Bank's commercial real estate loan portfolio constitutes a material portion of its assets and generally has different risks than residential mortgage loans. Commercial real estate loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Commercial real estate loans also typically involve larger loan balances to single borrowers or groups of related borrowers both at origination and at maturity. Commercial business loans expose us to additional risks since they typically are made on the basis of the borrower's ability to make repayments from the cash flow of the borrower's business and are secured by non-real estate collateral that may depreciate over time. In addition, some of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship may expose us to a greater risk of loss.

Real estate lending involves risks related to a decline in value of commercial and residential real estate.

The market value of real estate can fluctuate significantly in a relatively short period of time, as a result of market conditions in the geographic area in which real estate is located. A deterioration in the national and regional real estate markets could harm our financial condition and results of operations because a large percentage of our loans are secured by real property. Declines in real estate values and sales volumes and high unemployment levels may result in higher than expected loan delinquencies, increases in our levels of nonperforming and classified assets and a decline in demand for our products and services. If real estate values decline, the collateral for the Bank's loans will provide less security. As a result, the Bank's ability to recover on defaulted loans by selling the underlying real estate will be diminished, and the Bank will be more likely to suffer losses on defaulted loans.

The Bank's allowance for credit losses may not be adequate to cover actual losses.

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

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

Risks Related to Our Business Operations

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

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

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

Natural disasters, acts of war or terrorism, the impact of health epidemics and other adverse external events could detrimentally affect our financial condition and results of operations.

Natural disasters (including severe weather events of increasing strength and frequency due to climate change), acts of war or terrorism, such as the recent outbreak of hostilities between Russia & Ukraine, occurrence of health epidemics and other adverse external events could have a significant negative impact on our ability to conduct business or upon third parties who perform operational services for us or our customers. Such events also could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in lost revenue or cause us to incur additional expenses.

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

On June 29, 2018, the Company entered into certain subordinated note purchase agreements with two institutional accredited investors and completed a private placement of \$10 million of fixed-to-floating rate subordinated notes with the maturity date of September 30, 2028. Proceeds of \$7.8 million were directly contributed to the Bank. The subordinated debt qualifies for Tier 2 Capital of the Company and the funds contributed to the Bank qualify as Tier 1 capital at the Bank.

In December 2022, the Company issued \$12 million of senior notes that contain certain affirmative covenants, which require the Company to: maintain its and its subsidiaries' legal entity and tax status, pay its income tax obligations on a timely basis, and comply with SEC and FDIC reporting requirements. The senior notes are unsecured, rank equally with all other senior obligations of the Company, are not redeemable nor may they be put to the Company by the holders of the notes, and require no payment of principal until maturity.

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

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

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

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

The Company relies on the dividends and return of capital it receives from its subsidiary.

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

Per agreement with Bank regulators, dividends and return of capital from the Bank to the Company are subject to prior approval from the OCC, and dividends from the Company to third parties are also subject to prior approval from FRB. There is no assurance that Company will pay dividends in the future.

Technology Risks

A breach of information security could adversely affect Patriot's operations or reputation and create significant legal and financial exposure.

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

Risks associated with changes in technology.

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

Regulatory, Compliance and Legal Risks

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

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

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

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

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

Patriot is subject to risks associated with taxation.

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

Changing regulation of corporate governance and public disclosure.

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

Competition Risks

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

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

Liquidity Risk

Patriot is subject to certain risks with respect to liquidity.

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

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

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

Risks Related to the Company's Common Stock

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

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

- Operating results that vary from the expectations of securities analysts and investors;
- Developments in its business or in the financial services sector in-general;
- Regulatory or legislative changes affecting its business or the financial services sector in-general;
- Operating results or securities price performance of companies that investors consider being comparable to the Company;
- Changes in estimates or recommendations by securities analysts or rating agencies;
- Announcements of strategic developments, acquisitions, dispositions, financings, and other material events by the Company or the Company's competitors; and
- Changes or volatility in global financial markets and economies, general market conditions, interest or foreign exchange rates, stock, commodity, credit, or asset valuations.

Risks Related to Environmental and Other Global Matters

Concerns over the long-term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior on their own as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. We and our customers may face cost increases, asset value reductions, operating process changes and other issues. The impact on our customers will likely vary depending on their specific attributes, including reliance on or role in carbon intensive activities. Among the impacts to us could be a drop in demand for our products and services, particularly in certain sectors. In addition, we could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate-focused companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 1C. Cybersecurity

Cyber/information security is a significant and integrated component of the Company's risk management strategy. As an insured depository institution, threats to information security are present and growing, and the potential exists for a cybersecurity incident to occur, which could disrupt business operations or compromise sensitive data. To date, the Company has not, to its knowledge, experienced an incident materially affecting or reasonably likely to materially affect the Company.

Cybersecurity Risk Management and Strategy:

The Bank maintains comprehensive policies, procedures, internal controls and practices with respect to cyber/information security, including:

- *Information Security Policy and Risk Management.* The Bank maintains an Information Security Policy reviewed and updated as needed, and at least annually by its Board of Directors.
- *Information Technology & Information Security Audits.* The Bank conducts independent external and internal audits of internal controls relating to information technology and information security in accordance with standards established by the Federal Financial Institutions Examination Council (FFIEC).
- *Information Security Management.* To prepare and respond to incidents, the Bank maintains implemented multi-layered cybersecurity protocols, integrating people, technology, and processes as part of the Bank's Information Security Program. The Information Security Program is governed by various information security and cybersecurity, systems development, change control, disaster recovery/business continuity, third-party risk management and physical asset classification and control policies. The Information Security Program identifies data sources, threats and vulnerabilities, deploys current information security technologies and ensures awareness, accountability, and oversight for data protection throughout the Bank and with trusted third parties to ensure that data is protected and able to be recovered in the event of a breach or failure (technical or other disaster). The Company engages qualified third-party vendors, consultants and independent auditors to, among other things, conduct network penetration tests and perform cyber/information security audits.
- *Employee Training and Awareness.* Our employees are the first line of defense with respect to cyber/information security protection. Each employee is responsible for protecting the Bank and customer information. Employees are provided with training at initial onboarding and thereafter regarding information security and cybersecurity-related policies and procedures applicable to their respective roles within the organization. In addition, employees are subjected to regular simulated phishing assessments, designed to sharpen threat detection and reporting capabilities. In addition to training, employees are supported with solutions designed to identify, prevent, detect, respond to, and recover from cyber/information security threats and activities intended to compromise cyber/information security.

- *Customer Data Privacy Reviews.* The Bank conducts independent external and internal reviews of internal controls relating to customer data privacy and data security in accordance with the requirements of the Gramm-Leach-Bliley Act, the Right to Financial Privacy Act, and standards established by the FFIEC.

Cybersecurity Governance:

- *Board Oversight.* The Audit Committees of the Company and the Bank review and monitor the effectiveness of the Bank's internal controls, including those controls related to information security, based on independent external audit and internal audit reports. The Boards of Directors of the Company and the Bank review a formal Information Security Report at least annually, a Gramm-Leach-Bliley Act ("GLBA") report annually and receive periodic reports on cyber/information security topics and matters. As required by federal banking laws and regulations, the Bank's cyber/information security risk management practices include risk assessments, controls, and practices specifically for cybersecurity, information technology deployment and third-party information technology vendor risk management.
- *CIO Responsibilities.* The Information Services Division of the Bank is primarily responsible for identifying, assessing and managing material risks from cyber/information security threats. Information security management is conducted by the CIO of the Bank. Our CIO monitors, evaluates and adjusts the Bank's Information Security Program, considering any relevant changes in technology, the sensitivity of its customer information, internal or external threats to information, and changing business arrangements, such as technology development initiatives, outsourcing arrangements, and changes to customer information systems. Our CIO has been working in IT infrastructure for the past 25 years. His experiences include cybersecurity and information security, IT compliance, audit reviews, policies, incident response and annual processes. He has managed IT technology at leading brokerages, and oversees information security and cybersecurity at our Bank. He received Certified Banking Security Manager (CBSM) certification in 2020. He also manages the third-party risk management at our Bank since 2021. The IT Steering Committee and Management Risk Committee reviews and coordinates the status and results of information security controls, network penetration, business continuity/disaster recovery testing, and incident response plan testing.
- *Information Security Incident Responses.* The Bank maintains information security incident response plans for various information security/data breach scenarios. The Bank tests its incident response plans at least annually. Pursuant to applicable federal and state laws, regulations and FFIEC standards, the Bank maintains incident response notification procedures for affected customers, including notification of federal regulatory authorities and law enforcement. For the preservation of all possible avenues for law enforcement, the Bank does not disclose information security incidents to the general public unless required by law or as directed by applicable lawful authority.

ITEM 2. Properties

The following table summarizes Patriot's owned and leased properties, as of December 31, 2023:

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

ITEM 3. Legal Proceedings

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

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

The Company's Common Stock is traded on the Nasdaq Global Market under the Symbol "PNBK."

Holders

There were approximately 243 shareholders of record of the Company's Common Stock as of December 31, 2023. This number does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms or other nominees.

Dividends

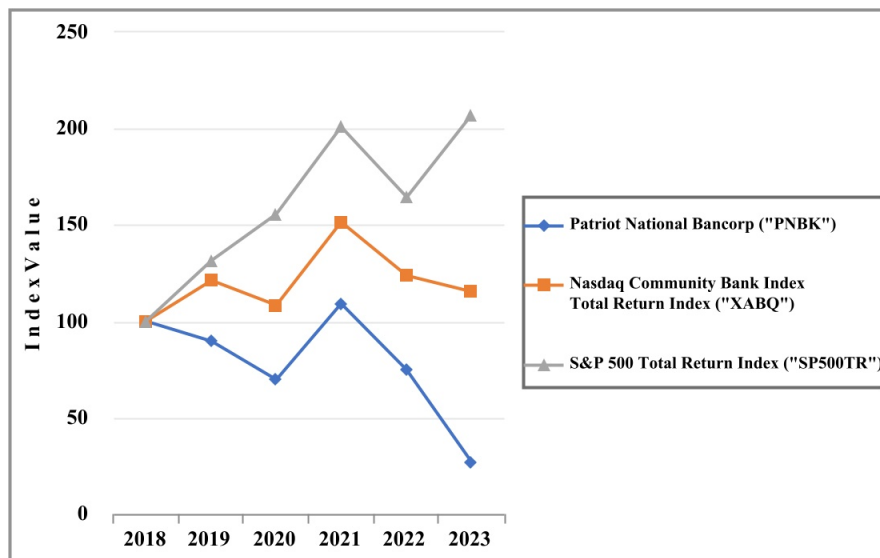
The Company's ability to pay dividends is dependent on the Bank's ability to pay dividends or execute a return of capital to the Company. The Bank can make payments to the Company pursuant to a dividend policy requiring compliance with the Bank's OCC-approved capital program, in compliance with applicable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

The Company did not pay any dividends since 2020, and has temporarily suspended dividend payments. There is no assurance that Company will pay dividends in the future.

For information regarding our equity compensation plans, see PART III, Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters."

Performance Graph

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



	Period Ending					
	2018	2019	2020	2021	2022	2023
Patriot National Bancorp ("PNBK")	100.00 %	89.54 %	69.75 %	109.12 %	74.39 %	26.88 %
Nasdaq Community Bank Index Total Return Index ("XABQ")	100.00 %	121.23 %	108.34 %	151.34 %	123.55 %	115.31 %
S&P 500 Total Return Index ("SP500TR")	100.00 %	131.49 %	155.68 %	200.88 %	164.08 %	207.21 %

ITEM 6. [Reserved]

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

General

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist in understanding the consolidated financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the consolidated financial statements and accompanying notes thereto included in Item 8 of this Annual Report on Form 10-K.

Critical Accounting Policies

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

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

Allowance for Credit Losses (ACL)

The Company adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, Accounting Standard Codification ("ASC") 326, effective January 1, 2023, which introduced the current expected credit loss ("CECL") methodology for estimating all expected losses over the life of a financial asset. The allowance for credit losses represents management's estimate of expected credit losses over the life of a financial asset carried at amortized cost. Determining the amount of the allowance for credit losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the fair value of the underlying collateral and amount and timing of expected future cash flows on individually assessed financial assets, estimated credit losses on pools of loans with similar risk characteristics, and consideration of reasonable and supportable forecasts of macroeconomic conditions, all of which are susceptible to significant change. The Company also maintains an allowance for lending-related commitments, specifically unfunded loan commitments, which relates to certain amounts the Company is committed to lend (not unconditionally cancellable) but for which funds have not yet been disbursed.

Loans deemed uncollectible are charged against and reduce the allowance. A provision for credit losses is charged to current expense and acts to replenish the ACL in order to maintain the allowance at a level that management deems adequate. Determining the allowance involves significant judgments and assumptions by management. Because of the nature of the judgments and assumptions made by management, actual results may differ from these judgments and assumptions.

Allowance for Credit Losses - Debt Securities Available for Sale

The Company receives estimated fair values of debt securities from independent valuation services and brokers. In developing these fair values, the valuation services and brokers use estimates of cash flows based on historical performance of similar instruments in similar rate environments. Available-for-sale debt securities consist primarily of U.S. Government agency debt and mortgage-backed securities issued by the U.S. government, corporate bonds, subordinated notes and SBA loan pools. Effective January 1, 2023, as a result of adopting ASU No. 2016-13, quarterly assessments are conducted to evaluate impairment credit losses on available-for-sale debt securities. These evaluations consider factors like fair value deviation from cost, issuer financial health, and the Company's intent to hold securities for fair value recovery. Impairments due to non-credit factors are recorded in other comprehensive income, while credit-related impairments are recognized as allowances for credit losses on the balance sheet. If a security is likely to be sold before amortized cost basis recovery, the entire impairment is recognized in net income with an adjustment to the security's basis. No allowance for ALC-Securities was recorded for available -for-sale securities as of December 31, 2023.

Deferred Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax laws is recognized in the consolidated statements of operations in the period that includes the enactment date.

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not expected to be realized based on the weighting of positive and negative evidence. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward periods available under the applicable tax law. The Company regularly reviews the deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. The Company's judgments regarding future profitability may change due to many factors, including future market conditions and the ability to successfully execute its business plans. Should there be a change in the ability to recover deferred tax assets, the tax provision would increase or decrease in the period in which the assessment is changed.

Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over the identifiable net assets of businesses acquired. Goodwill is recognized as an asset and is to be reviewed for impairment annually and between annual tests when events and circumstances indicate that impairment may have occurred. Impairment is a condition that exists when the carrying amount of goodwill exceeds its implied fair value.

Intangible assets, other than goodwill and indefinite-lived intangible assets, are amortized to expense over their estimated useful lives in a manner consistent with that in which the related benefits are expected to be realized, and are periodically reviewed by management to assess recoverability. Impairment losses on other intangibles are recognized as a charge to expense if carrying amounts exceed fair values.

Servicing Assets

A servicing asset related to SBA loans is initially recorded when these loans are sold and the servicing rights are retained. The servicing asset is recorded on the balance sheet and included in other assets. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is evaluated based on stratifying the underlying financial assets by date of origination and term. Any impairment, if temporary, would be reported as a valuation allowance.

Derivatives Instruments

The Company enters into interest rate swap agreements as part of the Company's interest rate risk management strategy. The Company has derivatives not designated as hedges. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain loan customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. The swaps are reported at fair value in other assets or other liabilities. The interest rate swaps qualify as derivatives, but are not designated as hedging instruments, thus any net gain or loss resulting from changes in the fair value is recognized in other non-interest income.

Further discussion of the derivatives is set forth in Note 1, Note 11, and Note 21 to the consolidated financial statements.

FINANCIAL CONDITION

Assets

The Company's total assets increased \$50.1 million, or 4.8%, from \$1.04 billion at December 31, 2022 to \$1.09 billion at December 31, 2023. The increase was primarily driven by a rise in cash, cash equivalents and restricted cash of \$28.0 million, and an increase in loans held for sale of \$15.6 million.

Cash, cash equivalents and restricted cash

Cash, cash equivalents and restricted cash increased \$28.0 million or 72.9%, from \$38.5 million at December 31, 2022 to \$66.5 million as of December 31, 2023. The increase in cash reflects the intention to boost balance sheet liquidity in connection with recent uncertainty in the banking sector. The Company's liquidity position is strong with liquid assets to total assets of 8.7% as of December 31, 2023.

Investment securities

The following table is a summary of the Company's available-for-sale securities portfolio and other investments at the dates shown:

(In thousands)	December 31,		
	2023	2022	2021
U. S. Government agency and mortgage-backed securities	\$ 65,671	\$ 59,046	\$ 66,629
Corporate bonds	13,766	14,655	16,921
Subordinated notes	4,227	4,602	4,626
SBA loan pools	5,037	5,718	5,603
Municipal bonds	486	499	562
Total available-for-sale securities, at fair value	89,187	84,520	94,341
Other investments, at cost	4,450	4,450	4,450
	<u>\$ 93,637</u>	<u>\$ 88,970</u>	<u>\$ 98,791</u>

Total investments increased \$4.6 million or 5.2%, from \$89.0 million at December 31, 2022 to \$93.6 million at December 31, 2023. This increase was primarily attributable to the purchases of available-for-sale securities of \$10.4 million in 2023, which was partially offset by \$4.3 million in repayments and maturity of principal on available-for-sale securities, and net unrealized loss of \$216,000 for the available-for-sale securities, associated with rising market interest rates. During the year ended December 31, 2023, the Bank sold \$1.8 million available-for-sale securities and recognized \$24,000 net gain on sale. There was no sale of available-for-sales securities during the year ended December 31, 2022. In 2021, the Bank sold \$58.8 million available-for-sale securities and recognized net gain on sale of securities of \$76,000.

Loans held for investment

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

(In thousands)	December 31,					
	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Loan portfolio segment:						
Commercial Real Estate	\$ 472,093	55.62 %	\$ 437,443	51.57 %	\$ 365,247	49.38 %
Residential Real Estate	106,783	12.58 %	124,140	14.63 %	158,591	21.45 %
Commercial and Industrial	163,565	19.27 %	138,787	16.36 %	122,810	16.61 %
Consumer and Other	99,688	11.74 %	141,091	16.63 %	59,364	8.03 %
Construction	4,266	0.50 %	4,922	0.58 %	21,781	2.95 %
Construction to permanent - CRE	2,464	0.29 %	1,933	0.23 %	11,695	1.58 %
Loans receivable, gross	848,859	100.00 %	848,316	100.00 %	739,488	100.00 %
Allowance for credit losses	(15,925)		(10,310)		(9,905)	
Loans receivable, net	<u>\$ 832,934</u>		<u>\$ 838,006</u>		<u>\$ 729,583</u>	

The gross loans receivable increased \$543,000 or 0.1%, from \$848.3 million at December 31, 2022 to \$848.9 million at December 31, 2023. The increase in loans was primarily attributable to \$145.5 million in loan origination and \$21.1 million in purchases of loans receivable which was partially offset by a net decrease in loan payoffs of \$144.0 million for the year ended December 31, 2023. During the second half of 2023 the Bank limited new loan originations to a minimal amount to bring down total assets in line with the objective to enhance its capital ratios. During the second half of 2023, loans held for investment declined \$80 million (9%) resulting in an improvement in the Bank's year end capital ratios. This trend is expected to continue during 2024.

SBA loans held for investment were included in the commercial real estate loans and commercial and industrial loan classifications above. As of December 31, 2023 and 2022, SBA loans included in the commercial real estate loans were \$12.9 million and \$12.2 million, respectively. SBA loans included in the commercial and industrial loan were \$17.1 million and \$20.3 million as of December 31, 2023 and 2022, respectively.

At December 31, 2023, the net loan to deposit ratio was 99.1% and the net loan to total assets ratio was 76.2%. At December 31, 2022, these ratios were 97.4% and 80.3%, respectively.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents loans receivable, gross by portfolio segment, by contractual maturity as of December 31, 2023:

	Contractual Maturity of Loan Balance			
	One year or less	One through Five Years	After Five Years	Total
<i>(In thousands)</i>				
Loan portfolio segment:				
Commercial Real Estate	\$ 38,127	\$ 275,055	\$ 158,911	\$ 472,093
Residential Real Estate	1,085	7,710	97,988	106,783
Commercial and Industrial	14,518	80,378	68,669	163,565
Consumer and Other	1,194	46,206	52,288	99,688
Construction	3,812	454	—	4,266
Construction to permanent - CRE	—	—	2,464	2,464
Total	\$ 58,736	\$ 409,803	\$ 380,320	\$ 848,859
Fixed rate loans	\$ 9,501	\$ 275,775	\$ 129,754	\$ 415,030
Variable rate loans	49,235	134,028	250,566	433,829
Total	\$ 58,736	\$ 409,803	\$ 380,320	\$ 848,859

All variable rate loans account for 51.1% of the total loan portfolio. Approximately 24.4% of the variable rate loan portfolio reprices with changes in interest rates within three months of the rate change. The balance of the loan portfolio has an initial rate for a fixed period, for example one, three or five years and then reprice annually after the initial fixed period. These repricing characteristics are reflected in the Bank's aggregate analysis of net interest sensitivity included in Item 7A. of this report.

As a community bank, the Bank is invested in a local economy, which may be subject to the vagaries of general economic conditions. As of December 31, 2023, the investments in Commercial Real Estate and Commercial and Industrial were approximately 74.9% of total loans receivable. These loans generally are collateralized by the underlying real estate and supported by personal guarantees of the borrowers.

Allowance for credit losses

The Company adopted ASU 2016-13 effective January 1, 2023. ASU 2016-13 requires the measurement of expected credit losses for financial assets, including loans and certain off-balance-sheet credit exposures, measured at amortized cost. See Note 1 - Summary of Significant Accounting Policies to the Company's financial statements for a description of the adoption of ASU 2016-13 and the Company's allowance methodology.

The allowance for credit losses was \$15.9 million at December 31, 2023, compared to allowance for loans and lease losses of \$10.3 million at December 31, 2022. The increase was primarily due to the adoption of CECL as the Company recorded a transition adjustment of \$13.0 million effective January 1, 2023 and a provision for credit losses on loans of \$9.9 million, which was partially offset by net charge-offs of \$17.3 million for the year ended December 31, 2023.

Based upon the overall assessment and evaluation of the loan portfolio at December 31, 2023, management believes the allowance for credit losses of \$15.9 million, which represents 1.9% of gross loans outstanding, was adequate under prevailing economic conditions to absorb existing losses in the loan portfolio.

The following table provides detail of activity in the allowance for credit losses. The Company used the CECL methodology in 2023 while the incurred loss methodology was used in prior years:

(In thousands)	Year Ended December 31,		
	2023	2022	2021
Balance at beginning of the period	\$ 10,310	\$ 9,905	\$ 10,584
Impact of ASC 326 adoption	13,001	—	—
Charge-offs:			
Commercial Real Estate	(6,346)	—	(51)
Residential Real Estate	(515)	—	(3)
Commercial and Industrial	(927)	(70)	(212)
Consumer and Other	(10,479)	(1,690)	(23)
Construction	(150)	(68)	(69)
Total charge-offs	(18,417)	(1,828)	(358)
Recoveries:			
Commercial Real Estate	—	154	—
Residential Real Estate	14	4	3
Commercial and Industrial	34	69	65
Consumer and Other	1,080	121	111
Total recoveries	1,128	348	179
Net charge-offs	(17,289)	(1,480)	(179)
Provision (credit) for credit losses	9,903	1,885	(500)
Balance at end of the period	\$ 15,925	\$ 10,310	\$ 9,905
Ratios:			
Net charge-offs to average loans	(1.93)%	(0.18)%	(0.03)%
Allowance for credit losses to total loans	1.88 %	1.22 %	1.34 %

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

(In thousands)	December 31,					
	2023		2022		2021	
	Allowance for credit losses	Percent of loans in each category to total loans	Allowance for loan losses	Percent of loans in each category to total loans	Allowance for loan losses	Percent of loans in each category to total loans
Commercial Real Estate	\$ 6,089	55.62 %	\$ 6,966	51.57 %	\$ 5,063	49.38 %
Residential Real Estate	607	12.58 %	665	14.63 %	1,700	21.45 %
Commercial and Industrial	1,269	19.27 %	1,403	16.36 %	2,532	16.61 %
Consumer and Other	7,843	11.74 %	1,207	16.63 %	253	8.03 %
Construction	4	0.50 %	24	0.58 %	78	2.95 %
Construction to permanent - CRE	113	0.29 %	10	0.23 %	41	1.58 %
Unallocated	—	N/A	35	N/A	238	N/A
Total Allowance for credit losses	\$ 15,925	100.00 %	\$ 10,310	100.00 %	\$ 9,905	100.00 %

Nonperforming Assets

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

(In thousands)	December 31,		
	2023	2022	2021
Non-accruing loans:			
Commercial Real Estate	\$ 12,775	\$ 11,241	\$ 15,704
Residential Real Estate	—	2,470	3,148
Commercial and Industrial	3,921	4,833	4,101
Consumer and Other	977	49	142
Construction	454	—	—
Total non-accruing loans	18,127	18,593	23,095
Loans past due over 90 days and still accruing	341	1,155	2
Other real estate owned	2,843	—	—
Total nonperforming assets	\$ 21,311	\$ 19,748	\$ 23,097
Nonperforming assets to total assets	1.95 %	1.89 %	2.44 %
Nonperforming loans to total loans, net	2.22 %	2.36 %	3.17 %

Non-accrual loans decreased \$466,000, from \$18.6 million at December 31, 2022 to \$18.1 million at December 31, 2023. The \$18.1 million of non-accrual loans at December 31, 2023 was comprised of 139 borrowers. Of these, 19 loans were individually evaluated and a specific reserve of \$4.2 million was established as of December 31, 2023. For collateral dependent loans, the Bank has obtained appraisal reports from independent licensed appraisal firms and discounted those values based on the Bank's experience selling OREO properties and for estimated selling costs to determine estimated impairment. For cash flow dependent loans, the Bank determined the reserve based on the present value of expected future cash flows discounted at the loan's effective interest rate.

As of December 31, 2022, the \$18.6 million of non-accrual loans was comprised of twenty-eight borrowers, for which a specific reserve of \$6.0 million was established.

Loans held for sale

As of December 31, 2023, loans held for sale totaled \$20.8 million, consisting of \$9.9 million of SBA loans and \$10.8 million loans held for sale for digital payments of credit cards. In comparison, at December 31, 2022, loans held for sale solely for SBA loans amounted to \$5.2 million.

SBA loans made by the Bank under the SBA 7(a) program generally are made to small businesses to provide working capital or to provide funding for the purchase of businesses, real estate, or equipment. SBA loans are made based primarily on the historical and projected cash flow of the business and secondarily on the underlying collateral provided.

Patriot sells the guaranteed portion of SBA loans for liquidity purposes and to generate non-interest income. Loans held for sale represent the guaranteed portion of SBA loans and are reflected at the lower of aggregate cost or market value. SBA loans held for sale at December 31, 2023 consisted of \$3.5 million SBA commercial and industrial loans and \$6.4 million SBA commercial real estate. SBA loans held for sale at December 31, 2022, consisted of \$3.1 million SBA commercial and industrial loans and \$2.1 million SBA commercial real estate. The Company sold \$4.6 million SBA loans during the year ended December 31, 2023, compared to \$21.6 million for the year ended December 31, 2022.

During 2023, 2022 and 2021, no loans held for investment were transferred to loans held for sale.

Other consumer loans held for sale

In July 2023, Patriot Bank's Digital Payments Division has entered into a Program Management Agreement with a buyer. Under the agreement, Patriot originates various types of consumer loans that are marketed by the buyer. As of December 31, 2023, the Bank had credit card loans held for sale totaling \$10.8 million. The credit card loans expected to be held for no longer than three days before being sold to the buyer. The credit card receivable are fully cash-secured by deposits at Patriot.

Premises and equipment

As of December 31, 2023 and 2022, Patriot recorded premises and equipment of \$29.9 million and \$30.6 million, respectively. The decreases in premises and equipment were normal depreciation of the active premises and equipment during the year ended December 31, 2023.

Management continuously reviews its branch locations and corporate offices evaluating operating efficiencies and market share as well as effective customer service and delivery.

Other Real Estate Owned ("OREO")

As of December 31, 2023, the Bank recorded one OREO of \$2.8 million. The OREO balance represents the lower of the carrying value of loan receivable due from the mortgage of the foreclosed residential property or the estimated net realized value of the underlying property acquired through foreclosure. As of December 31, 2022, no OREO balance was recorded on the balance sheet. In 2021, Patriot sold one OREO of \$1.9 million and recognized a gain of \$2,000.

Goodwill

The Company performed its annual impairment analysis of goodwill as of October 31, 2023. The analysis determined that the estimated fair value of the reporting unit was less than its carrying value as of October 31, 2023. As a result, the goodwill was considered impaired, leading to a \$1.1 million impairment charge recorded in the other non-interest expense on the Consolidated Statements of Operations for the year ended December 31, 2023. As of December 31, 2022, the Company's goodwill remained unchanged at \$1.1 million.

Core deposit intangible ("CDI")

Core deposit intangible ("CDI") was recorded as part of the Prime Bank business combination in May 2018. The CDI is amortized over a 10-year period using the straight-line method. The Company performed a review of the CDI as of October 31, 2023 and determined that there was no impairment of the CDI as of December 31, 2023. The decrease in CDI of \$46,000 from \$249,000 at December 31, 2022 to \$203,000 at December 31, 2023, was solely due to the amortization of the CDI for the year ended December 31, 2023.

Deferred Taxes

As of December 31, 2023, Patriot had available approximately \$15.5 million of Federal net operating loss carryforwards ("NOL") that are offset by \$15.5 million in Internal Revenue Code §382 limitations. After applying the limitation, at December 31, 2022, Patriot has no post-change net operating loss carry-forwards. For the years ended December 31, 2023 and 2022, the Bank did not record any uncertain tax position ("UTP") related to the utilization of certain federal net operating losses.

Additionally, Patriot has approximately \$47.3 million of NOLs available for Connecticut tax purposes at December 31, 2023, which may be used to offset up to 50% of taxable income in any year. The NOLs will expire between 2030 and 2040.

As of December 31, 2023, Patriot had a \$24.1 million deferred tax asset, comprised of multiple temporary differences, in addition to the previously aforementioned NOLs. The assessment of the potential realizability of the deferred tax assets is based on observation of the condition and future of the Bank, including cumulative pre-tax profit from the last three years, forecasted taxable income for 2024 and future periods, and net operating loss carryforwards that do not begin to expire until 2030.

Patriot evaluates its ability to realize its net deferred tax assets on a quarterly basis. In doing so, management considers all available evidence, both positive and negative, to determine whether it is more likely than not that the deferred tax assets will be realized. In 2023, management noted forecasted future period taxable income, the overall quality of the loan portfolio, continued efforts to reduce and control operating expenses, and net operating loss carryforwards that do not begin to expire until the year 2030. Based upon this evidence, management concluded there was no need for a valuation allowance as of December 31, 2023.

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

Derivatives

In December 2023, two back to back interest rate swaps were terminated. As of December 31, 2023, total two interest rate swaps remained outstanding. One swap is held with a loan customer to provide a facility to mitigate the fluctuations in the variable rate on the respective loan. The other swap is with an outside third party. The customer interest rate swap is matched in offsetting terms to the third-party interest rate swaps. These swaps are reported at fair value in other assets or other liabilities on the Consolidated Balance Sheets. Patriot's swaps are derivatives, but are not designated as hedging instruments, thus any net gain or loss resulting from changes in the fair value is recognized in other non-interest income. No gain on the swaps was recognized for the year ended December 31, 2023, 2022 and 2021.

The Company did not recognize any unrealized and realized gain or loss for the year ended December 31, 2023 and 2022. During the year ended December 31, 2021, the Company recognized \$149,000 of accumulated other comprehensive income that was reclassified into interest income. The interest swap interest income is included in interest and fees on loans on the Consolidated Statements of Operations. A gain of \$512,000 was recognized from the termination of the interest rate swap cash flow hedge for the year ended December 31, 2021, which is included in other income on the Consolidated Statements of Operations.

Further discussion of the final derivatives is set forth in Note 11 and Note 21 to the Consolidated Financial Statements.

Deposits

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

(In thousands)

	December 31,		
	2023	2022	2021
Non-interest bearing:			
Non-interest bearing	\$ 95,109	\$ 118,541	\$ 140,384
Non-interest bearing DDA- Digital Payments	14,947	151,095	86,329
Total non-interest bearing	110,056	269,636	226,713
Interest bearing:			
Negotiable order of withdrawal accounts (NOW)	42,416	34,440	34,741
Savings	44,104	71,002	109,744
Interest bearing DDA - Digital Payments	162,196	—	—
Money market	166,294	164,827	111,957
Money market - Digital Payments	33,986	46,173	52,561
Certificates of deposit, less than \$250,000	175,988	165,793	142,246
Certificates of deposit, \$250,000 or greater	64,745	59,877	53,584
Brokered deposits	40,526	48,698	17,016
Total Interest bearing	730,255	590,810	521,849
Total Deposits	\$ 840,311	\$ 860,446	\$ 748,562
Total Digital Payments deposits	\$ 213,383	\$ 197,268	\$ 138,890
Total retail bank deposits	\$ 394,819	\$ 430,650	\$ 493,066

As of December 31, 2023, total deposits decreased \$20.1 million, primarily due to a decline in retail branch deposits partially offset by a growth in digital payments deposits. The decline in non-interest bearing deposits was the result of the transfer of most of the digital payments deposits from non-interest bearing to interest bearing due to the growth of that business and decrease in savings.

Borrowings

As of December 31, 2023 and 2022, total borrowings were \$201.1 million and \$115.2 million, respectively. Borrowings consist of Federal Home Loan Bank ("FHLB") advances, FRB borrowing, senior notes, junior subordinated debentures, and a note payable to the seller from whom the Fairfield branch building was purchased in 2015.

Shareholders' Equity

Equity decreased \$15.2 million from \$59.6 million at December 31, 2022 to \$44.4 million at December 31, 2023. The decrease was primarily due to a cumulative adjustment to the opening balance of accumulated deficit of \$11.5 million upon adoption of CECL effective January 1, 2023, and \$4.2 million net loss for the year ended December 31, 2023.

The following table presents average balance sheets, interest income, interest expense and the corresponding yields earned, and rates paid for each of the years in the three-year period ended December 31, 2023.

(In thousands)

	Year Ended December 31,								
	2023			2022			2021		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS									
Interest Earning Assets:									
Loans	\$ 896,500	\$ 54,310	6.06 %	\$ 831,634	\$ 40,823	4.91 %	\$ 705,353	\$ 30,115	4.27 %
Investments	99,546	3,157	3.17 %	96,770	2,691	2.78 %	102,466	2,147	2.10 %
Cash equivalents and restricted cash	25,140	1,490	5.93 %	32,229	498	1.55 %	57,753	89	0.15 %
Total interest earning assets	1,021,186	58,957	5.77 %	960,633	44,012	4.58 %	865,572	32,351	3.74 %
Cash and due from banks	3,172			8,091			4,016		
Allowance for credit losses	(22,596)			(9,762)			(10,384)		
OREO	138			—			893		
Other assets	69,923			66,440			61,182		
Total Assets	\$ 1,071,823			\$ 1,025,402			\$ 921,279		
Liabilities									
Interest bearing liabilities:									
Deposits	\$ 711,479	\$ 21,668	3.05 %	\$ 572,295	\$ 5,300	0.93 %	\$ 525,537	\$ 2,243	0.43 %
Borrowings	134,570	6,141	4.56 %	106,292	3,509	3.30 %	94,511	2,986	3.16 %
Senior notes	11,654	1,159	9.95 %	12,002	866	7.22 %	11,963	913	7.63 %
Subordinated debt	17,985	1,481	8.23 %	17,947	1,066	5.94 %	17,910	933	5.21 %
Note Payable and other	469	8	1.71 %	678	12	1.77 %	881	15	1.70 %
Total interest bearing liabilities	876,157	30,457	3.48 %	709,214	10,753	1.52 %	650,802	7,090	1.09 %
Demand deposits	140,654			244,128			196,287		
Other liabilities	8,505			9,651			8,485		
Total Liabilities	1,025,316			962,993			855,574		
Shareholders' equity	46,507			62,409			65,705		
Total Liabilities and Shareholders' Equity	\$ 1,071,823			\$ 1,025,402			\$ 921,279		
Net interest income		\$ 28,500			\$ 33,259			\$ 25,261	
Interest margin			2.79 %			3.46 %			2.92 %
Interest spread			2.29 %			3.06 %			2.65 %

The following table presents the change in interest-earning assets and interest-bearing liabilities by major category and the related change in the interest income earned and interest expense incurred thereon attributable to the change in transactional volume in the financial instruments and the rates of interest applicable thereto, comparing the years ended December 31, 2023 to 2022 and December 31, 2022 to 2021.

(In thousands)	Year Ended December 31,					
	2023 compared to 2022			2022 compared to 2021		
	Increase/(Decrease)			Increase/(Decrease)		
	Volume	Rate	Total	Volume	Rate	Total
Interest Earning Assets:						
Loans	\$ 3,850	\$ 9,637	\$ 13,487	\$ 5,063	\$ 5,645	\$ 10,708
Investments	59	407	466	(115)	659	544
Cash equivalents and other	(109)	1,101	992	(42)	451	409
Total interest earning assets	3,800	11,145	14,945	4,906	6,755	11,661
Interest bearing liabilities:						
Deposit	2,430	13,938	16,368	463	2,594	3,057
Borrowings	937	1,695	2,632	376	147	523
Senior notes	(27)	320	293	3	(50)	(47)
Subordinated debt	—	415	415	2	131	133
Note payable and other	(4)	—	(4)	(3)	—	(3)
Total interest bearing liabilities	3,336	16,368	19,704	841	2,822	3,663
Net interest income	\$ 464	\$ (5,223)	\$ (4,759)	\$ 4,065	\$ 3,933	\$ 7,998

RESULTS OF OPERATIONS

A discussion regarding the financial condition and results of operations for fiscal 2023 compared to fiscal 2022 is presented below. Discussions of fiscal 2022 items and year-to-year comparisons between fiscal 2022 and fiscal 2021 that are not included in this Form 10-K can be found under Item 7 of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as filed with the SEC on March 29, 2023.

Comparison of Results of Operations for the years 2023 and 2022

For the year ended December 31, 2023, the Company recorded net loss of \$4.2 million (\$1.05 basic and diluted loss per share) compared to net income of \$6.2 million (\$1.56 basic and diluted loss per share) for the year ended December 31, 2022.

Pre-tax loss was \$5.6 million for the year ended December 31, 2023, compared to pre-tax income of \$7.8 million for the year ended December 31, 2022. Significant variances are summarized below and discussed in detail subsequently:

- Interest and dividend income increased \$14.9 million;
- Interest expense increased \$19.7 million;
- Net interest income decreased \$4.8 million;
- Provision for credit losses increased \$5.5 million;
- Non-interest income increased \$2.4 million; and
- Non-interest expense increased \$5.5 million.

Net interest income

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

For the year ended December 31, 2023, interest income increased to \$59.0 million, as compared to \$44.0 million for the year ended December 31, 2022, which was primarily attributable to an increase of \$64.9 million in average loan balances, along with an increase in rates earned on loans reflecting the increase in interest rates during 2023.

For the year ended December 31, 2023, total interest expense increased to \$30.5 million, as compared to \$10.8 million for the year ended December 31, 2022, primarily due to an increase in average deposits balance of \$139.2 million. The increase in deposit interest expense reflects higher deposit balances and higher market interest rates.

Net interest income for the years ended December 31, 2023 and 2022 was \$28.5 million and \$33.3 million, respectively. The Bank's net interest margin decreased to 2.8% for the year ended December 31, 2023, compared with 3.5% for the year ended December 31, 2022. The decline in net interest margin was primarily associated with an increase in the cost of deposits and other borrowings due to the significant rise in market interest rates, only partially mitigated by the rise in variable rate interest earning assets.

Provision (Credit) for credit losses

Beginning January 1, 2023, the Company adopted the CECL accounting standard. For the year ended December 31, 2023, the Bank recorded total provision for credit losses of \$7.4 million, consisting of a \$9.9 million provision for credit loss on loans and a credit in reserve for the off-balance sheet exposure of \$(2.5) million. For the year ended December 31, 2022, a provision for loan losses of \$1.9 million was recorded, with no recorded reserve for the off-balance-sheet exposure.

The increase in the provision for credit losses for the year ended December 31, 2023 was primarily due to an additional reserve of \$4.0 million associated with a single loan balance while the higher provisions also included additional charges associated with the unsecured consumer loan and SBA portfolios.

Non-interest income

For the year ended December 31, 2023, non-interest income increased to \$6.0 million, as compared to \$3.6 million in 2022. The increase was primarily attributable to higher non-interest income from the digital payments program in 2023, partially offset by a lower gain on sale of SBA loans.

Non-interest expense

For the year ended December 31, 2023, non-interest expense increased to \$32.7 million, as compared to \$27.2 million for the year ended December 31, 2022. The primary drivers of this increase in 2023 were a \$1.1 million goodwill impairment recorded in the fourth quarter of 2023, and increased salaries and benefit expenses in 2023, some of which related to the build up of the mortgage origination business expected to begin operations in the first quarter of 2024.

Other financial measures and ratios:

	As of and for the year ended December 31,		
	2023	2022	2021
(Loss) return on average assets	(0.39)%	0.60 %	0.55 %
(Loss) return on average equity	(8.99)%	9.87 %	7.75 %
Average equity to average assets	4.34 %	6.09 %	7.13 %

We derived the selected balance sheet measures as of December 31, 2023, 2022 and 2021 and the selected statement of income measures for the years ended December 31, 2023, 2022 and 2021 from our audited Consolidated Financial Statements included elsewhere in this annual report. Average balances have been computed using daily averages.

Selected Quarterly Financial Data:

The following tables present the summarized quarterly results of operations (unaudited) to the Consolidated Financial Statements for the calendar year 2023:

<i>(In thousands, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2023				
Interest and dividend income	\$ 13,646	\$ 15,309	\$ 15,070	\$ 14,932
Interest expense	5,633	7,596	8,545	8,683
Net interest income	8,013	7,713	6,525	6,249
Provision (credit) for credit losses	2,220	1,325	4,688	(804) ⁽¹⁾
Non-interest income	835	829	1,169	3,172 ⁽²⁾
Non-interest expense	7,584	8,063	8,109	8,953 ⁽³⁾
(Loss) income before income taxes	(956)	(846)	(5,103)	1,272
(Benefit) provision for income taxes	(257)	(231)	(1,333)	367
Net (loss) income	<u>\$ (699)</u>	<u>\$ (615)</u>	<u>\$ (3,770)</u>	<u>\$ 905 ⁽⁴⁾</u>
(Loss) earnings per share				
Basic	\$ (0.18)	\$ (0.16)	\$ (0.95)	\$ 0.23
Diluted	\$ (0.18)	\$ (0.16)	\$ (0.95)	\$ 0.23 ⁽⁵⁾
Weighted average shares outstanding - Basic	<u>3,965,186</u>	<u>3,965,186</u>	<u>3,965,186</u>	<u>3,965,733 ⁽⁶⁾</u>
Weighted average shares outstanding - Diluted	<u>3,965,186</u>	<u>3,965,186</u>	<u>3,965,186</u>	<u>3,965,733 ⁽⁶⁾</u>

(1) In the fourth quarter of 2023, the provision for credit loss decreased to a credit , primarily due to decrease in loan balance and the reversal of a commitment reserve associated with its consumer loan portfolio that was no longer needed as the result of the termination of the commitments.

(2) The non-interest income was primarily attributable to an income of \$1.3 million resulted from a credit loss sharing agreement entered with a seller/servicer of consumer loans.

(3) During the fourth quarter of 2023, the increase in non-interest expense was primarily attributable to an impairment charge for goodwill totaled \$1.1 million.

(4) Due to significant changes above, the net income increased to \$905,000, compared to net losses in the first three quarters of 2023.

(5) The sum of Earnings (loss) per share - Basic and Diluted of each of the quarters in the year ended December 31, 2023 does not agree to the amount of Basic and Diluted earnings per share presented on the Consolidated Statement of Operations for the year ended December 31, 2023, due to the impact of rounding to the nearest cent on the amount of Earnings per share - Basic and Diluted for the three months ended December 31, 2023 (i.e., the "Fourth Quarter").

(6) The weighted average diluted shares outstanding did not include 491, 1,528, 1,651, and 15,622 anti-dilutive restricted common shares as of March 31, 2023, June 30, 2023, September 30, 2023 and December 31, 2023, respectively.

The following tables present the summarized quarterly results of operations (unaudited) to the Consolidated Financial Statements for the calendar year 2022:

<i>(In thousands, except per share amounts)</i>		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2022					
Interest and dividend income	\$	8,320	\$ 9,687	\$ 12,039	\$ 13,966
Interest expense		1,594	1,967	2,796	4,396
Net interest income		6,726	7,720	9,243	9,570
Provision for loan losses		—	275	200	1,410
Non-interest income		814	798	654	1,339
Non-interest expense		6,429	6,502	7,214	7,077
Income before income taxes		1,111	1,741	2,483	2,422
Provision for income taxes		311	476	157	652
Net income	\$	800	\$ 1,265	\$ 2,326	\$ 1,770
Earnings per share					
Basic		\$0.20	\$ 0.32	\$ 0.59	\$ 0.45
Diluted		\$0.20	\$ 0.32	\$ 0.59	\$ 0.45 ⁽¹⁾
Weighted average shares outstanding - Basic		3,956,492	3,957,260	3,957,269	3,957,355
Weighted average shares outstanding - Diluted		3,966,002	3,967,079	3,963,708	3,960,631

(1) The sum of Earnings (loss) per share - Basic and Diluted of each of the quarters in the year ended December 31, 2022 does not agree to the amount of Basic and Diluted earnings per share presented on the Consolidated Statement of Operations for the year ended December 31, 2022, due to the impact of rounding to the nearest cent on the amount of Earnings per share - Basic and Diluted for the three months ended December 31, 2022 (i.e., the "Fourth Quarter").

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2023, the Company's balance sheet liquidity was \$94.9 million, which was 8.7% of total assets of \$1.09 billion. At December 31, 2022, the balance sheet liquidity was \$97.4 million, which was 9.3% of total assets of \$1.04 billion. Liquidity including readily available off-balance sheet funding sources was 18.6% at December 31, 2023 compared to 18.0% at December 31, 2022.

The following categories of assets are considered balance sheet liquidity: cash and due from banks, federal funds sold (if any), short-term investments (if any), unpledged available-for-sale securities, and loans held for sale. In addition, off-balance sheet funding sources include collateral based borrowing available from the FHLB, correspondent bank borrowing lines, and advised borrowing lines through an interbank borrowing network.

Liquidity is a measure of the Company's ability to generate adequate cash to meet its financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposit accounts. Management believes the Company's liquid assets provide sufficient coverage to satisfy loan demand, cover potential fluctuations in deposit accounts, and to meet other anticipated operational cash requirements for next 12 months and beyond.

The Company is a member of the Federal Home Loan Bank of Boston ("FHLB-B"). At December 31, 2023, the outstanding advances from the FHLB-B aggregated \$171.0 million. The additional borrowing capacity available from FHLB-B was \$73.4 million, which is comprised of \$71.4 million of advances and a \$2.0 million overnight line of credit. Additionally, the Bank retains a collateralized borrowing line with the Federal Reserve Bank which totaled \$15.5 million at December 31, 2023 and correspondent bank borrowing lines totaling \$17.0 million at December 31, 2023.

In July 2023, the Bank established a collateralized funding line of \$80.0 million at par value under the Federal Reserve's newly established Bank Term Funding Program ("BTFP"). The program provides additional funding to eligible depository institutions, assuring they can meet the needs of all their depositors. The program serves as an additional source of liquidity against high-quality securities, eliminating the need of an institution to quickly sell those securities in times of stress. The line allows for a fixed rate borrowing at market rates, for up to one year, with repayment permitted at any time without penalty. As of December 31, 2023, the collateral value of the pledged securities was \$72.4 million.

As of December 31, 2023, the maturities of Patriot's contractual obligations are as follows:

(In thousands)

Contractual Obligation Category	Contractual Obligations Due				
	Less than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Certificates of deposit	\$ 200,178	\$ 40,219	\$ 336	\$ —	\$ 240,733
Brokered deposits	33,853	6,673	—	—	40,526
FHB, FRB and correspondent bank borrowings	171,000	—	—	—	171,000
Senior notes	—	12,000	—	—	12,000
Subordinated debt	—	—	10,000	—	10,000
Junior subordinated debt	—	—	—	8,248	8,248
Note payable	376	—	—	—	376
Operating lease obligations	457	634	403	679	2,173
Total contractual obligations	\$ 405,864	\$ 59,526	\$ 10,739	\$ 8,927	\$ 485,056

Management manages its capital resources by seeking to maintain a capital structure that will ensure an adequate level of capital to support anticipated asset growth and absorb potential losses while effectively leveraging capital to enhance profitability and return to shareholders. Dividends have not been paid to shareholders over the most recent three-year period but may resume in future periods.

The primary source of liquidity at the Company as a stand-alone parent company is return of capital from the Bank. These capital returns are subject to OCC approval and are needed periodically to provide funds needed to service debt payments at the Company. Return of Capital payments from the Bank to the Company totaled \$2.5 million for the year ended December 31, 2023, \$900,000 for the year ended December 31, 2022, and \$500,000 for the year ended December 31, 2021.

OFF-BALANCE SHEET ARRANGEMENTS

The Bank's off-balance sheet commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon or are contingent upon the customer adhering to the terms of the agreements, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2023 and 2022, the Bank's off-balance sheet commitments were \$92.5 million and \$154.3 million, respectively.

REGULATORY CAPITAL REQUIREMENTS

The following tables illustrate the Company's and the Bank's regulatory capital ratios at December 31, 2023:

	December 31, 2023			
	Patriot National Bancorp, Inc.		Patriot Bank, N.A.	
	Amount	Ratio	Amount	Ratio
<i>(Dollar amounts in thousands)</i>				
Total Capital (to risk weighted assets)	\$ 89,727	10.00 %	\$ 100,683	11.22 %
Tier 1 Capital (to risk weighted assets)	73,282	8.17 %	94,238	10.50 %
Common Equity Tier 1 Capital (to risk weighted assets)	65,282	7.27 %	94,238	10.50 %
Tier 1 Leverage Capital (to average assets)	73,282	6.76 %	94,238	8.70 %

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. From September 2021 to September 30, 2023, the Company elected to adopt the CBLR framework. In the fourth quarter of 2023, the Company elected to use the instituted regulatory risk-based capital approach.

Under the regulatory framework for prompt correction action, to be considered "well capitalized," an institution must generally have a leverage capital ratio of at least 5.0%, CET1 capital ratio at least 6.5%, a Tier 1 risk-based capital ratio of at least 8.0% and a total risk-based capital ratio of at least 10%. However, the OCC has the discretion to require increased capital ratios.

As of December 31, 2023, the Bank established minimum required capital ratios under a Board approved Capital plan which determined those ratios using a Comprehensive Capital Analysis and Review ("CCAR")-based stress capital buffer. That plan established the following capital limits which the Bank exceeded at December 31, 2023:

Total Capital to risk weighted assets	10.50%
Tier 1 Capital to Risk weighted assets	9.30%
Common Equity Tier 1 Capital to Risk weighted assets	9.30%
Tier 1 Leverage Capital to average assets	8.10%

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

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

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

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

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

The tables below set forth examples of changes in estimated net interest income and the estimated net portfolio value based on projected scenarios of interest rate increases and decreases. The analyses indicate the rate risk embedded in the Company's portfolio at the dates indicated should all interest rates instantaneously rise or fall. The results of these changes are added to or subtracted from the base case; however, there are certain limitations to these types of analyses. Rate changes are rarely instantaneous, and these analyses may therefore overstate the impact of short-term repricing.

(In thousands)

Net Portfolio Value - Performance Summary						
Projected Interest Rate Scenario	As of December 31, 2023			As of December 31, 2022		
	Estimated Value	Change from Base (\$)	Change from Base (%)	Estimated Value	Change from Base (\$)	Change from Base (%)
+200	\$ 107,524	\$ (5,779)	(5.10)%	\$ 146,888	\$ (15,357)	(9.47)%
+100	112,036	(1,267)	(1.12)%	157,368	(4,877)	(3.01)%
BASE	113,303	—	—	162,245	—	—
-100	114,032	729	0.64 %	163,472	1,227	0.76 %
-200	106,718	(6,585)	(5.81)%	155,386	(6,859)	(4.23)%

Net Interest Income - Performance Summary

Projected Interest Rate Scenario	December 31, 2023			December 31, 2022		
	Estimated Value	Change from Base (\$)	Change from Base (%)	Estimated Value	Change from Base (\$)	Change from Base (%)
+200	\$ 34,529	\$ 483	1.42 %	\$ 46,131	\$ (1,177)	(2.49)%
+100	34,425	379	1.11 %	46,938	(370)	(0.78)%
BASE	34,046	—	—	47,308	—	—
-100	34,120	74	0.22 %	47,657	349	0.74 %
-200	34,595	549	1.61 %	46,747	(561)	(1.19)%

Impact of Inflation and Changing Prices

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

ITEM 8. Financial Statements and Supplementary Data

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

- Report of Independent Registered Public Accounting Firm (PCAOB ID: 49)
- Consolidated Balance Sheets as of December 31, 2023 and 2022
- Consolidated Statements of Operations for each of the years in the three-year period ended December 31, 2023
- Consolidated Statements of Comprehensive (Loss) Income for each of the years in the three-year period ended December 31, 2023
- Consolidated Statements of Shareholders' Equity for each of the years in the three-year period ended December 31, 2023
- Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2023
- Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Patriot National Bancorp, Inc. and its subsidiaries (the Company) as of December 31, 2023 and 2022, the related consolidated statements of operations, comprehensive (loss) income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses in 2023 due to the adoption of Accounting Standard Codification Topic 326, Financial Instruments - Credit Losses.

Basis for Opinion

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

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses for Loans

As described in Notes 1 and 4 of the consolidated financial statements, the Company's allowance for credit losses (allowance) totaled \$15.9 million as of December 31, 2023. The recorded allowance was established based on an allowance of \$11.7 million related to loans collectively evaluated and on an allowance of \$4.2 million relating to loans individually evaluated as of December 31, 2023.

For loans that are collectively evaluated for impairment, the Company evaluates loans with similar risk characteristics in pools and uses a model and methodology that forecasts the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for loans in a given pool over their remaining life, thereby deriving an allowance capable of absorbing estimated losses over the remaining life of the portfolio. For all loan segments collectively evaluated, losses are predicted over a period of time determined to be reasonable and supportable, and at the end of the reasonable and supportable forecast period losses are reverted to long-term historical averages. The reasonable and supportable forecasts used in the model are influenced by changes in real Gross Domestic Product (GDP), State of Connecticut unemployment rate, New York Fed recession indicator, CoStar composite index, New York Case Schiller index, Coincident activity index, Michigan consumer activity index, S&P's BBB credit spreads, and the Company's loan delinquencies and charge off data.

The PD model employs a quarterly risk-rating transition method to estimate the probability of default by simulating loan downgrades and assigning increasing default probabilities to each loan. This captures the likelihood that borrowers will be unable to repay their loans according to the original terms. The LGD calculation considers characteristics such as collateral value and vintage, underlying collateral characteristics (e.g., commercial real estate vs. residential, owner-occupied vs. investment), a floor for the LGD calculation (minimum loss in event of default regardless of collateral protection), and other relevant underwriting characteristics. Also calculated is the exposure at default. The probability of default is multiplied by the loss given default and the exposure at default. This calculation is forecasted for every year remaining in the life of each loan, and the results are aggregated to determine the necessary level of ACL for the pooled loans. Forecasted exposure at default can be influenced by prepayments speeds.

An additional component of the allowance is determined by management based on a qualitative analysis of certain factors related to portfolio risks that are not incorporated in the calculated model. The factors include lending practices, the ability and experience of the credit staff, the overall lending environment and external factors such as the regulatory environment and competition.

Credit losses for loans that no longer share similar risk characteristics with the collectively evaluated pools are excluded from the collective evaluation and estimated on an individual basis (individually evaluated loans). Individual evaluations are performed for nonaccrual loans and loans rated substandard that are in excess of \$100,000. Specific allowances were estimated based on one of several methods, including the estimated fair value of the underlying collateral, observable market value of similar debt or the present value of expected cash flows.

We identified the assessment of certain inputs and assumptions used in the allowance for collectively evaluated loans as a critical audit matter because auditing certain underlying assumptions involved a high degree of complexity and auditor judgment given the high degree of subjectivity exercised by management. Specifically, our assessment encompassed the evaluation of management's determination of reasonable and supportable forecasts, prepayment speeds, the LGD floor, and qualitative factors applied to the quantitative model. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained.

Our audit procedures related to management's determination of reasonable and supportable forecasts, prepayment speeds, the LGD floor, and qualitative factors applied to the quantitative model included the following:

- We obtained an understanding of the relevant controls related to management's determination of reasonable and supportable forecasts, prepayment speeds, the LGD floor, and qualitative factors applied to the quantitative model.
- We tested the completeness and accuracy of data used by management in determining the selection and weighting of reasonable and supportable economic forecast scenarios by agreeing on a sample basis the underlying data and components to their appropriate internal or external sources.
- We evaluated the completeness and accuracy of data used by management in determining the prepayment speeds used in its calculation of PD and LGD by agreeing the underlying data to internal sources.
- We evaluated the completeness and accuracy of data used by management in determining the application of a minimum LGD floor in the calculation of LGD by agreeing the underlying data to internal sources.

- We tested the completeness and accuracy of data used by management in determining the qualitative factor adjustments to the quantitative model by agreeing the underlying data to appropriate internal and external sources.
- We evaluated management's determination of the magnitude and extent of qualitative factors applied to the model for reasonableness in relation to the underlying data tested.

Goodwill Impairment Assessment

As described in Notes 1 and 8 of the consolidated financial statements, the Company recognized goodwill impairment of \$1.1 million and had no goodwill balance as of December 31, 2023. The Company performs a goodwill impairment test annually as of October 31, or whenever certain triggering events occur or there are circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount are identified. Management estimates the fair value of the reporting unit by considering multiple valuation techniques, which include subjective assumptions about the future cash flows of the Company, assumptions within the capitalization rate, valuation multiples, and market data used.

We identified the impairment assessment of goodwill as a critical audit matter due to the high degree of auditor judgment and subjectivity in order to evaluate the fair value of the reporting unit due to the judgments made by management in the estimation of the Company's reporting unit fair value, including those related to future cash flows, the capitalization rate, the valuation multiples used, and the market data incorporated into the estimate. In addition, the increased audit effort involved the use of internal professionals with specialized skill and knowledge in the field of business valuation.

Our audit procedures related to goodwill impairment assessment included the following for the impairment test performed for the year:

- We obtained an understanding of the relevant controls relating to management's process for developing the fair value estimates of the reporting unit, including an assessment of the appropriateness of the valuation techniques used.
- We evaluated management's cash flow projections and significant assumptions incorporated into the business plan by considering the current and past performance by the Company, the Company's ability to meet financial projections, and the consistency of these assumptions with evidence obtained in other areas of the audit.
- We used the assistance of internal professionals with specialized skill and knowledge to assist in the evaluation of significant assumptions used in the valuation methodology. This included:
 - Testing the fair value of the reporting unit through testing of the completeness and accuracy of the data used by management to develop the estimate.
 - Evaluating the reasonableness of the cash flow projection calculations used to develop the estimate.
 - Evaluating the capitalization rate, the valuation multiples used, and the market data incorporated into the estimate by assessing the reasonableness, comparability and appropriateness of the market-based information used by agreeing the components to independent source data.

/s/ RSM US LLP

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

Hartford, Connecticut

April 1, 2024

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2023	2022
<i>(In thousands, except share data)</i>		
Assets		
Cash and due from banks:		
Noninterest bearing deposits and cash	\$ 2,195	\$ 5,182
Interest bearing deposits	50,322	33,311
Restricted cash	14,019	—
Total cash, cash equivalents and restricted cash	66,536	38,493
Investment securities:		
Available-for-sale securities, at fair value	89,187	84,520
Other investments, at cost	4,450	4,450
Total investment securities	93,637	88,970
Federal Reserve Bank (FRB) stock, at cost	2,090	2,627
Federal Home Loan Bank (FHLB) stock, at cost	4,202	3,874
Loans receivable (net of allowance for credit losses: 2023: \$ 15,925 and 2022: \$ 10,310)	832,934	838,006
Loans held for sale	20,767	5,211
Accrued interest and dividends receivable	7,219	7,267
Premises and equipment, net	29,875	30,641
Other real estate owned	2,843	—
Deferred tax asset	24,134	15,527
Goodwill	—	1,107
Core deposit intangible, net	203	249
Other assets	8,985	11,387
Total assets	\$ 1,093,425	\$ 1,043,359
Liabilities		
Deposits:		
Noninterest bearing deposits	\$ 110,056	\$ 269,636
Interest bearing deposits	730,255	590,810
Total deposits	840,311	860,446
FHLB, FRB and correspondent bank borrowings	171,000	85,000
Senior notes, net	11,723	11,640
Subordinated debt, net	9,869	9,840
Junior subordinated debt owed to unconsolidated trust, net	8,137	8,128
Note payable	376	585
Advances from borrowers for taxes and insurance	1,164	886
Accrued expenses and other liabilities	6,462	7,251
Total liabilities	1,049,042	983,776
Commitments and Contingencies		
Shareholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$.01 par value, 100,000,000 shares authorized; As of December 31, 2023: 4,049,814 shares issued; 3,976,073 shares outstanding; As of December 31, 2022: 4,038,927 shares issued; 3,965,186 shares outstanding;	106,670	106,565
Accumulated deficit	(47,026)	(31,337)
Accumulated other comprehensive loss	(15,261)	(15,645)
Total shareholders' equity	44,383	59,583
Total liabilities and shareholders' equity	\$ 1,093,425	\$ 1,043,359

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2023	2022	2021
<i>(In thousands, except per share amounts)</i>			
Interest and Dividend Income			
Interest and fees on loans	\$ 54,310	\$ 40,823	\$ 30,115
Interest on investment securities	2,653	2,307	1,924
Dividends on investment securities	504	384	223
Other interest income	1,490	498	89
Total interest and dividend income	58,957	44,012	32,351
Interest Expense			
Interest on deposits	21,668	5,300	2,243
Interest on FHLB, FRB and correspondent bank borrowings	6,141	3,509	2,986
Interest on senior debt	1,159	866	913
Interest on subordinated debt	1,481	1,066	933
Interest on note payable	8	12	15
Total interest expense	30,457	10,753	7,090
Net interest income	28,500	33,259	25,261
Provision (credit) for credit losses	7,429	1,885	(500)
Net interest income after provision (credit) for credit losses	21,071	31,374	25,761
Non-interest Income			
Loan application, inspection and processing fees	694	386	257
Deposit fees and service charges	285	256	251
Gains on sales of loans	169	1,461	1,886
Rental income	395	566	543
Gain on sale of investment securities	24	—	76
Digital Payments income	2,294	683	103
Other income	2,144	253	1,307
Total non-interest income	6,005	3,605	4,423
Non-interest Expense			
Salaries and benefits	17,598	15,506	11,089
Occupancy and equipment expense	3,410	3,428	3,430
Data processing expense	1,228	1,185	1,451
Professional and other outside services	3,369	2,664	3,155
Project expenses, net	93	133	1,882
Advertising and promotional expense	269	232	235
Loan administration and processing expense	259	234	134
Regulatory assessments	1,176	817	907
Insurance expense, net	277	271	280
Communications, stationary and supplies	870	616	604
Intangible asset impairment	1,107	—	—
Other operating expense	3,053	2,136	2,004
Total non-interest expense	32,709	27,222	25,171
(Loss) Income before income taxes	(5,633)	7,757	5,013
(Benefit) provision for income taxes	(1,454)	1,596	(81)
Net (loss) income	\$ (4,179)	\$ 6,161	\$ 5,094
Basic (loss) earnings per share	\$ (1.05)	\$ 1.56	\$ 1.29
Diluted (loss) earnings per share	\$ (1.05)	\$ 1.55	\$ 1.29

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

See Accompanying Notes to Consolidated Financial Statements.

(In thousands)

	Year Ended December 31,		
	2023	2022	2021
Net (loss) income	\$ (4,179)	\$ 6,161	\$ 5,094
Other comprehensive income (loss)			
Unrealized holding gain (loss) on securities	240	(18,879)	(1,432)
Income tax effect	(108)	4,871	369
Reclassification for realized gain on sale of investment securities	(24)	—	(76)
Income tax effect	6	—	20
Impact of update to effective tax rate	270	—	—
	384	(14,008)	(1,119)
Derivative instruments:			
Unrealized holding gain on cash flow hedge	—	—	149
Income tax effect	—	—	(39)
Reclassification adjustment for net gain included in net income	—	—	(149)
Income tax effect	—	—	39
	—	—	—
Total other comprehensive income (loss)	384	(14,008)	(1,119)
Comprehensive (loss) income	\$ (3,795)	\$ (7,847)	\$ 3,975

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of Shares	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
<i>(In thousands, except shares)</i>					
Balance at January 1, 2021	3,943,572	\$ 106,329	\$ (42,592)	\$ (518)	\$ 63,219
Comprehensive loss:					
Net income	—	—	5,094	—	5,094
Unrealized holding loss on available-for-sale securities, net of tax	—	—	—	(1,119)	(1,119)
Total comprehensive income (loss)	—	—	5,094	(1,119)	3,975
Share-based compensation expense	—	150	—	—	150
Vesting of restricted stock	12,920	—	—	—	—
Balance at December 31, 2021	3,956,492	106,479	(37,498)	(1,637)	67,344
Comprehensive income (loss):					
Net income	—	—	6,161	—	6,161
Unrealized holding loss on available-for-sale securities, net of tax	—	—	—	(14,008)	(14,008)
Total comprehensive income (loss)	—	—	6,161	(14,008)	(7,847)
Share-based compensation expense	—	86	—	—	86
Vesting of restricted stock	8,694	—	—	—	—
Balance at December 31, 2022	3,965,186	106,565	(31,337)	(15,645)	59,583
Transition adjustment related to adoption of ASC326, net of tax	—	—	(11,510)	—	(11,510)
Comprehensive (loss) income:					
Net loss	—	—	(4,179)	—	(4,179)
Unrealized holding gain on available-for-sale securities, net of tax	—	—	—	384	384
Total comprehensive (loss) income	—	—	(4,179)	384	(3,795)
Share-based compensation expense	—	105	—	—	105
Vesting of restricted stock	10,887	—	—	—	—
Balance at December 31, 2023	3,976,073	\$ 106,670	\$ (47,026)	\$ (15,261)	\$ 44,383

See Accompanying Notes to Consolidated Financial Statements.

[Table of Contents](#)

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2023	2022	2021
Cash Flows from Operating Activities:			
Net (loss) income	\$ (4,179)	\$ 6,161	\$ 5,094
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
(Accretion) amortization of investment premiums and discounts, net	(116)	(51)	267
Amortization and accretion of purchase loan premiums and discounts, net	1,902	2,722	2,087
Amortization of debt issuance costs	177	38	111
Amortization of core deposit intangible	46	47	47
Amortization of servicing assets of sold SBA loans	114	98	67
Impairment of intangible assets	1,107	—	—
Provision (credit) for credit losses	7,429	1,885	(500)
Depreciation and amortization	1,193	1,325	1,521
Gain on sales of available-for-sale securities	(24)	—	(76)
Gain on sale of premises and equipment	—	—	(550)
Share-based compensation	105	86	150
(Increase) decrease in deferred income taxes, net	(4,211)	1,490	(261)
Originations of loans held for sale, net	(189,453)	(23,972)	(16,574)
Proceeds from sale of loans held for sale	174,066	23,077	16,267
Gains on sale of loans held for sale, net	(169)	(1,461)	(1,886)
Net gain on sale and write-down of other real estate owned	—	—	(2)
Changes in assets and liabilities:			
Decrease (increase) in accrued interest and dividends receivable	48	(1,445)	798
Decrease (increase) in other assets	1,750	(879)	(2,124)
(Decrease) increase in accrued expenses and other liabilities	(500)	(2,085)	3,160
Net cash (used in) provided by operating activities	(10,715)	7,036	7,596
Cash Flows from Investing Activities:			
Proceeds from maturity or sales on available-for-sale securities	1,780	3,600	77,690
Principal repayments on available-for-sale securities	4,324	6,723	11,667
Purchases of available-for-sale securities	(10,415)	(19,330)	(136,135)
Redemptions (purchases) of Federal Reserve Bank stock	537	216	(60)
(Purchases) redemptions of Federal Home Loan Bank stock	(328)	310	319
Origination of loans receivable	(145,531)	(211,383)	(220,349)
Purchases of loans receivable	(21,108)	(141,412)	(89,338)
Payments received on loans receivable	143,977	239,639	298,059
Purchases of premises and equipment	(412)	(414)	(430)
Proceeds from sale of premises and equipment	—	—	1,464
Proceeds from sale of other real estate owned	—	—	1,908
Net cash used in investing activities	(27,176)	(122,051)	(55,205)
Cash Flows from Financing Activities:			
(Decrease) increase in deposits, net	(20,135)	111,884	62,906
Increase (decrease) in FHLB, FRB and correspondent bank borrowings	86,000	(5,000)	—
Repayments of senior notes	—	(12,000)	—
Proceeds from issuance of senior notes	—	12,000	—
Principal repayments of note payable	(209)	(206)	(203)
Increase (decrease) in advances from borrowers for taxes and insurance	278	(215)	(2,685)
Net cash provided by financing activities	65,934	106,463	60,018
Net increase (decrease) in cash, cash equivalents and restricted cash	28,043	(8,552)	12,409
Cash, cash equivalents and restricted cash at beginning of period	38,493	47,045	34,636
Cash, cash equivalents and restricted cash at end of period	\$ 66,536	\$ 38,493	\$ 47,045

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

(In thousands)

	Year Ended December 31,		
	2023	2022	2021
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	\$ 29,631	\$ 10,472	\$ 7,210
Cash paid for income taxes, net	\$ 3,536	\$ 102	\$ 140
Non-cash transactions:			
Net change in unrealized (gain) loss on available-for-sale securities	\$ (384)	\$ 14,008	\$ 1,119
Transfers of SBA loans held for sale to loans receivable	\$ —	\$ 274	\$ 281
Transfers of loans receivable to OREO	\$ 2,843	\$ —	\$ —
Capitalized servicing assets	\$ 85	\$ 400	\$ 335
Operating lease right-of-use assets	\$ 16	\$ 80	\$ 373
(Decrease) increase in interest rate swaps	\$ (129)	\$ (535)	\$ 449
Deferred cost for capital raise	\$ —	\$ (825)	\$ 825
Deferred debt issuance costs	\$ 56	\$ 360	\$ —
Increase in premises and equipment	\$ —	\$ —	\$ 10
Reclassification of premises and equipment to implementation cost	\$ —	\$ —	\$ 52
Increase in accrued expense and other liabilities	\$ —	\$ —	\$ (62)
Expected credit loss for loans - ASC 326 adoption	\$ 13,001	\$ —	\$ —
Expected credit loss for unfunded loan commitments - ASC 326 adoption	\$ 2,737	\$ —	\$ —
Deferred tax assets - ASC 326 adoption	\$ (4,228)	\$ —	\$ —
Retained earnings adjustment - ASC 326 adoption	\$ 11,510	\$ —	\$ —

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

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

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

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

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

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

Reclassification

Certain prior period amounts have been reclassified to conform to current year financial statement presentation. These reclassifications only change the reporting categories and do not affect the consolidated results of operations or consolidate financial position of the Company.

Summary of Significant Accounting Policies:

Principles of consolidation and basis of financial statement presentation

The consolidated financial statements include the accounts of Patriot, and the Bank's wholly owned subsidiaries, PinPat Acquisition Corporation and have been prepared in conformity with US GAAP. All significant intercompany balances and transactions have been eliminated.

Cash, Cash Equivalents and Restricted Cash

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

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

The Company maintains cash on deposit at another depository institution as collateral for the Bank's Digital Payments business, which is considered as restricted cash.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

Federal Reserve Bank and Federal Home Loan Bank stock

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

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

Included in the Bank's investment portfolio are shares in the FHLB-B and FRB of \$ 6.3 million and \$ 6.5 million as of December 31, 2023 and 2022, respectively. Management has evaluated its investment in the capital stock of the FHLB-B and FRB for impairment, based on the aforementioned criteria, and has determined that as of December 31, 2023 and 2022 there is no impairment of its investment in either the FHLB-B or FRB.

Investment Securities

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

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

For available-for-sale debt securities in an unrealized loss position, the Company will first assess whether i) it intends to sell or ii) it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. If either case is applicable, any previously recognized allowances are charged off and the debt security's amortized cost is written down to fair value through income. If neither case is applicable, the debt security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the debt security by a rating agency and any adverse conditions specifically related to the debt security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the debt security are compared to the amortized cost basis of the debt security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an Allowance for Credit Losses ("ACL") is recorded for the credit loss, limited by the amount by which the fair value is less than the amortized cost basis. Any impairment that has not been recorded through allowance for credit losses is recognized in other comprehensive income, net of tax.

Adjustments to the allowance are reported in the income statement as a component of credit loss expense. Debt securities are charged off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by the Company or when either of the aforementioned criteria regarding intent or requirement to sell is met specifically for available-for-sale debt securities.

The Company excludes the accrued interest receivable balance from the amortized cost basis in measuring expected credit losses on debt securities and does not record an ACL on accrued interest receivable.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

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

At December 31, 2023 and 2022, the Bank's investment portfolio includes a \$ 4.5 million investment in the Solomon Hess SBA Loan Fund ("SBA Fund"). The Bank uses this investment to satisfy its Community Reinvestment Act lending requirements. At December 31, 2023 and 2022, the investment in the SBA Fund is reported in the consolidated balance sheets at cost, which management believes approximates fair value.

Loans receivable

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

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

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

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

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

Allowance for credit losses

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments ("ASC 326"). ASC 326 amends guidance on reporting credit losses for financial assets held at amortized cost basis and available-for-sale debt securities. ASC 326 eliminates the probable initial recognition threshold in current US GAAP and instead, requires an entity to reflect its current estimate of all expected credit losses based on historical experience, current conditions and reasonable and supportable forecasts. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. ASC 326 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the reserve for credit losses. In addition, entities need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination.

The Company adopted ASC 326 using the modified retrospective approach. Results for the periods beginning after January 1, 2023 are presented under Accounting Standards Codification 326 while prior period amounts continue to be reported in accordance with previously applicable US GAAP. The Company recorded a net reduction of retained earnings of \$ 11.5 million upon adoption. The transition adjustment includes an increase in credit related reserves of \$ 13.0 million and the recording of an unfunded commitment reserve of \$ 2.7 million, respectively, net of the corresponding increase in deferred tax assets of \$ 4.2 million.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

	January 1, 2023			
	(In thousands)	Post ASC 326 Adoption	Pre-ASC 326 Adoption	Pre-tax impact of ASC 326 Adoption
Assets:				
Allowance				
Commercial Real Estate	\$	8,592	\$ 6,966	\$ 1,626
Residential Real Estate		854	665	189
Commercial and Industrial		1,622	1,403	219
Consumer and Other		12,184	1,207	10,977
Construction		20	24	(4)
Construction to permanent - CRE		39	10	29
Unallocated		—	35	(35)
Total Allowance for credit losses	\$	23,311	\$ 10,310	\$ 13,001
Liabilities:				
Unfunded commitment reserve	\$	2,745	\$ 8	\$ 2,737

The allowance for credit losses ("ACL") is based on the Company's evaluation of the loan portfolios, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. The process is inherently subjective and subject to significant change as it requires material estimates.

The allowance is increased by a provision for credit losses, which is charged to expense, and reduced by charge-offs, net of recoveries. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for credit losses. Such agencies may require the Company to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Credit losses are estimated on the amortized cost basis of loans, which includes the principal balance outstanding, purchase discounts and premiums and deferred loan fees and costs. Accrued interest receivable on loans is excluded from the estimate of credit losses because these balances are written off or reversed when a loan is placed in non-accrual status.

The Company evaluates loans with similar risk characteristics in pools using a probability of default/loss given default ("PD/LGD") method. Unlike the previous allowance for loan losses approach, which applied historical loss rates to similar loan pools, the current expected credit loss ("CECL") methodology forecasts the probability of default, loss given default, and exposure at default for loans in a given pool over their remaining life, thereby deriving an ACL capable of absorbing estimated losses over the remaining life of the portfolio. Under this framework, qualitative factors play a diminished role, with reserve rates influenced by change in real domestic Gross Domestic Product ("GDP"), State of Connecticut unemployment rate, New York Fed recession indicator, CoStar composite index, New York Case Schiller index, Coincident activity index, Michigan consumer activity index, S&P's BBB credit spreads, and the Company's loan delinquencies and charge off data.

An additional component of the allowance is determined by management based on a qualitative analysis of certain factors related to portfolio risks that are not incorporated in the calculated model. The factors include lending practices, the ability and experience of the credit staff, the overall lending environment and external factors such as the regulatory environment and competition.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

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

In the underwriting of loans secured by real property, property appraisals are required to be performed by independent licensed appraisers that have been approved by Patriot's Board of Directors. Appraisals are subject to review by independent third parties hired by Patriot. All appraisals are reviewed by qualified independent parties to the firm preparing the appraisals. Generally, management obtains updated appraisals when a loan is under nonaccrual status and evaluated individually. These appraisals may be more limited than those prepared for the underwriting of a new loan. Additionally, the Bank hires an outside engineering consultant perform the inspection on properties. Management reviews and inspection reports before disbursing funds, particularly during the term of a construction loan.

The Bank's SBA loan portfolio consists of both whole loans and the unguaranteed portion of certain C&I and Owner-Occupied CRE loans. An additional risk premium was assigned to those loans due to their risk parameters and profile, including higher historical loss rates (based on historical SBA data) than the rest of the C&I and Owner-Occupied CRE portfolio.

Individually Evaluated Loans

Credit losses for loans that no longer share similar risk characteristics with the collectively evaluated pools are excluded from the collective evaluation and estimated on an individual basis. Individual evaluations are performed for nonaccrual loans and loans rated substandard that are in excess of \$100,000. Specific allowances were estimated based on one of several methods, including the estimated fair value of the underlying collateral, observable market value of similar debt or the present value of expected cash flows.

The Company's credit officers meet at least quarterly to discuss and review the conditions and risks associated with individual problem loans. While the Company uses the best information available to evaluate the ACL, future adjustments to the ACL may be necessary if conditions differ or substantially change from the information used in making the evaluation. In addition, as an integral part of its regulatory examination process, the OCC will periodically review the ACL. The OCC may require Patriot to adjust the ACL based on its analysis of information available at the time of its examination.

Loan modifications

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments – Credit Losses (ASU 326)*: Troubled Debt Restructurings and Vintage Disclosures. ASU 2022-02 eliminated the accounting guidance for TDRs by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The Company adopted ASU 2022-02 effective January 1, 2023 and the impact was immaterial.

Accrued Interest Receivable

Upon adoption of ASC 326 and its related amendments on January 1, 2023, the Company made the following elections regarding accrued interest receivable:

- Presenting accrued interest receivable balances separately on the Consolidated Balance Sheet.
- Continuing our policy to fully reserve accrued interest receivable by reversing interest income. For commercial loans, the reserve is established upon becoming 90 days past due except for instances where it can be clearly documented that the loan is both well secured and in the process of collection. For consumer loans, the charge-off typically occurs upon becoming 120 days past due. Historically, the Company has not experienced uncollectible accrued interest receivable on its investment securities.
- Not measuring an allowance for credit losses for accrued interest receivable due to the Company's policy of fully reserving uncollectible accrued interest receivable balances in a timely manner, as described above.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

ACL for Unfunded Commitments

The ACL for unfunded commitments represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit and standby letters of credit. However, a liability is not recognized for commitments that are unconditionally cancellable by the Company. The ACL for unfunded commitment is recognized as a liability (within other liabilities on the Consolidated Balance Sheets), with adjustments to the unfunded commitment reserve recognized as a provision for credit loss expense in the Consolidated Statements of Operations. The Unfunded Commitment Reserve is determined by estimating expected future funding, under each segment, and applying the expected loss rates.

Transfers of financial assets

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

Loans Held for Sale

SBA loans held for sale represent the guaranteed portion of SBA loans and are reflected at the lower of aggregate cost or market value. Patriot originates loans to customers under the SBA program, historically providing for SBA guarantees of 75% of the principal balance of each loan. Due to the pandemic, in 2021, the SBA increased the guaranteed percentage to 90% during one of the rounds of stimulus. As of October 1, 2021, the guaranteed percentage reverted back to 75% of the loan. Patriot typically sells the guaranteed portion of its SBA loans to third parties and retains the servicing, holding the unguaranteed portion in its portfolio. The amount of loan origination fees is included in the carrying value of loans sold and in the calculation of the gain or loss on the sale. When sales of SBA loans occur, the premium received on the sale and the present value of future cash flows of the servicing assets, less the discount of the retained portion of the loan, are recognized in income. All criteria for sale accounting must be met for the loan sales to occur; see details under the "Transfers of Financial Assets" heading above.

Loans held for sale are carried at the lower of amortized cost or estimated fair value. The estimated fair value for SBA loans held for sale is based on pricing information from secondary markets and brokers, when available.

Patriot originates various types of consumer loans include credit card loans that are marketed by the buyer. The credit card loans are expected to be held for no longer than three days before being sold to the buyer. The credit card loans are fully cash-secured by deposits at Patriot. The credit card loans are sold to the buyer as a whole loan sale transaction, priced at par; thus, there is no servicing asset or gain or loss on sale.

Servicing Assets

Servicing assets represent the estimated fair value of retained servicing rights, net of servicing costs, at the time loans are sold. Servicing assets are amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on stratifying the underlying financial assets by date of origination and term. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment, if temporary, would be reported as a valuation allowance.

Other real estate owned

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

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

Premises and equipment

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

Lease Accounting

The Company adopted FASB ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), including the adoption of the practical expedients, effective January 1, 2019. Leases (Topic 842) establishes a right of use model that requires a lessee to record a right of use ("ROU") asset and a lease liability for all leases with terms longer than 12 months. The Company enters into operating leases in the normal course of business primarily for several of its branch and parking locations, and one equipment lease.

The Company's lease agreements include options to renew at the Company's discretion. If the extensions are reasonably certain to be exercised, they are considered in the calculation of the ROU asset and lease liability. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) in the Company's Consolidated Balance Sheets. The ROU assets are included in other assets and the lease obligations are included in other liabilities in the Consolidated Balance Sheets.

Impairment of long-lived assets

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

Intangible Assets

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

CDI is amortized on straight-line basis over a 10-year period because that is managements' estimate of the period Patriot will benefit from Prime Bank's deposit base comprised of funds associated with long-term customer relationships. CDI is evaluated for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable, with any changes in estimated useful life accounted for prospectively over the revised remaining life.

The Company evaluates goodwill for impairment on an annual basis, or more often if events or circumstances indicate there may be impairment. The annual impairment test is conducted annually as of October 31, or whenever certain triggering events occur or there are circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount are identified. Management estimates the fair value of the reporting unit by considering multiple valuation techniques, which include subjective assumptions about the future cash flows of the Company, assumptions within the capitalization rate, valuation multiples, and market data used. The fair value of each reporting unit is compared to the carrying amount of such reporting unit in order to determine if impairment is indicated.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

Derivatives

Derivatives are recognized at fair value and included in other assets and other liabilities in the accompanying consolidated balance sheets. The value of exchange-traded contracts is based on quoted market prices while non-exchange traded contracts are valued based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require management judgment or estimation, relating to future rates and credit activities. Cash flows from derivative financial instruments are included in net cash provided by operating activities in the accompanying consolidated statements of cash flows.

Derivatives Not Designated in Hedge Relationships: Patriot enters into interest rate swap agreements ("swaps"), to provide a facility to mitigate for the borrower the fluctuations in the variable rate on the respective loan. The customer swaps are simultaneously hedged by offsetting derivatives that Patriot entered into with an outside third party. The swaps are reported at fair value in other assets or other liabilities. These swaps qualify as derivatives, but are not designated as hedging instruments, thus any net gain or loss resulting from changes in the fair value is recognized in other non-interest income.

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

Derivatives Designated in Hedge Relationships: The Company uses derivatives to hedge exposures, or to modify interest rate characteristics, for certain balance sheet accounts under its interest rate risk management strategy. The Company designates derivatives in qualifying hedge relationships as cash flow hedges for accounting purposes. Derivative financial instruments receive hedge accounting treatment if they are qualified and properly designated as a hedge and remain highly effective in offsetting changes in the cash flows attributable to the risk being hedged both at hedge inception and on an ongoing basis throughout the life of the hedge. Quarterly prospective and retrospective assessments are performed to ensure hedging relationships continue to be highly effective. If a hedge relationship were no longer highly effective, hedge accounting would be discontinued. The gain or loss on a derivative designated and qualifying as a cash flow hedge is initially recorded as a component of accumulated other comprehensive income or loss, net of tax and subsequently reclassified to interest income as hedged interest payments are received or to interest expense as hedged interest payments are made in the same period during which the hedged transaction affects earnings.

Income taxes

Patriot recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and loss carry forwards. Deferred tax assets ("DTA"s) and liabilities ("DTL"s) are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on DTAs and DTLs of a change in tax rates is recognized in income in the period that includes the enactment date.

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

Patriot evaluates its ability to realize its net deferred tax assets on a quarterly basis. In doing so, management considers all available evidence, both positive and negative, to determine whether it is more likely than not that the deferred tax assets will be realized. In addition, management assesses tax attributes including available tax planning strategies and net operating loss carry-forwards that do not begin to expire until the year 2030. As of December 31, 2023, no valuation allowance was recorded. See Note 14 for more information on the deferred tax valuation allowance.

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

Patriot had a net deferred tax asset of \$ 24.1 million at December 31, 2023 as compared to a net deferred tax asset of \$ 15.5 million at December 31, 2022.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

Unrecognized tax benefits

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

Patriot's returns for tax years 2020 through 2023 are subject to examination by the Internal Revenue Service ("IRS") for U.S. Federal tax purposes and, for State tax purposes, by the Department of Revenue Services for the State of Connecticut and the State of New York Department of Taxation and Finance.

As of December 31, 2023 and 2022, the Bank did not record any uncertain tax positions ("UTP"). Additionally, Patriot has no pending or on-going audits in any tax jurisdiction.

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

Earnings per Share

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

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

Share-based compensation plan

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

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

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

Comprehensive income

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

Segment reporting

Patriot's only business segment is Community Banking. During the years ended December 31, 2023, 2022 and 2021, this segment represented all the revenues and income of Patriot.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

Related Party Transactions

Directors and officers of the Company and their affiliates have been customers of and have had transactions with the Company, and it is expected that such people will continue to have such transactions in the future. Management believes that all deposit accounts, loans, services and commitments comprising such transactions were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers who are not directors or officers. In the opinion of management, the transactions with related parties did not involve more than normal risks of collectability, nor favored treatment or terms, nor present other unfavorable features. See Note 20: Related Party Transactions for further information.

Fair value

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

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

Advertising Costs

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

Revenue Recognition

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

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

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Recently Adopted and Issued Accounting Standards

Accounting Standards Adopted During 2023

ASU 2016-13

In June 2016, the FASB issued *ASU 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)*. The ASU changes the methodology for measuring credit losses on financial instruments measured at amortized cost to a CECL model. Under the CECL model, entities are required to estimate credit losses over the entire contractual term of a financial instrument from the date of initial recognition of the instrument. The ASU also changes the existing impairment model for available-for-sale debt securities. In cases where there is neither the intent nor a more-likely-than-not requirement to sell the debt security, an entity should record credit losses as an allowance rather than a direct write-down of the amortized cost basis. Additionally, ASU 2016-13 notes that credit losses related to available-for-sale debt securities and purchased credit impaired loans should be recorded through an allowance for credit losses. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted for fiscal years beginning after December 15, 2018. In November 2019, the FASB issued ASU 2019-10, which amended the effective date of ASU 2016-13 for smaller reporting companies, as defined by the SEC, and other non-SEC reporting entities, and delayed the effective date to fiscal years beginning after December 31, 2022, including interim periods within those fiscal periods. As the Company is a small reporting company, the delay was applicable to the Company. The Company adopted ASU 2016-13 effective January 1, 2023. For further discussion regarding the impact of ASU 2016-13 adoption, see section "Allowance for Credit Losses" under Summary of Significant Accounting Policies in Note 1 above.

ASU 2020-02

In January 2020, the FASB issued ASU No. 2020-02, *Financial Instruments - Credit Losses (Topic 326) and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)*. This ASU adds and amends SEC paragraphs in the Accounting Standards Codification to reflect the issuance of SEC Staff Accounting Bulletin No. 119, related to the new credit losses standard, and comments by the SEC staff related to the revised effective date of the new leases standard. This ASU is effective upon issuance. The Company adopted ASU 2016-13 and ASU 2020-02 effective January 1, 2023.

ASU 2020-03

In March 2020, the FASB issued ASU No. 2020-03, *Codification Improvements to Financial Instruments*. This ASU clarifies various financial instruments topics, including the CECL standard issued in 2016. Amendments related to ASU 2016-13 for entities that have not yet adopted that guidance are effective upon adoption of the amendments in ASU 2016-13. Early adoption is not permitted before an entity's adoption of ASU 2016-13. Other amendments are effective upon issuance of this ASU. See the discussion regarding the adoption of ASU 2016-13 above.

ASU 2022-02

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings ("TDR") and Vintage Disclosures*. ASU 2022-02 updates guidance in Topic 326, to eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty and to require entities to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, *Financial Instruments—Credit Losses—Measured at Amortized Cost*. ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, with early adoption permitted if an entity has adopted the amendments in ASU 2016-03, including adoption in an interim period. The Company adopted ASU 2016-13 effective January 1, 2023. The adoption of this guidance did not have any material impact on the Company's Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

ASU 2022-06

On December 21, 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*. This ASU defers the sunset date of the temporary, optional expedients related to the accounting for contract modifications and hedging transactions as a result of the anticipated transition away from the use of LIBOR and other interbank offered rates to alternative reference rates. In response to the United Kingdom's Financial Conduct Authority's extension of the cessation date of LIBOR in the United States to June 30, 2023, the FASB has deferred the expiration date of these optional expedients to December 31, 2024. The ASU became effective upon issuance and affords the Company an extended period to utilize the currently available optional expedients related to the accounting for contract modifications and hedging transactions as a result of the anticipated transition away from the use of LIBOR and other inter-bank offered rates. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

Accounting Standards Issued But Not Yet Adopted

ASU 2023-06

In October 2023, the FASB issued ASU 2023-06, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. The amendments in this Update modify the disclosure or presentation requirements of a variety of Topics in the Codification. Certain of the amendments represent clarifications to or technical corrections of the current requirements. For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. For all other entities, the amendments will be effective two years later. The amendments in this Update should be applied prospectively. For all entities, if by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the Codification and will not become effective for any entity. The adoption of ASU 2023-06 is not expected to have an impact on the Company's financial condition or results of operations but could change certain disclosures. The Company will continue to monitor for SEC action, and plan accordingly for adoption.

ASU 2023-09

In December 2023, the FASB issued ASU 2023-09 *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires more detailed disclosures of income taxes paid net of refunds received, income from continuing operations before income tax expense or benefit, and income tax expense from continuing operations. This standard is to be applied on a prospective basis, with retrospective application permitted, and will be effective for the Company for annual periods beginning on January 1, 2025. We do not expect adoption of this standard to have a material impact on the Company's Consolidated Financial Statements.

Note 2. Restrictions on Cash and Due from Banks

Federal Reserve System regulations require depository institutions to maintain cash reserves against their transaction accounts, primarily interest-bearing and regular checking accounts. The required cash reserves can be in the form of vault cash and, if vault cash does not fully satisfy the required cash reserves, in the form of a balance maintained with Federal Reserve Banks. The Board of Governors of the Federal Reserve System generally makes annual adjustments to the tiered cash reserve requirements. In March of 2020, the Federal Reserve Bank eliminated reserve requirements for all depository institution. Therefore, the Company was not required to have cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements as of December 31, 2023 and 2022.

The Company maintains restricted cash on deposit with another depository institution as collateral for the Bank's Digital Payments business. The collateral serves to protect a payment processor in the event of the Bank's inability to fulfill its obligations regarding transactions processed through the payment processor on behalf of Digital Payments.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Note 3. Available-for-sale securities

At December 31, 2023 and 2022, the amortized cost, gross unrealized gains, gross unrealized losses and approximate fair value of available-for-sale securities was as follows:

<i>(In thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2023:				
U. S. Government agency and mortgage-backed securities	\$ 80,500	\$ —	\$ (14,829)	\$ 65,671
Corporate bonds	17,995	—	(4,229)	13,766
Subordinated notes	5,000	—	(773)	4,227
SBA loan pools	6,002	—	(965)	5,037
Municipal bonds	559	—	(73)	486
	<u>\$ 110,056</u>	<u>\$ —</u>	<u>\$ (20,869)</u>	<u>\$ 89,187</u>
December 31, 2022:				
U. S. Government agency and mortgage-backed securities	\$ 73,480	\$ —	\$ (14,434)	\$ 59,046
Corporate bonds	19,773	7	(5,125)	14,655
Subordinated notes	5,000	—	(398)	4,602
SBA loan pools	6,791	—	(1,073)	5,718
Municipal bonds	561	—	(62)	499
	<u>\$ 105,605</u>	<u>\$ 7</u>	<u>\$ (21,092)</u>	<u>\$ 84,520</u>

The following table presents available-for-sale securities' gross unrealized losses and fair value, aggregated by the length of time the individual securities have been in a continuous loss position as of December 31, 2023 and 2022:

<i>(In thousands)</i>	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
December 31, 2023:						
U. S. Government agency and mortgage-backed securities	\$ 9,984	\$ (286)	\$ 55,687	\$ (14,543)	\$ 65,671	\$ (14,829)
Corporate bonds	—	—	13,766	(4,229)	13,766	(4,229)
Subordinated notes	—	—	4,227	(773)	4,227	(773)
SBA loan pools	—	—	5,037	(965)	5,037	(965)
Municipal bonds	—	—	486	(73)	486	(73)
	<u>\$ 9,984</u>	<u>\$ (286)</u>	<u>\$ 79,203</u>	<u>\$ (20,583)</u>	<u>\$ 89,187</u>	<u>\$ (20,869)</u>
December 31, 2022:						
U. S. Government agency and mortgage-backed securities	\$ 11,126	\$ (633)	\$ 47,920	\$ (13,801)	\$ 59,046	\$ (14,434)
Corporate bonds	1,959	(64)	10,934	(5,061)	12,893	(5,125)
Subordinated notes	4,602	(398)	—	—	4,602	(398)
SBA loan pools	1,437	(12)	4,280	(1,061)	5,717	(1,073)
Municipal bonds	—	—	498	(62)	498	(62)
	<u>\$ 19,124</u>	<u>\$ (1,107)</u>	<u>\$ 63,632</u>	<u>\$ (19,985)</u>	<u>\$ 82,756</u>	<u>\$ (21,092)</u>

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

At December 31, 2023 and 2022, fifty of fifty and forty-six of forty-seven available-for-sale securities had unrealized losses with an aggregate depreciation of (19.0)% and (20.3)% from amortized cost, respectively.

As of December 31, 2023, no allowance for credit losses has been recognized on available for sale debt securities in an unrealized loss position as the Company does not believe any of the debt securities are credit impaired. This is based on the Company's analysis of the risk characteristics, including credit ratings, and other qualitative factors related to available for sale debt securities. The issuers of these debt securities continue to make timely principal and interest payments under the contractual terms of the securities. The Company does not intend to sell these debt securities and it is more likely than not that the Company will not be required to sell the debt securities before recovery of their amortized cost, which may be at maturity. The unrealized losses are due to increases in market interest rates over the yields available at the time the debt securities were purchased.

With regard to U.S. mortgage-backed securities and municipal bonds issued by the U.S. government, or agencies thereof, it is expected that the securities will not be settled at prices less than the amortized cost basis of the securities as such securities are backed by the full faith and credit of and/or guaranteed by the U.S. government. Accordingly, no allowance for credit losses has been recorded for these securities.

With regard to corporate bonds, management considers (i) issuer bond ratings, (ii) historical loss rates for given bond ratings, (iii) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities, and (iv) internal forecasts. Securities under the U.S. Small Business Administration ("SBA") government guaranteed loan pools program were purchased at a premium and the impairment was attributable primarily to increased prepayment speeds. The timely payment of principal and interest on these securities is guaranteed by the U.S. Government agency. The contractual terms of the subordinated notes do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Furthermore, as of December 31, 2023, there were no past due principal or interest payments associated with these securities. Based upon (i) the issuer's strong bond ratings and (ii) a zero historical loss rate, no allowance for credit losses has been recorded for available-for-sale securities. All debt securities in an unrealized loss position continue to perform as scheduled and the Company does not believe there is a possible credit loss or that an allowance for credit loss on these debt securities is necessary.

As of December 31, 2023 and 2022, available-for-sale securities of \$ 68.5 million and \$ 30.8 million, respectively, were pledged primarily to secure municipal deposits, and as collateral for FRB and FHLB borrowings. The securities were pledged to the FRB and FHLB.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

The following summarizes, by class and contractual maturity, the amortized cost and estimated fair value of available-for-sale debt securities held at December 31, 2023 and 2022. The mortgages underlying the mortgage-backed securities are not due at a single maturity date. Additionally, these mortgages often are and generally may be pre-paid without penalty, creating a degree of uncertainty that such investments can be held until maturity. For convenience, mortgage-backed securities have been included in the summary as a separate line item.

(In thousands)

	Amortized Cost				Fair Value			
	Due Within 5 years	Due After 5 years through 10 years	Due After 10 years	Total	Due Within 5 years	Due After 5 years through 10 years	Due After 10 years	Total
December 31, 2023:								
Corporate bonds	\$ 2,000	\$ 15,995	\$ —	\$ 17,995	\$ 1,947	\$ 11,819	\$ —	\$ 13,766
Subordinated notes	3,000	2,000	—	5,000	2,527	1,700	—	4,227
SBA loan pools	—	1,096	4,906	6,002	—	1,084	3,953	5,037
Municipal bonds	153	406	—	559	140	346	—	486
Available-for-sale securities with stated maturity dates	5,153	19,497	4,906	29,556	4,614	14,949	3,953	23,516
U. S. Government agency and mortgage- backed securities	—	5,222	75,278	80,500	—	4,237	61,434	65,671
	<u>\$ 5,153</u>	<u>\$ 24,719</u>	<u>\$ 80,184</u>	<u>\$ 110,056</u>	<u>\$ 4,614</u>	<u>\$ 19,186</u>	<u>\$ 65,387</u>	<u>\$ 89,187</u>
December 31, 2022:								
Corporate bonds	\$ 3,778	\$ 15,995	\$ —	\$ 19,773	\$ 3,721	\$ 10,934	\$ —	\$ 14,655
Subordinated notes	3,000	2,000	—	5,000	2,830	1,772	—	4,602
SBA loan pools	—	1,449	5,342	6,791	—	1,438	4,280	5,718
Municipal bonds	154	407	—	561	139	360	—	499
Available-for-sale securities with stated maturity dates	6,932	19,851	5,342	32,125	6,690	14,504	4,280	25,474
U. S. Government agency and mortgage- backed securities	—	5,276	68,204	73,480	—	4,129	54,917	59,046
	<u>\$ 6,932</u>	<u>\$ 25,127</u>	<u>\$ 73,546</u>	<u>\$ 105,605</u>	<u>\$ 6,690</u>	<u>\$ 18,633</u>	<u>\$ 59,197</u>	<u>\$ 84,520</u>

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Note 4. Loans Receivables and Allowance for Credit Losses

As of December 31, 2023 and 2022, loans receivable, net, consisted of the following:

(In thousands)	December 31,	
	2023	2022
<u>Loan portfolio segment:</u>		
Commercial Real Estate	\$ 472,093	\$ 437,443
Residential Real Estate	106,783	124,140
Commercial and Industrial	163,565	138,787
Consumer and Other	99,688	141,091
Construction	4,266	4,922
Construction to Permanent - CRE	2,464	1,933
Loans receivable, gross	848,859	848,316
Allowance for credit losses	(15,925)	(10,310)
Loans receivable, net	\$ 832,934	\$ 838,006

Patriot's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County in New York, and the five Boroughs of New York City. Patriot originates commercial real estate loans, commercial business loans, a variety of consumer loans, and construction loans, and has purchased residential loans since 2016. All commercial and residential real estate loans are collateralized primarily by first or second mortgages on real estate. The ability and willingness of borrowers to satisfy their loan obligations is dependent to some degree on the status of the regional economy as well as upon the regional real estate market. Accordingly, the ultimate collectability of a substantial portion of the loan portfolio and the recovery of a substantial portion of any resulting real estate acquired is susceptible to changes in market conditions.

Patriot has established credit policies applicable to each type of lending activity in which it engages and evaluates the creditworthiness of each borrower. Unless extenuating circumstances exist, Patriot limits the extension of credit on commercial real estate loans to 75 % of the market value of the underlying collateral. Patriot's loan origination policy for multi-family residential real estate is limited to 80 % of the market value of the underlying collateral. In the case of construction loans, the maximum loan-to-value is 75 % of the "as completed" appraised value of the real estate project. Management monitors the appraised value of collateral on an on-going basis and additional collateral is requested when warranted. Real estate is the primary form of collateral, although other forms of collateral do exist and may include such assets as accounts receivable, inventory, marketable securities, time deposits, and other business assets.

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

Commercial Real Estate Loans

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

In 2023, Patriot did not purchase any commercial real estate loans. There were \$ 20.7 million commercial real estate loans purchased during 2022.

Residential Real Estate Loans

Patriot's residential real estate loan portfolio consists primarily of purchased residential loans. The repayment of residential real estate loans, as well as the loans secured by residential real estate, may be negatively impacted if borrowers experience financial difficulties, if there is a significant decline in the value of the property securing the loan, or if there are declines in general economic conditions. In 2023 and 2022, Patriot did not purchase any residential real estate loans.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Commercial and Industrial Loans

Patriot's commercial and industrial loan portfolio consists primarily of commercial business loans and lines of credit to businesses and professionals. These loans are generally for the financing of accounts receivable, purchases of inventory, purchases of new or used equipment, or for other short- or long-term working capital purposes. These loans are generally secured by business assets but are also occasionally offered on an unsecured basis. In granting these types of loans, Patriot considers the borrower's cash flow as the primary source of repayment, supported by the value of collateral, if any, and personal guarantees, as applicable. Repayment of commercial and industrial loans may be negatively impacted by adverse changes in economic conditions, ineffective management, claims on the borrower's assets by others that are superior to Patriot's claims, a loss of demand for the borrower's products or services, or the death or disability of the borrower or other key management personnel.

Patriot's syndicated and leveraged loan portfolios totaled \$ 5.7 million and \$ 5.8 million at December 31, 2023 and 2022, respectively. The syndicated and leveraged loans are included in the commercial and industrial loan classification and are primarily comprised of loan transactions led by major financial institutions and regional banks, which are the Agent Bank or Lead Arranger, and are referred to as syndicated loans or "Shared National Credits (SNC)". SNC loans were determined to be complementary to the Bank's existing commercial and industrial loan portfolio and product offerings. Further originations in this loan class are not expected.

Consumer and Other Loans

Patriot offers individual consumers various forms of credit including installment loans, credit cards, overdraft protection, auto loans, and reserve lines of credit. Repayments of such loans are generally dependent on the personal income of the borrower, which may be negatively impacted by adverse changes in economic conditions. The Company does not place a high emphasis on originating these types of loans.

The Company has purchased unsecured consumer loans from a third party which are higher yielding loans of 2 - 5 year terms that are expected to incur an increased level of charge-offs. Loans purchased under this program totaled \$ 15.4 million and \$ 90.1 million for the year ended December 31, 2023 and 2022, respectively. Loans outstanding under this program totaled \$ 48.5 million and \$ 78.9 million as of December 31, 2023 and 2022, respectively.

The Company does not have any lending programs commonly referred to as subprime lending. Subprime lending generally targets borrowers with weakened credit histories that are typically characterized by payment delinquencies, previous charge-offs, judgments against the consumer, a history of bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burdened ratios.

Patriot purchased home equity line of credit loans ("HELOC") of \$ 5.7 million and \$ 30.6 million for the year ended December 31, 2023 and 2022, respectively.

Construction Loans

Construction loans are of a short-term nature, generally of eighteen months or less, that are secured by land and improvements intended for commercial, residential, or mixed-use development. Loan proceeds may be used for the acquisition of or improvements to the land under development and funds are generally disbursed as phases of construction are completed.

Included in this category are loans to construct single family homes where no contract of sale exists, based upon the experience and financial strength of the builder, the type and location of the property, and other factors. Construction loans tend to be personally guaranteed by the principal(s). Repayment of such loans may be negatively impacted by an inability to complete construction, a downturn in the market for new construction, by a significant increase in interest rates, or by decline in general economic conditions. The construction loans outstanding at December 31, 2023 and 2022 totaled \$ 4.3 million and \$ 4.9 million, respectively.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES**Notes to consolidated financial statements**Construction to Permanent - Commercial Real Estate ("CRE")

Construction to permanent loans represent a one-time close of a construction facility with simultaneous conversion to an amortizing mortgage loan. Construction to Permanent loans combine a short-term period similar to a construction loan, generally with a variable rate, and a longer term CRE loan typically 20 - 25 years, resetting every five years to the Federal Home Loan Bank ("FHLB") rate.

Close of the permanent facility typically occurs when events dictate, such as receipt of a certificate of occupancy and property stabilization, which is defined as cash flow sufficient to support a pre-defined minimum debt coverage ratio and other conditions and covenants particular to the loan. Construction facilities are typically variable rate instruments that, upon conversion to an amortizing mortgage loan, reset to a fixed rate instrument that is the greater of the in-force variable rate plus a predetermined spread over a reference rate (e.g., prime) or a minimum interest rate.

SBA Loans

Patriot originates SBA 7(a) loans, on which the SBA has historically provided guarantees of 75 % of the principal balance. However, during the pandemic in 2021, the SBA temporarily increased the guarantees to 90 % and reverted to 75 % on October 1, 2021. The guaranteed portion of the Company's SBA loans is generally sold in the secondary market with the unguaranteed portion held in the portfolio as a loan held for investment. SBA loans are for the purpose of providing working capital, financing the purchase of equipment, inventory or commercial real estate and for other business purposes. Loans are guaranteed by the businesses' major owners. SBA loans are made based primarily on the historical and projected cash flow of the business and secondarily on the underlying collateral provided. SBA loans held for investment are included in the commercial real estate loans and commercial and industrial loan classifications, which totaled \$ 30.0 million and \$ 32.5 million at December 31, 2023 and 2022, respectively.

Small Business Administration Paycheck Protection Program

Under the Paycheck Protection Program of the CARES Act, small business loans were authorized for to pay payroll and group health costs, salaries and commissions, mortgage and rent payments, utilities, and interest on other debt. The loans are provided through participating financial institutions that process loan applications and service the loans. The Bank participated in the SBA's Paycheck Protection Program in 2021.

Paycheck Protection Program loans totaled \$ 133,000 and \$ 157,000 as of December 31, 2023 and 2022, respectively, which are included in the commercial and industrial loan classifications.

Allowance for Credit Losses

As described in Note 1, "Summary of Significant Accounting Policies," the Company adopted ASU 2016-13 on January 1, 2023, which introduced the CECL methodology for estimating all expected losses over the life of a financial asset. Under the CECL methodology, the ACL is measured on a collective basis for pools of loans with similar risk characteristics. For loans that do not share similar risk characteristics with the collectively evaluated pools, evaluations are performed on an individual basis. For all loan segments collectively evaluated, losses are predicted over a period of time determined to be reasonable and supportable, and at the end of the reasonable and supportable forecast period losses are reverted to long-term historical averages. The estimated credit losses for all loan segments are adjusted for changes in qualitative factors not inherently considered in the quantitative analyses.

The Company estimates expected credit losses for pooled loans using a modeling method that incorporates probability of default and loss given default. The PD model employs a quarterly risk-rating transition method to estimate the probability of default by simulating loan downgrades and assigning increasing default probabilities to each loan. This captures the likelihood that borrowers will be unable to repay their loans according to the original terms. The LGD calculation considers characteristics such as collateral value and vintage, underlying collateral characteristics (e.g., CRE vs. residential, owner-occupied vs. investment), a floor for the LGD calculation (minimum loss in event of default regardless of collateral protection), and other relevant underwriting characteristics. Also calculated is the exposure at default. The probability of default is multiplied by the loss given default and the exposure at default. This calculation is forecasted for every year remaining in the life of each loan, and the results are aggregated to determine the necessary level of ACL for the pooled loans. Forecasted exposure at default can be influenced by prepayments speeds, which management elected to discount in part to reflect the expectation of slower voluntary prepayments in the face of an increasing interest rate environment.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

Commercial and industrial loans include risks associated with borrower's cash flow, debt service coverage and management's expertise. These loans are subject to the risk that the Company may have difficulty converting collateral to a liquid asset if necessary, as well as risks associated with degree of specialization, mobility and general collectability in a default situation. These commercial loans may be subject to many different types of risks, including fraud, bankruptcy, economic downturn, deteriorated or non-existent collateral, and changes in interest rates.

Real estate construction loans include risks associated with the borrower's credit-worthiness, contractor's qualifications, borrower and contractor performance, and the overall risk and complexity of the proposed project. Construction lending is also subject to risks associated with sub-market dynamics, including population, employment trends and household income. During times of economic stress, this type of loan has typically had a greater degree of risk than other loan types.

Real estate mortgage loans consist of loans secured by commercial and residential real estate. Commercial real estate lending is divided into Investment CRE and Owner-Occupied CRE. Investment CRE is dependent upon successful management, marketing and expense supervision necessary to maintain the property. Repayment of these loans may be adversely affected by conditions in the real estate market or the general economy. Owner-Occupied CRE is utilized by a business for the purpose of providing the space needs for that business and the running of its operations. Repayment is dependent on the cash flow and successful operations of the business. Repayment of these loans may be adversely affected by conditions in the specific owner's industry. Also, commercial real estate loans typically involve relatively large loan balances to a single borrower. Residential real estate lending risks are generally less significant than those of other loans. Real estate lending risks include fluctuations in the value of real estate, bankruptcies, economic downturn and customer financial problems.

Consumer loans carry a moderate degree of risk compared to other loans. They are generally more risky than traditional residential real estate loans, and carry generally low relative balances across a diverse borrowing pool. Risk of default is assessed based on FICO scores, debt to income ratios, historical loss rates other common consumer loan metrics. For the pool of purchased unsecured consumer loans, the risk of default and necessary ACL is assessed on an individual loan basis using a customized model that heavily weights payment/delinquency status, FICO scores, and remaining loan life until maturity.

The Company maintains an ACL for credit losses on unfunded lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the ACL for loans, modified to take into account the probability of a drawdown on the commitment. The ACL on unfunded loan commitments is classified as a liability account on the Consolidated Balance Sheets within other liabilities, while the corresponding provision for these credit losses is recorded as a component of provision for credit losses. The allowance for credit losses on unfunded commitments was \$ 271,000 at December 31, 2023.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

The following tables summarize the activity in the allowance for loan and lease losses, allocated to segments of the loan portfolio, for each year in the three-year period ended December 31, 2023:

(In thousands)	Commercial Real Estate		Residential Real Estate		Commercial and Industrial		Consumer and Other		Construction		Construction to Permanent - CRE		Unallocated		Total	
As of and for the year ended December 31, 2023																
Allowance for credit losses:																
December 31, 2022	\$	6,966	\$	665	\$	1,403	\$	1,207	\$	24	\$	10	\$	35	\$	10,310
Impact of ASC 326 Adoption		1,626		189		219		10,977		(4)		29		(35)		13,001
Charge-offs		(6,346)		(515)		(927)		(10,479)		(150)		—		—		(18,417)
Recoveries		—		14		34		1,080		—		—		—		1,128
Provisions		3,843		254		540		5,058		134		74		—		9,903 (1)
December 31, 2023	\$	6,089	\$	607	\$	1,269	\$	7,843	\$	4	\$	113	\$	—	\$	15,925
As of and for the year ended December 31, 2022																
Allowance for loan and lease losses:																
December 31, 2021	\$	5,063	\$	1,700	\$	2,532	\$	253	\$	78	\$	41	\$	238	\$	9,905
Charge-offs		—		—		(70)		(1,690)		(68)		—		—		(1,828)
Recoveries		154		4		69		121		—		—		—		348
(Credits) provisions		1,749		(1,039)		(1,128)		2,523		14		(31)		(203)		1,885
December 31, 2022	\$	6,966	\$	665	\$	1,403	\$	1,207	\$	24	\$	10	\$	35	\$	10,310
As of and for the year ended December 31, 2021																
Allowance for loan and lease losses:																
December 31, 2020	\$	4,485	\$	1,379	\$	3,284	\$	295	\$	739	\$	162	\$	240	\$	10,584
Charge-offs		(51)		(3)		(212)		(23)		(69)		—		—		(358)
Recoveries		—		3		65		111		—		—		—		179
Provisions (credits)		629		321		(605)		(130)		(592)		(121)		(2)		(500)
December 31, 2021	\$	5,063	\$	1,700	\$	2,532	\$	253	\$	78	\$	41	\$	238	\$	9,905

The allowance and provision for the year ended December 31, 2023 are not comparable to prior periods due to the adoption of CECL.

⁽¹⁾ The provision on credit losses included in the above table for the year ended December 31, 2023 does not include the credit on unfunded loan commitments of \$(2.5) million for the year ended December 31, 2023.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

The following tables summarize, by loan portfolio segment, the amount of loans receivable evaluated individually and collectively for allowance for credit losses as of December 31, 2023:

<i>(In thousands)</i>	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer and Other	Construction	Construction to Permanent - CRE	Unallocated	Total
December 31, 2023								
Allowance for credit losses:								
Individually evaluated loans	\$ 3,813	\$ —	\$ 392	\$ —	\$ —	\$ —	\$ —	\$ 4,205
Collectively evaluated loans	2,276	607	877	7,843	4	113	—	11,720
Total allowance for credit losses	<u>\$ 6,089</u>	<u>\$ 607</u>	<u>\$ 1,269</u>	<u>\$ 7,843</u>	<u>\$ 4</u>	<u>\$ 113</u>	<u>\$ —</u>	<u>\$ 15,925</u>
Loans receivable, gross:								
Individually evaluated loans	\$ 12,775	\$ —	\$ 3,904	\$ —	\$ 454	\$ —	\$ —	\$ 17,133
Collectively evaluated loans	459,318	106,783	159,661	99,688	3,812	2,464	—	831,726
Total loans receivable, gross	<u>\$ 472,093</u>	<u>\$ 106,783</u>	<u>\$ 163,565</u>	<u>\$ 99,688</u>	<u>\$ 4,266</u>	<u>\$ 2,464</u>	<u>\$ —</u>	<u>\$ 848,859</u>

The following tables presents the balance in the allowance for loan and lease losses and the recorded investment in loans by portfolio segment based on impairment method as of December 31, 2022:

<i>(In thousands)</i>	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer and Other	Construction	Construction to Permanent - CRE	Unallocated	Total
December 31, 2022								
Allowance for loan and lease losses:								
Individually evaluated for impairment	\$ 5,430	\$ 5	\$ 608	\$ —	\$ —	\$ —	\$ —	\$ 6,043
Collectively evaluated for impairment	1,536	660	795	1,207	24	10	35	4,267
Total allowance for loan losses	<u>\$ 6,966</u>	<u>\$ 665</u>	<u>\$ 1,403</u>	<u>\$ 1,207</u>	<u>\$ 24</u>	<u>\$ 10</u>	<u>\$ 35</u>	<u>\$ 10,310</u>
Loans receivable, gross:								
Individually evaluated for impairment	\$ 11,241	\$ 2,508	\$ 4,653	\$ 514	\$ —	\$ —	\$ —	\$ 18,916
Collectively evaluated for impairment	426,202	121,632	134,134	140,577	4,922	1,933	—	829,400
Total loans receivable, gross	<u>\$ 437,443</u>	<u>\$ 124,140</u>	<u>\$ 138,787</u>	<u>\$ 141,091</u>	<u>\$ 4,922</u>	<u>\$ 1,933</u>	<u>\$ —</u>	<u>\$ 848,316</u>

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

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

Patriot employs a risk rating system as part of the risk assessment of its loan portfolio. At origination, credit officers are required to assign a risk rating to each loan in their portfolio, which is ratified or modified by the Loan Committee to which the loan is submitted for approval. If financial developments occur on a loan in the credit officer's portfolio of responsibility, the risk rating is reviewed and adjusted, as applicable. In carrying out its oversight responsibilities, the Loan Committee can adjust a risk rating based on available information. In addition, the risk ratings on all commercial loans over \$250,000 are reviewed by the Credit Department either annually or biannually, or every 4 years, depending upon the amount of the bank's exposure and other credit metrics.

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

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

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

Charge-offs of loans to reduce the loan to its recoverable value that are solely collateral dependent, generally occur immediately upon confirmation of the partial loss amount. Loans that are cash flow dependent are modeled to reflect the expected cash flows through expected loan maturity, including any proceeds from refinancing or principal curtailment. A specific reserve is established for the amount by which the net investment in the loan exceeds the present value of discounted cash flows. Charge-offs on cash flow dependent loans also generally occur immediately upon confirmation of the partial loss amount.

If either type of loan is classified as "Loss", meaning full loss on the loan is expected, the full balance of the loan receivable is charged off, regardless of the potential recovery from a sale of the underlying collateral. Any amount that may be recovered on the sale of collateral underlying a loan is recognized as a "recovery" in the period in which the collateral is sold. In accordance with Federal Financial Institutions Examination Council published policies establishing uniform criteria for the classification of retail credit based on delinquency status, "Open-end" and "Closed-end" credits are charged off when 180 days and 90 days delinquent, respectively. Loans receivable that are part of the unsecured loan purchase program are charged-off in full when the loan is 90 days past due.

The allowance for credit losses may increase to reflect the decline in the performance of the loan portfolio and the higher level of incurred losses.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Loan Portfolio Vintage Analysis

The following tables summarize loan amortized cost by vintage, credit quality indicator and class of loans based on year of origination:

	Term of Loans by Origination							Total Loans Receivable Gross
As of December 31, 2023:	2023	2022	2021	2020	2019	Prior	Revolving	
Loan portfolio segment:								
Commercial Real Estate:								
Pass	\$ 104,683	\$ 138,091	\$ 111,308	\$ 3,401	\$ 31,832	\$ 63,526	\$ —	\$ 452,841
Special mention	—	6,482	—	—	—	—	—	6,482
Substandard	—	1,799	—	280	10,000	691	—	12,770
	104,683	146,372	111,308	3,681	41,832	64,217	—	472,093
Residential Real Estate:								
Pass	—	1,251	2,975	11,577	15,770	74,596	614	106,783
	—	1,251	2,975	11,577	15,770	74,596	614	106,783
Commercial and Industrial:								
Pass	2,696	13,916	23,099	8,004	9,578	7,024	96,431	160,748
Special mention	6	348	—	—	37	11	104	506
Substandard	16	—	801	—	401	1,093	—	2,311
	2,718	14,264	23,900	8,004	10,016	8,128	96,535	163,565
Consumer and Other:								
Pass	6,470	36,668	4,724	—	5,590	14,314	30,945	98,711
Substandard	197	645	61	—	—	—	74	977
	6,667	37,313	4,785	—	5,590	14,314	31,019	99,688
Construction:								
Pass	—	—	3,812	—	—	—	—	3,812
Substandard	—	—	—	—	454	—	—	454
	—	—	3,812	—	454	—	—	4,266
Construction to Permanent - CRE:								
Special mention	—	—	2,464	—	—	—	—	2,464
	—	—	2,464	—	—	—	—	2,464
Total	\$ 114,068	\$ 199,200	\$ 149,244	\$ 23,262	\$ 73,662	\$ 161,255	\$ 128,168	\$ 848,859
Loans receivable, gross:								
Pass	113,849	189,926	145,918	22,982	62,770	159,460	127,990	822,895
Special mention	6	6,830	2,464	—	37	11	104	9,452
Substandard	213	2,444	862	280	10,855	1,784	74	16,512
Loans receivable, gross	\$ 114,068	\$ 199,200	\$ 149,244	\$ 23,262	\$ 73,662	\$ 161,255	\$ 128,168	\$ 848,859

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements
Loan Portfolio Aging Analysis

The following tables summarize performing and non-performing (i.e., non-accruing) loans receivable by portfolio segment, by aging category, by delinquency status as of December 31, 2023.

(In thousands)

(In thousands)	Performing (Accruing) Loans					Total Performing Loans	Non- accruing Loans	Loans Receivable Gross
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current			
As of December 31, 2023:								
Loan portfolio segment:								
Commercial Real Estate:								
Pass	\$ 2,274	\$ 231	\$ —	\$ 2,505	\$ 448,707	\$ 451,212	\$ 1,629	\$ 452,841
Special mention	—	—	—	—	6,482	6,482	—	6,482
Substandard	—	—	—	—	1,624	1,624	11,146	12,770
	2,274	231	—	2,505	456,813	459,318	12,775	472,093
Residential Real Estate:								
Pass	1,439	—	—	1,439	105,344	106,783	—	106,783
	1,439	—	—	1,439	105,344	106,783	—	106,783
Commercial and Industrial:								
Pass	420	10	—	430	157,335	157,765	2,983	160,748
Special mention	—	348	—	348	158	506	—	506
Substandard	526	—	—	526	847	1,373	938	2,311
	946	358	—	1,304	158,340	159,644	3,921	163,565
Consumer and Other:								
Pass	1,327	1,015	341	2,683	96,028	98,711	—	98,711
Substandard	—	—	—	—	—	—	977	977
	1,327	1,015	341	2,683	96,028	98,711	977	99,688
Construction:								
Pass	—	—	—	—	3,812	3,812	—	3,812
Substandard	—	—	—	—	—	—	454	454
	—	—	—	—	3,812	3,812	454	4,266
Construction to Permanent - CRE:								
Special mention	—	—	—	—	2,464	2,464	—	2,464
	—	—	—	—	2,464	2,464	—	2,464
Total	\$ 5,986	\$ 1,604	\$ 341	\$ 7,931	\$ 822,801	\$ 830,732	\$ 18,127	\$ 848,859
Loans receivable, gross:								
Pass	5,460	1,256	341	7,057	811,226	818,283	4,612	822,895
Special mention	—	348	—	348	9,104	9,452	—	9,452
Substandard	526	—	—	526	2,471	2,997	13,515	16,512
Loans receivable, gross	\$ 5,986	\$ 1,604	\$ 341	\$ 7,931	\$ 822,801	\$ 830,732	\$ 18,127	\$ 848,859

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

The following tables summarize performing and non-performing (i.e., non-accruing) loans receivable by portfolio segment, by aging category, by delinquency status as of December 31, 2022.

(In thousands)

(In thousands)	Performing (Accruing) Loans								
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Performing Loans	Non- accruing Loans	Loans Receivable Gross	
As of December 31, 2022:									
Loan portfolio segment:									
Commercial Real Estate:									
Pass	\$ —	\$ —	\$ —	\$ —	\$ 401,313	\$ 401,313	\$ —	\$ 401,313	
Special mention	—	—	—	—	24,559	24,559	—	24,559	
Substandard	330	—	—	330	—	330	11,241	11,571	
	330	—	—	330	425,872	426,202	11,241	437,443	
Residential Real Estate:									
Pass	330	—	—	330	120,715	121,045	—	121,045	
Special mention	—	—	—	—	625	625	—	625	
Substandard	—	—	—	—	—	—	2,470	2,470	
	330	—	—	330	121,340	121,670	2,470	124,140	
Commercial and Industrial:									
Pass	2	—	230	232	131,092	131,324	—	131,324	
Special mention	—	—	—	—	597	597	—	597	
Substandard	1,488	412	—	1,900	133	2,033	4,833	6,866	
	1,490	412	230	2,132	131,822	133,954	4,833	138,787	
Consumer and Other:									
Pass	929	3,175	925	5,029	135,990	141,019	—	141,019	
Substandard	—	—	—	—	23	23	49	72	
	929	3,175	925	5,029	136,013	141,042	49	141,091	
Construction:									
Pass	895	—	—	895	3,503	4,398	—	4,398	
Special mention	—	—	—	—	524	524	—	524	
	895	—	—	895	4,027	4,922	—	4,922	
Construction to Permanent - CRE:									
Pass	—	—	—	—	1,933	1,933	—	1,933	
	—	—	—	—	1,933	1,933	—	1,933	
Total	\$ 3,974	\$ 3,587	\$ 1,155	\$ 8,716	\$ 821,007	\$ 829,723	\$ 18,593	\$ 848,316	
Loans receivable, gross:									
Pass	\$ 2,156	\$ 3,175	\$ 1,155	\$ 6,486	\$ 794,546	\$ 801,032	\$ —	\$ 801,032	
Special mention	—	—	—	—	26,305	26,305	—	26,305	
Substandard	1,818	412	—	2,230	156	2,386	18,593	20,979	
Loans receivable, gross	\$ 3,974	\$ 3,587	\$ 1,155	\$ 8,716	\$ 821,007	\$ 829,723	\$ 18,593	\$ 848,316	

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

The following tables summarize non-performing (i.e., non-accruing) loans by aging category and status, within the applicable loan portfolio segment as of December 31, 2023 and 2022:

(In thousands)

(In thousands)

	Non-accruing Loans						Total Non-accruing Loans
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current		
As of December 31, 2023:							
Loan portfolio segment:							
Commercial Real Estate:							
Pass	\$ —	\$ —	\$ 1,629	\$ 1,629	\$ —	\$ 1,629	
Substandard	—	770	439	1,209	9,937	11,146	
Commercial and Industrial:							
Pass	—	—	2,054	2,054	929	2,983	
Substandard	—	371	535	906	32	938	
Consumer and Other:							
Substandard	—	16	887	903	74	977	
Construction:							
Substandard	—	—	—	—	454	454	
Total non-accruing loans	\$ —	\$ 1,157	\$ 5,544	\$ 6,701	\$ 11,426	\$ 18,127	
As of December 31, 2022:							
Loan portfolio segment:							
Commercial Real Estate:							
Substandard	\$ —	\$ —	\$ 11,241	\$ 11,241	\$ —	\$ 11,241	
Residential Real Estate:							
Substandard	657	—	1,796	2,453	17	2,470	
Commercial and Industrial:							
Substandard	46	395	3,196	3,637	1,196	4,833	
Consumer and Other:							
Substandard	—	—	27	27	22	49	
Total non-accruing loans	\$ 703	\$ 395	\$ 16,260	\$ 17,358	\$ 1,235	\$ 18,593	

If non-accrual loans had been performing in accordance with the original contractual terms, additional interest income (net of cash collected) of approximately \$ 938,000 , \$ 372,000 , and \$ 802,000 would have been recognized in income for the years ended December 31, 2023, 2022, and 2021, respectively.

Interest income collected and recognized on non-accruing loans for the year ended December 31, 2023, 2022 and 2021 was \$ 255,000 , \$ 329,000 and \$ 377,000 , respectively.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due for payment unless the loan is well-secured and in process of collection. Consumer installment loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual status or charged-off, at an earlier date, if collection of principal or interest is considered doubtful.

All interest accrued, but not collected for loans that are placed on non-accrual status or charged off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, future payments are reasonably assured, after at least six months of timely payment history. The Bank considers loans under \$100,000 and consumer installment loans to be pools of smaller homogeneous loan balances, which are collectively evaluated for credit losses.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Individually Evaluated Loans

The following table reflects information about the individually evaluated loans by class as of December 31, 2023 and 2022:

(In thousands)

	December 31, 2023			December 31, 2022		
	Recorded Investment	Principal Outstanding	Related Allowance	Recorded Investment	Principal Outstanding	Related Allowance
<u>With no related allowance recorded:</u>						
Commercial Real Estate	\$ 2,838	\$ 5,879	\$ —	\$ 2,435	\$ 2,428	\$ —
Residential Real Estate	—	—	—	2,402	2,224	—
Commercial and Industrial	2,266	2,899	—	1,939	2,424	—
Consumer and Other	—	—	—	514	514	—
Construction	454	461	—	—	—	—
	<u>5,558</u>	<u>9,239</u>	<u>—</u>	<u>7,290</u>	<u>7,590</u>	<u>—</u>
<u>With a related allowance recorded:</u>						
Commercial Real Estate	\$ 9,937	\$ 10,137	\$ 3,813	\$ 8,806	\$ 8,656	\$ 5,430
Residential Real Estate	—	—	—	106	105	5
Commercial and Industrial	1,638	3,159	392	2,714	2,863	608
	<u>11,575</u>	<u>13,296</u>	<u>4,205</u>	<u>11,626</u>	<u>11,624</u>	<u>6,043</u>
<u>Individually evaluated loans, Total:</u>						
Commercial Real Estate	\$ 12,775	\$ 16,016	\$ 3,813	\$ 11,241	\$ 11,084	\$ 5,430
Residential Real Estate	—	—	—	2,508	2,329	5
Commercial and Industrial	3,904	6,058	392	4,653	5,287	608
Consumer and Other	—	—	—	514	514	—
Construction	454	461	—	—	—	—
Total	<u>\$ 17,133</u>	<u>\$ 22,535</u>	<u>\$ 4,205</u>	<u>\$ 18,916</u>	<u>\$ 19,214</u>	<u>\$ 6,043</u>

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

For each year in the three-year period ended December 31, 2023, the average recorded investment in and interest income recognized on impaired loans without and with a related allowance, by loan portfolio segment, was as follows:

(In thousands)	Year Ended December 31,					
	2023		2022		2021	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<u>With no related allowance recorded:</u>						
Commercial Real Estate	\$ 1,164	\$ 181	\$ 5,702	\$ 87	\$ 7,636	\$ 103
Residential Real Estate	534	—	2,925	35	4,014	51
Commercial and Industrial	2,580	5	748	63	2,548	12
Consumer and Other	158	—	464	23	702	16
Construction	753	34	—	—	—	—
	5,189	220	9,839	208	14,900	182
<u>With a related allowance recorded:</u>						
Commercial Real Estate	\$ 12,957	\$ 696	\$ 8,307	\$ 113	\$ 8,869	\$ 66
Residential Real Estate	1,156	—	107	6	109	5
Commercial and Industrial	3,359	214	3,348	28	2,234	126
	17,472	910	11,762	147	11,212	197
<u>Individually evaluated loans, Total:</u>						
Commercial Real Estate	\$ 14,121	\$ 877	\$ 14,009	\$ 200	\$ 16,505	\$ 169
Residential Real Estate	1,690	—	3,032	41	4,123	56
Commercial and Industrial	5,939	219	4,096	91	4,782	138
Consumer and Other	158	—	464	23	702	16
Construction	753	34	—	—	—	—
Total	\$ 22,661	\$ 1,130	\$ 21,601	\$ 355	\$ 26,112	\$ 379

For collateral dependent loans, appraisal reports of the underlying collateral, have been obtained from independent licensed appraisal firms. For non-performing loans, the independently determined appraised values were first reduced by a 5.8 % discount to reflect the Bank's experience selling Other Real Estate Owned (OREO) properties, and were further reduced by 8 % in selling costs, in order to estimate the potential loss, if any, that may eventually be realized. Performing loans are monitored to determine when, if at all, additional credit loss reserves may be required for a loss of underlying collateral value. For cash flow dependent loans, the Bank determined the reserve based on the present value of expected future cash flows discounted at the loan's effective interest rate.

Loans not requiring specific reserves had fair values exceeding the total recorded investment, supporting the net investment in the loan which includes principal balance, unamortized fees and costs and accrued interest, if any. Once a borrower is in default, Patriot is under no obligation to advance additional funds on unused commitments.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES**Notes to consolidated financial statements****Loan Modifications Made to Borrowers Experiencing Financial Difficulty**

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

During the year ended December 31, 2023, 2022 and 2021, the Company had no modified loans made to borrowers experiencing financial difficulty. There were no modified loans that had a payment default during the years ended December 31, 2023, 2022 and 2021 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty. As of December 31, 2023 and 2022, there were no commitments to advance additional funds under the modified loans.

Note 5. Loans Held for Sale**SBA Loans Held for Sale**

SBA loans held for sale represent the guaranteed portion of SBA loans originated and are reflected at the lower of aggregate cost or market value. There were \$ 9.9 million of SBA loans held for sale at December 31, 2023, consisting of \$ 3.5 million SBA commercial and industrial loans and \$ 6.4 million SBA commercial real estate loans. As of December 31, 2022, SBA loans held for sale totaled \$ 5.2 million, consisting of \$ 3.1 million of SBA commercial and industrial loans and \$ 2.1 million SBA commercial real estate loans. During 2023 and 2022, zero and \$ 274,000 SBA loans previously classified as held for sale were transferred to held for investment, respectively.

The Company generally sells the guaranteed portion of its SBA loans to a third party and retains the servicing, holding the unguaranteed portion in its portfolio. When sales of SBA loans do occur, the premium received on the sale and the present value of future cash flows of the servicing assets, less the discount of the retained portion of the loan are recognized in income.

Servicing assets represent the estimated fair value of retained servicing rights, net of servicing costs, at the time loans are sold. Servicing assets are amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment will be evaluated based on stratifying the underlying financial assets by date of origination and term. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment, if temporary, would be reported as a valuation allowance.

Serviced loans sold to others are not included in the accompanying consolidated balance sheets. The total amount of such loans serviced, but owned by third party, amounted to approximately \$ 47.5 million and \$ 47.3 million at December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, the servicing asset has a carrying value of \$ 857,000 and \$ 886,000 , respectively, and fair value of \$ 932,000 and \$ 1.0 million, respectively. Income and fees collected for loan servicing are credited to non-interest income when earned, net of amortization on the related servicing assets. The servicing asset is included in other assets on the Consolidated Balance Sheets.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

The following table presents an analysis of the activity in the SBA servicing assets for the years ended December 31, 2023, 2022 and 2021:

(In thousands)

	Year Ended December 31,		
	2023	2022	2021
Beginning balance	\$ 886	\$ 584	\$ 316
Servicing rights capitalized	85	400	335
Servicing rights amortized	(67)	(87)	(22)
Servicing rights disposed	(47)	(11)	(45)
Ending balance	<u>\$ 857</u>	<u>\$ 886</u>	<u>\$ 584</u>

Loans held for sale - Consumer Loans

Patriot Bank's Digital Payments Group has entered into a Program Management Agreement with a Buyer. Under the agreement, Patriot originates various types of consumer loans that are marketed by the buyer. As of December 31, 2023, the Bank had credit card loans held for sale totaling \$ 10.8 million. The credit card loans are expected to be held for no longer than three days before being sold to the buyer. The credit card loans are fully cash-secured by deposits at Patriot. The credit card loans are sold to the buyer as a whole loan sale transaction, priced at par, thus there is no servicing asset or gain or loss on sale.

Note 6. Premises and Equipment

At December 31, 2023 and 2022, premises and equipment consisted of the following:

(In thousands)

	December 31,	
	2023	2022
Land	\$ 12,819	\$ 12,819
Buildings	19,046	19,046
Leasehold Improvements	3,077	3,058
Furniture, equipment, and software	13,031	12,674
Construction-in-progress	65	69
Premises and equipment, gross	48,038	47,666
Accumulated depreciation and amortization	(18,163)	(17,025)
Premises and equipment, net	<u>\$ 29,875</u>	<u>\$ 30,641</u>

For the years ended December 31, 2023, 2022 and 2021, depreciation and amortization expense related to premises and equipment totaled \$ 1.2 million, \$ 1.3 million, and \$ 1.4 million, respectively. In 2021, the Bank sold a building located in the City New Haven, Connecticut for cash proceeds of \$ 1.5 million, and recognized a gain of \$ 550,000 , which is included in other income of the consolidated statements of operations. No property was sold in 2023 and 2022.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Note 7. Other Real Estate Owned (" OREO ")

The OREO balance consists of foreclosed residential properties from loans receivable that were marketed for sale. The following table presents an analysis of the activity in OREO for the years ended December 31, 2023, 2022 and 2021:

(In thousands)

	Year Ended December 31,		
	2023	2022	2021
Beginning balance	\$ —	\$ —	\$ 1,906
Additions	2,843	—	—
Sold	—	—	(1,906)
Write-downs	—	—	—
Ending balance	\$ 2,843	\$ —	\$ —

As of December 31, 2023, the Bank acquired one OREO property of \$ 2.8 million. The OREO balance represents the lower of the carrying value of loan receivable due from the mortgage of the foreclosed residential property or the estimated net realized value of the underlying property acquired through foreclosure. As of December 31, 2022, no OREO balance was recorded. For the year ended December 31, 2021, the Bank sold one OREO property of \$ 1.9 million for a gain on sales of OREO properties of \$ 2,000 , which was included as a reduction to the other operating expenses on the Consolidated Statements of Operations. There was no sale in 2022 and 2023.

Note 8. Business Combination, Goodwill and Other Intangible Assets

Acquisition of Prime Bank

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

Information on goodwill for the year ended December 31, 2023, 2022 and 2021 is as follows:

(In thousands)	Year Ended December 31,		
	2023	2022	2021
Balance, beginning of period	\$ 1,107	\$ 1,107	\$ 1,107
Impairment	\$ (1,107)	\$ —	\$ —
Balance, end of period	\$ —	\$ 1,107	\$ 1,107

Goodwill is evaluated for impairment annually or whenever we identify certain triggering events or circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Events or circumstances that might indicate an interim evaluation is warranted include, among other things, unexpected adverse business conditions, macro and reporting unit specific economic factors, supply costs, unanticipated competitive activities, and acts by governments and courts.

Management estimates the fair value of the reporting unit by considering multiple valuation techniques, which include subjective assumptions about the future cash flows of the Company, assumptions within the capitalization rate, valuation multiples, and market data used. The fair value of each reporting unit is compared to the carrying amount of such reporting unit in order to determine if impairment is indicated.

The Company performed a quantitative assessment as of October 31, 2023, the Company's annual goodwill impairment measurement date. The analysis determined that the estimated fair value of the reporting unit was less than its carrying value as of October 31, 2023. As a result, the goodwill was considered impaired, leading to a \$ 1.1 million impairment charge recorded in the other non-interest expense on the Consolidated Statements of Operations for the year ended December 31, 2023.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES**Notes to consolidated financial statements**

CDI was recorded as part of the Prime Bank business combination in May 2018. The CDI is amortized over a 10-year period using the straight-line method. For the year ended December 31, 2023, 2022 and 2021 the amortization was \$ 46,000 , \$ 47,000 and 47,000 , respectively. The Company performed a quantitative assessment for CDI as of October 31, 2023, and concluded that the CDI was not impaired as of December 31, 2023. The amortization expense and impairment charge were included in the other operating expenses on the Consolidated Statements of Operations.

The table below provides information regarding the carrying amounts and accumulated amortization of amortized intangible assets as of the dates set forth below.

(In thousands)

	As of December 31,	
	2023	2022
Gross carrying amount	\$ 748	\$ 748
Accumulated amortization	(339)	(293)
Impairment	(206)	(206)
Net carrying amount	\$ 203	\$ 249

Merger and acquisition with American Challenger

On November 15, 2021, the Company and American Challenger Development Corp., a Delaware corporation ("American Challenger"), entered into an Agreement and Plan of Merger (the "Original Merger Agreement"), which was subsequently amended on January 26, 2022 and February 28, 2022 (the Original Merger Agreement, as amended, referred to as the "Merger Agreement").

On July 18, 2022, Patriot and American Challenger entered into a Termination and Release Agreement pursuant to which the parties mutually agreed to terminate the Merger Agreement. The parties mutually determined that not all closing conditions of the Merger Agreement could be satisfied under the current structure and agreement. In connection with the merger, the Company has recognized expenses of \$ 1.9 million for the year ended December 31, 2021, \$ 112,000 for the year ended December 31, 2022 and zero for the year ended December 31, 2023.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Note 9. Deposits

The following table presents the balance of deposits held, by category, and the related weighted average stated interest rate as of December 31, 2023 and 2022.

(In thousands)	December 31, 2023		December 31, 2022	
	Balance	Weighted Avg. Stated Interest Rate	Balance	Weighted Avg. Stated Interest Rate
Non-interest bearing	\$ 110,056	—	\$ 269,636	—
Interest bearing:				
Negotiable order of withdrawal accounts	42,416	0.94 %	34,440	0.07 %
Savings	44,104	0.83 %	71,002	0.61 %
Interest bearing DDA	162,196	2.46 %	—	— %
Money market	200,280	1.92 %	211,000	1.38 %
Certificates of deposit, less than \$250,000	175,988	4.16 %	165,793	1.72 %
Certificates of deposit, \$250,000 or greater	64,745	4.63 %	59,877	1.72 %
Brokered deposits	40,526	5.34 %	48,698	2.07 %
Interest bearing, Total	730,255	2.89 %	590,810	1.40 %
Total Deposits	\$ 840,311	2.51 %	\$ 860,446	0.96 %

The Company's total deposits includes digital payment deposits of prepaid debit cards for corporate, consumer and government clients. The digital payment deposits are included in the non-interest-bearing deposits, negotiable order of withdrawal accounts and money market deposits, which totaled approximately \$ 213.4 million and \$ 197.3 million as of December 31, 2023 and 2022, respectively.

The following table presents interest expense, by deposit category, and the related weighted average effective interest rate for each of the years in the three-year period ended December 31, 2023.

(In thousands)	Year ended December 31,					
	2023		2022		2021	
	Interest Expense	Weighted Avg. Effective Interest Rate	Interest Expense	Weighted Avg. Effective Interest Rate	Interest Expense	Weighted Avg. Effective Interest Rate
Negotiable order of withdrawal accounts	\$ 198	0.57 %	\$ 23	0.07 %	\$ 24	0.07 %
Savings	2,290	3.92 %	1,028	1.02 %	238	0.22 %
Interest bearing DDA	1,002	3.37 %	—	— %	—	— %
Money market	7,766	2.74 %	1,973	1.09 %	449	0.30 %
Certificates of deposit, less than \$250,000	5,226	2.83 %	1,411	0.79 %	899	0.61 %
Certificates of deposit, \$250,000 or greater	1,987	3.14 %	400	0.68 %	270	0.49 %
Brokered deposits	3,199	4.02 %	465	1.39 %	363	1.83 %
	\$ 21,668	3.05 %	\$ 5,300	0.93 %	\$ 2,243	0.43 %

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

As of December 31, 2023, contractual maturities of Certificates of Deposit ("CDs") and brokered deposits are summarized as follows:

<i>(In thousands)</i>	CDs less than \$250,000	CDs \$250,000 or greater	Brokered Deposits	Total
1 year or less	\$ 145,322	\$ 54,856	\$ 33,853	\$ 234,031
More than 1 year through 2 years	24,010	8,637	251	32,898
More than 2 years through 3 years	6,320	1,252	6,422	13,994
More than 3 years through 4 years	145	—	—	145
More than 4 years through 5 years	191	—	—	191
	<u>\$ 175,988</u>	<u>\$ 64,745</u>	<u>\$ 40,526</u>	<u>\$ 281,259</u>

Note 10. Borrowings

As of December 31, 2023 and 2022, total borrowings were \$ 201.1 million and \$ 115.2 million, respectively. Borrowings consist primarily of FHLB advances, FRB borrowing, senior notes, subordinated notes, junior subordinated debentures and a note payable.

The senior notes, subordinated notes, junior subordinated debentures contain affirmative covenants that require the Company to: maintain its and its subsidiaries' legal entity and tax status, pay its income tax obligations on a timely basis, and comply with SEC and FDIC reporting requirements.

Federal Home Loan Bank borrowings

The Company is a member of the Federal Home Loan Bank of Boston ("FHLB-B"). Borrowings from the FHLB-B are limited to a percentage of the value of qualified collateral, as defined on the FHLB-B Statement of Products Policy. Qualified collateral, as defined, primarily consists of mortgage-backed securities and loans receivable that are required to be free and clear of liens and encumbrances, and may not be pledged for any other purposes. As of December 31, 2023, the Bank had \$ 71.4 million of available borrowing capacity from the FHLB-B.

FHLB-B advances are structured to facilitate the Bank's management of its balance sheet and liquidity requirements. At December 31, 2023 and 2022, outstanding advances from the FHLB-B aggregated \$ 101.0 million and \$ 85.0 million, respectively.

At December 31, 2023, FHLB-B advances of \$ 101.0 million outstanding bore fixed rates of interest ranging from 2.40 % to 5.56 % with maturities ranging from 2 days to 0.8 years, and have a weighted average interest rate of 4.62 %.

At December 31, 2023, collateral for FHLB-B borrowings consisted of a mixture of real estate loans and securities with book value of \$ 263.4 million. Remaining borrowing capacity under this line totaled \$ 71.4 million at December 31, 2023.

In addition, Patriot has a \$ 2.0 million revolving line of credit with the FHLB-B. At December 31, 2023 and 2022, no funds had been borrowed under the line of credit.

Interest expense incurred for FHLB-B borrowing for the years ended December 31, 2023, 2022 and 2021 were \$ 4.2 million, \$ 3.5 million and \$ 3.0 million, respectively.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

Correspondent Bank - Lines of Credit

Patriot has entered into unsecured federal funds sweep and federal funds line of credit facility agreements with certain correspondent Banks. As of December 31, 2023 and 2022, borrowings available under the agreements totaled \$ 17.0 million and \$ 24.5 million, respectively. The purpose of the agreements is to provide a credit facility intended to satisfy overnight federal account balance requirements and to provide for daily settlement of FRB, ACH, and other clearinghouse transactions.

There was no outstanding balance under the agreements at December 31, 2023 and 2022. Interest expense incurred for the year ended December 31, 2023 was \$ 117,000 and no interest expense was incurred in 2022 and 2021.

Other Borrowing

The Federal Reserve Bank of New York ("FRBNY") accepts loan pledges from qualifying depository institutions to secure borrowings from the Discount Window. Patriot has pledged eligible loans as collateral to support its borrowing capacity at the FRBNY. As of December 31, 2023, Patriot had pledged eligible loans with a book value of \$ 15.5 million, with a collateral value of \$ 11.4 million. A total of \$ 12.0 million was borrowed from the Discount Window under the FRBNY's Borrower-in-Custody ("BIC") program and fully repaid during 2023. There was no outstanding balance under the agreements as of December 31, 2023. Interest expense incurred for the year ended December 31, 2023 was \$ 48,000 . In 2022 and 2021, no funds was borrowed under the BIC program, and no interest expense was incurred.

In July 2023, the Bank established a collateralized funding line of \$ 80.0 million at par value under the Federal Reserve's newly established Bank Term Funding Program ("BTFP"). The program provides additional funding to eligible depository institutions, assuring they can meet the needs of all their depositors. The program serves as an additional source of liquidity against high-quality securities, eliminating the need of an institution to quickly sell those securities in times of stress. The line allows for a fixed rate borrowing for up to one year, with repayment permitted at any time without penalty. As of December 31, 2023, the collateral value of the pledged securities was \$ 72.4 million. Patriot had borrowed a total of \$ 70.0 million under the BTFP, which remained outstanding and carried a fixed rate of 4.89 % as of December 31, 2023 . Interest expense incurred was \$ 1.8 million for the year ended December 31, 2023.

Senior notes

On December 22, 2016, the Company issued \$ 12 million of senior notes ("2016 Senior Notes") bearing interest at 7 % per annum. On November 17, 2021, the original maturity date of the Senior Notes were extended from December 22, 2021 to June 30, 2022.

On June 22, 2022, the Company amended and restated the Senior Notes. The maturity date of the Senior Notes were further extended to December 31, 2022, and the interest rate increases from (i) 7 % to 7.25 % from July 1, 2022 until September 30, 2022 and (ii) from 7.25 % to 7.50 % thereafter. The Senior Notes were repaid in December 2022.

On December 21, 2022, the Company completed an issuance and sale of \$ 12 million in aggregate principal amount of 8.50 % fixed rate Senior Notes due January 15, 2026 ("2022 Senior Notes"). In connection with the issuance of the Senior Notes, the Company incurred \$ 360,000 of costs, which are being amortized over the term of the 2022 Senior Notes to recognize a constant rate of interest expense. As of December 31, 2023, unamortized debt issuance cost of \$ 277,000 was deducted from the face amount of the Senior Notes included in the Consolidated Balance Sheet.

The 2022 Senior Note Purchase Agreement contains certain customary representations, warranties, and covenants made by each of the Company and the Purchasers. The 2022 Senior Notes are not subject to any sinking fund and are not convertible into or exchangeable for any other securities or assets of the Company or any of its subsidiaries. The 2022 Senior Notes are not subject to redemption at the option of the holders. Principal and interest on the 2022 Senior Notes are subject to acceleration only in limited circumstances. The 2022 Senior Notes are an unsecured, unsubordinated obligation and ranks equally in right of payment to all of the Company's existing and future unsecured indebtedness, liabilities and other obligations that are not subordinated in right of payment to the Senior Note, and will be effectively subordinated to any of the Company's existing and future secured indebtedness, to the extent of the value of the collateral securing such indebtedness. The 2022 Senior Notes are the obligations of the Company only and are not obligations of, and are not guaranteed by, any of the Company's affiliates.

For the year ended December 31, 2023, 2022 and 2021, the Company recognized interest expense of \$ 1.2 million, \$ 866,000 and \$ 913,000 , respectively, and the debt issuance cost amortization expense was \$ 139,000 , \$ 0 and \$ 73,000 , respectively. As of December 31, 2023 and 2022, \$ 470,000 and \$ 28,000 of interest was included in accrued expenses and other liabilities on the Consolidated Balance Sheet, respectively.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

Subordinated notes

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

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

In connection with the issuance of the Subordinated Notes, the Company incurred \$ 291,000 of debt issuance costs, which are being amortized over the term of the Subordinated Notes to recognize a constant rate of interest expense. At December 31, 2023 and 2022, \$ 131,000 and \$ 160,000 of unamortized debt issuance costs have been deducted from the face amount of the Subordinated Notes included in the Consolidated Balance Sheet, respectively. For the years ended December 31, 2023, 2022 and 2021, the Company recognized interest expense of \$ 786,000 , \$ 654,000 and \$ 654,000 , respectively.

Junior subordinated debt owed to unconsolidated trust

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

Trust preferred securities currently qualify for up to 25 % of the Company's Tier I Capital, with the excess qualifying as Tier 2 Capital.

The junior subordinated debentures are unsecured obligations of the Company. The debentures are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. In addition to its obligations under the junior subordinated debentures and in conjunction with the Trust, the Company issued an unconditional guarantee of the trust preferred securities.

The junior subordinated debentures bear interest at three-month LIBOR (replaced by SOFR) plus 3.15 % (8.77 % at December 31, 2023) and mature on March 26, 2033, at which time the principal amount borrowed will be due. Beginning in the second quarter of 2009, the Company opted to defer payment of quarterly interest on the junior subordinated debentures for 20 consecutive quarters. In June of 2014, the Company brought the debt current by paying approximately \$ 1.7 million of interest in arrears to the holders of the junior subordinated debentures. On bringing the debt current and, as permitted under the terms of the junior subordinated debentures, the Company again opted to defer payment of quarterly interest through September 2016, when a \$ 0.7 million payment was made to bring the debt current.

The placement fee of \$ 240,000 is amortized and included as a component of the periodic interest expense on the junior subordinated debentures, in order to produce a constant rate of interest expense. For the years ended December 31, 2023, 2022 and 2021, \$ 9,000 , \$ 9,000 and \$ 9,000 of debt placement fee amortization has been included in interest expense recognized of \$ 695,000 , \$ 412,000 and \$ 279,000 , respectively. As of December 31, 2023 and 2022, the unamortized placement fee deducted from the face amount of the junior subordinated debt owed to the unconsolidated trust amounted to \$ 111,000 and \$ 120,000 , respectively, and accrued interest on the junior subordinated debentures was \$ 12,000 and \$ 9,000 , respectively.

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements
Note Payable

In September 2015, the Bank purchased the property in which its Fairfield, Connecticut branch is located for approximately \$ 2.0 million, a property it had been leasing until that date. The purchase price was primarily satisfied by issuing the seller a \$ 2.0 million, nine-year , promissory note bearing interest at a fixed rate of 1.75 % per annum. As of December 31, 2023 and 2022, the note had a balance outstanding of \$ 376,000 and \$ 585,000 , respectively. The note matures in August 2024 and requires a balloon payment of approximately \$ 234,000 . The note is secured by a first Mortgage Deed and Security Agreement on the purchased property. Interest expense incurred for the years ended December 31, 2023, 2022 and 2021 was \$ 8,000 , \$ 12,000 and \$ 15,000 , respectively.

Maturity of borrowings

At December 31, 2023, the contractual maturities of the Company's borrowings in future periods were as follows:

(In thousands)

Year ending December 31,	FHLB and FRB Borrowings	Senior Notes	Subordinated Notes	Junior Subordinated Debt	Note Payable	Total
2024	\$ 171,000	\$ —	\$ —	\$ —	\$ 376	\$ 171,376
2025	—	—	—	—	—	—
2026	—	12,000	—	—	—	12,000
2027	—	—	—	—	—	—
2028	—	—	10,000	—	—	10,000
Thereafter	—	—	—	8,248	—	8,248
Total contractual maturities of borrowings	171,000	12,000	10,000	8,248	376	201,624
Unamortized debt issuance costs	—	(277)	(131)	(111)	—	(519)
Balance of borrowings as of December 31, 2023	<u>\$ 171,000</u>	<u>\$ 11,723</u>	<u>\$ 9,869</u>	<u>\$ 8,137</u>	<u>\$ 376</u>	<u>\$ 201,105</u>

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Note 11. Derivatives

Derivatives Not Designated in Hedge Relationships

Patriot is a party to interest rate swaps; derivatives that are not designated as hedging instruments. Under a program, Patriot will execute interest rate swaps with commercial lending customers to facilitate their respective risk management strategies. As of December 31, 2023, there were two interest rate swaps ("swaps") outstanding. One swap is with a loan customer to provide a facility to mitigate the fluctuations in the variable rate on the respective loan. The other swap is with an outside third party. The customer interest rate swaps is matched in offsetting terms to the third party interest rate swaps, such that Patriot minimizes its net risk exposure resulting from such transactions. Because the interest rate swaps associated with the program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. The changes in the fair value of the swaps offset each other, except for the credit risk of the counterparties, which is determined by taking into consideration the risk rating, probability of default and loss given default for all counterparties. The swaps are reported at fair value in other assets or other liabilities on the consolidated balance sheets.

As of December 31, 2023 and 2022, Patriot did not have any cash pledged for collateral on its interest rate swaps. No net gain or loss was recognized in other non-interest income on the consolidated statements of operations during the year ended December 31, 2023, 2022 and 2021.

Derivatives Designated in Hedge Relationships

Interest rate swaps allow the Company to change the fixed or variable nature of an interest rate without the exchange of the underlying notional amount. In April 2021, Patriot entered into an interest rate swap, which was designated as a cash flow hedge that effectively converted variable-rate receivable into fixed-rate receivable. The Company's objectives in using the cash flow hedge are to add stability to interest receivable and to manage its exposure to contractually specified interest rate movements. Under the term of the swap contract, the Company hedged the cash flows associated with a pool of 1-month LIBOR floating rate loans by converting a \$ 50 million portion of that pool of loans into fixed rates with the swap. The Bank received fixed and paid floating rate based on 1 month LIBOR for a 7-year rolling period beginning April 29, 2021. A hedging instrument is expected at inception to be highly effective at offsetting changes in the hedged transactions attributable to the changes in the hedged risk. Changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings.

In August 2021, the cash flow hedge interest rate swap contract was terminated. During the year ended December 31, 2021, the Company recognized \$ 149,000 of accumulated other comprehensive income that was reclassified into interest income. The swap interest income was included in interest and fees on loans on the Consolidated Statements of Operations. In addition, a gain of \$ 512,000 was recognized from the termination of the interest rate swap cash flow hedge for the year ended December 31, 2021, which was included in other income on the Consolidated Statements of Operations. In 2023 and 2022, no interest income was recognized.

The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction. The Company does not offset derivative assets and derivative liabilities for financial statement presentation purposes.

Further discussion of the accounting policy of derivatives is set forth in Note 1, and information about the valuation methods used to measure the fair value of derivatives is provided in Note 21 to the Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

The following table presents summary information regarding these derivatives for the periods presented (dollars in thousands):

<i>(In thousands)</i>	Notional Amount	Maturity (Years)	Fixed Rate	Variable Rate	Fair Value
December 31, 2023					
Classified in Other Assets:					
3rd party interest rate swap	1,327	5.5	4.38 %	1 Mo. SOFR + 2.00 %	74
Classified in Other Liabilities:					
Customer interest rate swap	1,327	5.5	4.38 %	1 Mo. SOFR + 2.00 %	(74)
December 31, 2022					
Classified in Other Assets:					
3rd party interest rate swap	\$ 4,736	6.3	5.25 %	1 Mo. LIBOR + 1.96 %	\$ 106
3rd party interest rate swap	1,363	6.5	4.38 %	1 Mo. LIBOR + 2.00 %	97
Classified in Other Liabilities:					
Customer interest rate swap	\$ 4,736	6.3	5.25 %	1 Mo. LIBOR + 1.96 %	\$ (106)
Customer interest rate swap	1,363	6.5	4.38 %	1 Mo. LIBOR + 2.00 %	(97)

For the year ended December 31, 2021, changes in the consolidated statements of comprehensive income related to interest rate derivatives designated as hedges of cash flows were as follows:

<i>(In thousands)</i>	Year Ended December 31, 2021
Interest rate swap designated as cash flow hedge:	
Unrealized gain recognized in accumulated other comprehensive income before reclassifications	\$ 149
Amounts reclassified from accumulated other comprehensive income	(149)
Other comprehensive income	\$ —

The above unrealized gains and losses are reflective of market interest rates as of the respective balance sheet dates. Generally, lower long-term interest rates will result in a positive impact to comprehensive income whereas higher long-term interest rates will result in a negative impact to comprehensive income.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements
Note 12. Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. Patriot has ten non-cancelable operating leases, including four Bank branch locations and four for administrative and operational space, one location for an automated teller machine ("ATM"), and one equipment lease. The leases expire on various dates through 2032 and some include renewal options. Most of the leases contain rent escalation provisions, as well as renewal options for one or more periods. The last potential year the leases can be extended through 2037. All of our leases are classified as operating leases, with the adoption of Topic 842, operating lease agreements are required to be recognized on the consolidated balance sheets as a right-of-use ("ROU") asset and a corresponding lease liability. Renew periods were included in the future cash flows for purposes of calculating the ROU and lease liability. The Company has no finance leases (previously referred to as a capital lease).

ROU lease assets represent the Company's right to use an underlying asset for the lease term and lease obligations represent the Company's obligation to make lease payments arising from the lease. Operating ROU lease assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

As of December 31, 2023 and 2022, the Company recognized ROU assets of \$ 1.7 million and \$ 2.2 million, respectively, and lease liabilities of \$ 1.9 million and \$ 2.4 million, respectively. ROU lease assets are included in other assets on the consolidated balance sheet. The lease liabilities are included in accrued expenses and other liabilities on the consolidated balance sheet.

Lease expense for lease payments is recognized on a straight-line basis over the lease term. Short-term leases are leases having a term of twelve months or less. The Company recognizes short-term leases on a straight-line basis and does not record a related lease asset or liability for such leases, as allowed as practical expedient of the standard. The Company elected to separate lease and non-lease components. The fixed lease costs are recognized as ROU lease assets and Lease liability. The variable lease cost primarily represents variable payments such as common area maintenance and utilities, which are included in the occupancy and equipment expenses on the consolidated statements of operations. For the year ended December 31, 2023, the fixed lease costs and variable lease costs for the non-cancelable operating leases were \$ 581,000 and \$ 39,000 , respectively. For the year ended December 31, 2022, the fixed lease costs and variable lease costs for the non-cancelable operating leases were \$ 582,000 and \$ 39,000 , respectively. For the year ended December 31, 2021, the fixed lease costs and variable lease costs for the non-cancelable operating leases were \$ 571,000 and \$ 38,000 , respectively.

The following is a maturity analysis of the operating lease liabilities as of December 31, 2023:

(in thousands)

Years ending December 31,	Operating lease Obligation
2024	\$ 457
2025	335
2026	299
2027	252
2028	151
Thereafter	679
Total undiscounted lease payments	\$ 2,173
Less imputed interest	(308)
Present value of operating lease liabilities	\$ 1,865
Operating lease right-of-use asset	\$ 1,744

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

	Year Ended December 31,		
	2023	2022	2021
Lease cost			
Operating lease cost	\$ 581	\$ 582	\$ 571
Short-term lease cost	12	12	12
Total lease cost	\$ 593	\$ 594	\$ 583
Other information			
Operating cash flows from operating leases	\$ 583	\$ 582	\$ 552

	December 31,	
	2023	2022
Weighted -average remaining lease term - operating leases (in years)	8	8
Weighted -average discount rate - operating leases	3.48 %	3.35 %

As of December 31, 2023 and 2022, the undiscounted lease payments were \$ 2.2 million and \$ 2.7 million, respectively. The lease payments were not reduced by minimum sublease rentals of \$ 313,000 and \$ 964,000 due in the future under non-cancelable subleases, respectively.

Rent expense for operating leases is recognized in earnings on a straight-line basis over the base term of the respective lease and is included in the consolidated statement of operations as a component of Occupancy and Equipment expense. For the years ended December 31, 2023, 2022 and 2021, total rent expense for cancellable and non-cancellable operating leases was \$ 593,000 , \$ 594,000 , and \$ 583,000 , respectively.

For the years ended December 31, 2023, 2022 and 2021, Patriot recognized gross rental income of \$ 395,000 , \$ 566,000 , and \$ 543,000 offset by rental costs of \$ 3,000 , \$ 5,000 , and \$ 5,000 , respectively.

Note 13. Commitments and Contingencies

Employment Agreements

The Company has a severance agreement for two Executive Vice Presidents that provides for severance equal to 12 months of current salary, if the Executive officer is terminated within 12 months of a change of control of Patriot. The Company has a retention agreement with another executive officer which provides for an agreed upon payment if that executive remains current position for six months following a retirement announcement.

Legal Matters

Patriot does not have any pending legal proceedings, other than ordinary routine litigation, incidental to its business, to which Patriot is a party or any of its property is subject. Management is of the opinion that the ultimate disposition of these routine legal matters will not have a material adverse effect on the consolidated financial condition, results of operations, or liquidity of Patriot.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Note 14. Income Taxes

Following is a summary of the components of the federal and state income tax expense (benefit) for each of the years in the three-year period ended December 31, 2023.

(In thousands)

	Year Ended December 31,		
	2023	2022	2021
Current:			
Federal	\$ 2,283	\$ 44	\$ —
State	474	62	180
	2,757	106	180
Deferred:			
Federal	(3,347)	1,117	1,860
State	(864)	373	(2,121)
	(4,211)	1,490	(261)
Income tax (benefit) expense	\$ (1,454)	\$ 1,596	\$ (81)

For each of the years in the three-year period ended December 31, 2023, the difference between the federal statutory income tax rate and Patriot's effective income tax rate reconciles as follows:

(In thousands)

	Year Ended December 31,		
	2023	2022	2021
Income taxes at statutory Federal rate	\$ (1,183)	\$ 1,629	\$ 1,053
State taxes, net of Federal benefit	(309)	343	404
Project expenses for merger and acquisition	—	(383)	383
Deferred tax valuation allowance	—	—	(1,938)
Reversal UTP on Federal DTA	—	—	—
Nondeductible expenses	13	(3)	(10)
Other	25	10	27
Income tax (benefit) expense	\$ (1,454)	\$ 1,596	\$ (81)

The effective tax rate for the years ended December 31, 2023, 2022 and 2021 was 25.8 %, 20.6 %, and (1.6)%, respectively. The effective tax rate for 2023 increased over 2022 because 2022 included a \$ 1.8 million reduction to taxable income for the reversal of previously capitalized merger and acquisition costs. The effective tax rate for 2022 was greater than 2021 because 2022 included an increase to taxable income for the \$ 1.8 million capitalized merger and acquisition costs and because 2021 included the full reversal of \$ 1.9 million deferred tax asset valuation allowance recorded at December 31, 2020.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Deferred Tax Assets and Liabilities

The significant components of Patriot's net deferred tax assets at December 31, 2023 and 2022 are presented below.

(In thousands)

	December 31,	
	2023	2022
Deferred tax assets:		
Federal NOL carryforward benefit	\$ 3,247	\$ 3,321
NOL write-off for Sec 382 Limit	(3,247)	(3,258)
Capitalized cost temporary item	10,237	3,023
State NOL carryforward benefit	2,803	3,128
Unrealized loss AFS securities	5,608	5,440
CECL transition	4,228	—
Allowance for credit loss	799	2,793
Lease liabilities	501	634
Non-accrual interest	671	907
Merger and acquisition	154	171
Accrued expenses	82	80
Goodwill and intangible	369	104
Depreciation of premises and equipment	158	120
Other	12	25
Gross deferred tax assets	25,622	16,488
Total deferred tax assets	\$ 25,622	\$ 16,488
Deferred tax liabilities:		
Expected credit loss for unfunded commitments	(663)	—
Right-of-use assets	(469)	(597)
Prepaid Expenses	(343)	(337)
Other	(13)	(27)
Gross deferred tax liabilities	(1,488)	(961)
Net deferred tax asset	\$ 24,134	\$ 15,527

As of December 31, 2023, Patriot had available approximately \$ 15.5 million of Federal net operating loss carryforwards ("NOL") that is offset by \$ 15.5 million in §382 limitations imposed by the Internal Revenue Code. Of the NOL of \$ 15.5 million, approximately \$ 15.5 million will expire between 2030 and 2033.

Patriot has approximately \$ 47.3 million of NOLs available for Connecticut tax purposes at December 31, 2023, which may be used to offset up to 50 % of taxable income in any year. The NOLs will expire between 2030 and 2040.

Valuation Allowance against net Deferred Tax Assets

Patriot uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax laws is recognized in the consolidated statements of operations in the period that includes the enactment date.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not expected to be realized based on the weighting of positive and negative evidence. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward periods available under the applicable tax law. The Company regularly reviews the deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and prudent and feasible tax planning strategies. The Company's judgments regarding future profitability may change due to many factors, including future market conditions and the ability to successfully execute its business plans. Should there be a change in the ability to recover deferred tax assets, the tax provision would increase or decrease in the period in which the assessment is changed.

For the year ended December 31, 2023, Patriot was in a cumulative income position for the current and prior two-year periods. Patriot reviewed the ability to remain in a cumulative income position and to utilize net operating losses by using the most recent forecast for the next three years and including a conservative growth rate for the years after. In addition, Patriot has a tax planning strategy available under ASC 740 that would be implemented to prevent a carry-forward state net operating losses from expiring. The strategy consists of capitalizing loan costs to increase income and avoid state net operating losses from expiring unused. Based on the analyses of cumulative income position and future profitability combined with the potential tax planning strategy, it was determined that a valuation allowance is not required. Patriot will continue to evaluate the need for a valuation allowances.

In 2021, based on Patriot's objective projection of future taxable income and tax planning, Patriot fully reversed the partial valuation allowance of \$ 1.9 million recorded at December 31, 2020. As of December 31, 2023 and 2022, no valuation allowance was recorded. Patriot will review the valuation allowance quarterly to determine if an adjustment, to either increase or decrease, the allowance is required.

Unrecognized tax benefits

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

As of December 31, 2023 and 2022, the Bank did not record any uncertain tax position related to the utilization of certain federal net operating losses. As of December 31, 2023 and 2022, Patriot no longer has a liability for unrecognized tax benefits. Additionally, Patriot has no pending or on-going audits in any tax jurisdiction.

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

Patriot's returns for tax years 2020 through 2023 are subject to examination by the IRS for U.S. Federal tax purposes and, for State tax purposes, by the Department of Revenue Services for the State of Connecticut and the State of New York Department of Taxation and Finance.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Note 15. Share-based Compensation

In 2011, the Company adopted the Patriot National Bancorp, Inc. 2012 Stock Plan (the "2012 Plan"). The 2012 Plan was amended in 2020 and renamed as the Patriot National Bancorp, Inc. 2020 Restricted Stock Award Plan (the "2020 Plan"). A copy of the 2020 Plan was filed as Exhibit 10.1 to the Company's Amendment No. 1 to Annual Report on Form 10-K/A for the year ended December 31, 2020 filed on April 30, 2021. The 2020 Plan provides an incentive to directors and employees of the Company by the grant of restricted stock awards ("RSA").

On November 10, 2022, the Board of Directors approved the Amendment and Restatement of the 2020 Plan (the "Amended and Restated 2020 Plan"), which was approved and ratified by shareholders of the Company on December 14, 2022.

The 2020 Plan was amended primarily to (i) reduce the total number of shares authorized for issuance thereunder from 3,000,000 shares to 400,000 shares; and (ii) limit the maximum number of shares of Company's Common Stock granted during a single fiscal year to any non-employee director, together with any cash fees paid to such director, to be no more than a total value of \$ 300,000 . As of December 31, 2023, 218,998 shares of stock are available for issuance under the Plan. In accordance with the terms of the Plan, the vesting of RSAs may be accelerated at the discretion of the Compensation Committee of the Board of Directors. The Compensation Committee sets the terms and conditions applicable to the vesting of RSAs. RSAs granted to directors and employees generally vest in quarterly or annual installments over a three, four or five year period from the date of grant.

The following is a summary of the status of the Company's restricted share awards as of and for each of the years in the three-year period ended December 31, 2023.

	Number of Shares Awarded	Weighted Average Grant Date Fair Value
Unvested at December 31, 2020	18,498	\$ 7.29
Granted	20,476	\$ 10.48
Vested	(12,920)	\$ 12.95
Forfeited	(4,586)	\$ 9.39
Unvested at December 31, 2021	21,468	\$ 6.48
Granted	9,886	\$ 11.94
Vested	(8,694)	\$ 11.05
Unvested at December 31, 2022	22,660	\$ 7.11
Granted	5,733	\$ 8.76
Vested	(10,887)	\$ 9.63
Unvested at December 31, 2023	17,506	\$ 6.09

The Company recognizes compensation expense for all director and employee share-based compensation awards on a straight-line basis over the requisite service period, which is equal to the vesting schedule of each award, for each vesting portion of an award equal to its grant date fair value. For the years ended December 31, 2023, 2022 and 2021, the Company recognized share-based compensation expense of \$ 105,000 , \$ 86,000 , and \$ 150,000 , respectively.

For the years ended December 31, 2023, 2022 and 2021, share-based compensation attributable to employees of Patriot amounted to \$ 56,000 , \$ 32,000 , and \$ 90,000 , respectively.

The share-based compensation expense attributable to Patriot's external Directors for the years ended December 31, 2023, 2022, and 2021 was \$ 49,000 , \$ 54,000 , and \$ 60,000 , respectively. For each of those years, the Directors received total compensation of \$ 259,000 , \$ 248,000 , and \$ 325,000 , respectively, which amounts are included in Other Operating Expenses in the consolidated statements of operations.

Unrecognized compensation expense attributable to the unvested restricted shares outstanding as of December 31, 2023 amounted to \$ 182,000 , which amount is expected to be recognized over the weighted average remaining life of the awards of 2.14 years.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Note 16. Shareholders' Equity

Earnings per Share

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

The following is a summary of the computation of basic and diluted earnings per share for each of the years in the three-year period ended December 31, 2023.

(Net income in thousands)

	Year ended December 31,		
	2023	2022	2021
<u>Basic (loss) earnings per share:</u>			
Net (loss) income attributable to Common shareholders	\$ (4,179)	\$ 6,161	\$ 5,094
<u>Divided by:</u>			
Weighted average shares outstanding	3,965,324	3,957,097	3,946,384
Basic (loss) earnings per common share	\$ (1.05)	\$ 1.56	\$ 1.29
<u>Diluted (loss) earnings per share:</u>			
Net (loss) income attributable to Common shareholders	\$ (4,179)	\$ 6,161	\$ 5,094
Weighted average shares outstanding	3,965,324	3,957,097	3,946,384
Effect of potentially dilutive restricted common shares	— ⁽¹⁾	5,801	6,270
<u>Divided by:</u>			
Weighted average diluted shares outstanding	3,965,324	3,962,898	3,952,654
Diluted (loss) earnings per common share	\$ (1.05)	\$ 1.55	\$ 1.29

⁽¹⁾ The weighted average diluted shares outstanding does not include 11,438 anti-dilutive restricted common shares for the year ended December 31, 2023.

Dividends

The Company did not pay any dividends for the year ended December 31, 2023, 2022, and 2021, and has suspended dividend payments.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Note 17. 401(k) Savings Plan

Patriot offers employees participation in the Patriot Bank, N.A. 401(k) Savings Plan (the "401(k) Plan") under Section 401(k) of the Internal Revenue Code, along with the ROTH feature to the Plan. The 401(k) Plan covers substantially all employees who have completed one month of service, are 21 years of age and who elect to participate. Under the terms of the 401(k) Plan, participants can contribute up to the maximum amount allowed, subject to Federal limitations. At its discretion, Patriot may match eligible participating employee contributions at the rate of 50 % of the first 6 % of the participants' salary contributed to the 401(k) Plan. Eligibility for matching contributions is dependent on an employee's completing six consecutive month(s) of service or 500 hours of employment. Participants immediately vest in Patriot's matching contributions, if applicable. During the years ended December 31, 2023, 2022, and 2021, Patriot made matching contributions to the 401(k) Plan of \$ 278,000 , \$ 251,000 , and \$ 215,000 , respectively.

Note 18. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Bank 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, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet. The contractual amounts of these instruments reflect the extent of involvement Patriot has in particular classes of financial instruments.

The contractual amounts of commitments to extend credit and standby letters of credit represent the maximum amount of potential accounting loss should: the contract be fully drawn upon; the customer default; and the value of any existing collateral becomes worthless. Patriot applies its credit policies to entering commitments and conditional obligations and, as with its lending activities, evaluates each customer's creditworthiness on a case-by-case basis. Management believes that it effectively mitigates the credit risk of these financial instruments through its credit approval processes, establishing credit limits, monitoring the on-going creditworthiness of recipients and grantees, and the receipt of collateral as deemed necessary.

At December 31, 2023 and 2022, financial instruments with credit risk are as follows:

(In thousands)	December 31,	
	2023	2022
Commitments to extend credit:		
Unused lines of credit	\$ 63,435	\$ 100,986
Undisbursed construction loans	2,607	12,000
Home equity lines of credit	26,488	26,878
Future loan commitments	—	14,365
Financial standby letters of credit	—	78
	<u>\$ 92,530</u>	<u>\$ 154,307</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary upon extending credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include commercial property, residential property, deposits, and securities. The Bank has established an allowance for credit loss of \$ 271,000 and \$ 8,000 as of December 31, 2023 and 2022, respectively, which is included in accrued expenses and other liabilities on the Consolidated Balance Sheet. The increase in allowance for credit loss in 2023 is primarily due to the adoption of CECL.

Standby letters of credit are written commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. Guarantees that are not derivative contracts are recorded at fair value and included in the Consolidated Balance Sheet.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES**Notes to consolidated financial statements****Note 19. Regulatory and Operational Matters**

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

In September 2019, the community bank leverage ratio (CBLR) framework was jointly issued by the FDIC, OCC and FRB. The final rule gives qualifying community banks the option to use a simplified measure of capital adequacy instead of risk based capital, beginning with their March 31, 2020 Call Report. Under the final rule a community bank may qualify for the CBLR framework if it has a Tier 1 leverage ratio of greater than 9%, less than \$10 billion in total consolidated assets, and limited amounts of off-balance sheet exposures and trading assets and liabilities. The CARES Act directed the federal banking agencies to issue an interim rule temporarily lowering the CBLR ratio to 8% which the agencies did with a transition back to 9% beginning January 1, 2022. Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. A community bank which meets the leverage ratio requirement, and other CBLR framework requirements will not be subject to other capital and leverage requirements and will be considered "well capitalized."

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. From September 2021 to September 30, 2023, the Company elected to adopt the CBLR framework. In the fourth quarter of 2023, the Company elected to use the instituted regulatory risk-based capital approach.

Under the instituted regulatory framework, to be considered "well capitalized", a financial institution must generally have a Total Capital ratio of at least 10%, a Tier 1 Capital ratio of at least 8.0%, a CET1 Capital ratio at least 6.5%, and a Tier 1 Leverage Capital ratio of at least 5%. However, regardless of a financial institution's ratios, the OCC may require increased capital ratios or impose dividend restrictions based on the other factors it considers in assessing a bank's capital adequacy. Under the final capital rules that became effective on January 1, 2015, there was a requirement for a CET1 capital conservation buffer of 2.5% of risk-weighted assets, which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain this required capital buffer become subject to progressively more stringent limitations on the percentage of earnings that may be distributed to shareholders or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital conservation buffer of 2.5% has been included in the minimum capital adequacy ratios as of December 31, 2023.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

The Company and Bank's regulatory capital amounts and ratios at December 31, 2023 are summarized as follows:

	December 31, 2023					
	Patriot National Bancorp, Inc.			Patriot Bank, N.A.		
(Dollar amounts in thousands)	Amount	Ratio		Amount	Ratio	
Total Capital (to risk weighted assets):						
Actual	\$ 89,727	10.00 %		\$ 100,683	11.22 %	
To be Well Capitalized	—	—		89,732	10.00 %	
For capital adequacy with Capital Buffer (1)	—	—		94,218	10.50 %	
For capital adequacy (2)	71,788	8.00 %		71,785	8.00 %	
Tier 1 Capital (to risk weighted assets):						
Actual	73,282	8.17 %		94,238	10.50 %	
To be Well Capitalized (1)	—	—		71,785	8.00 %	
For capital adequacy with Capital Buffer (2)	—	—		76,272	8.50 %	
For capital adequacy	—	6.00 %		53,839	6.00 %	
Common Equity Tier 1 Capital (to risk weighted assets):						
Actual	65,282	7.27 %		94,238	10.50 %	
To be Well Capitalized (1)	—	—		58,325	6.50 %	
For capital adequacy with Capital Buffer (2)	—	—		62,812	7.00 %	
For capital adequacy	—	4.50 %		40,379	4.50 %	
Tier 1 Leverage Capital (to average assets):						
Actual	73,282	6.76 %		94,238	8.70 %	
To be Well Capitalized (1)	—	—		54,170	5.00 %	
For capital adequacy	—	4.00 %		43,336	4.00 %	

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

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

The Bank's Community Bank Leverage Ratio regulatory capital amounts and ratios at December 31, 2022 are summarized as follows:

December 31, 2022		
Patriot Bank, N.A.	Amount	Ratio
Tier 1 Leverage Capital (to average assets):		
Actual	\$ 100,267	9.27 %
To be Well Capitalized	97,388	9.00 % ⁽³⁾

⁽³⁾ Leverage Capital Ratio greater than 9% is considered well-capitalized under the CBLR Framework.

Designation as "Well Capitalized" does not apply to bank holding companies - the Company. Such categorization of capital adequacy only applies to insured depository institutions - the Bank.

As of December 31, 2023 and 2022, Patriot satisfies all regulatory capital adequacy requirements. Management continuously assesses the adequacy of the Bank's capital in order to maintain its "well capitalized" status.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

Note 20. Related Party Transactions

In the normal course of business, the Company grants loans to executive officers, directors and members of their immediate families, as defined, and to entities in which these individuals have more than a 10 % equity ownership. No related party loans were outstanding as of December 31, 2023 and 2022.

As of December 31, 2023 and 2022, deposits from related parties aggregated approximately \$ 64,000 for both years.

Note 21. Fair Value and Interest Rate Risk

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

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

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

The three levels of the fair value hierarchy consist of:

- Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets that the entity has ability to access at the measurement date (such as active exchange-traded equity securities and certain U.S. and government agency debt securities).
- Level 2 Observable inputs other than quoted prices included in Level 1, such as:
 - Quoted prices for similar assets or liabilities in active markets (such as U.S. agency and government sponsored mortgage-backed securities)
 - Quoted prices for identical or similar assets or liabilities in less active markets (such as certain U.S. and government agency debt securities, and corporate and municipal debt securities that trade infrequently)
 - Other inputs that are observable for substantially the full term of the asset or liability (i.e. interest rates, yield curves, prepayment speeds, default rates, etc.).
- Level 3 Valuation techniques that require unobservable inputs that are supported by little or no market activity and are significant to the fair value measurement of the asset or liability (such as pricing and discounted cash flow models that typically reflect management's estimates of the assumptions a market participant would use in pricing the asset or liability).

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

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, restricted cash, and accrued interest receivable and payable

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

Available-for-sale securities

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

Other Investments

The Bank's investment portfolio includes the Solomon Hess SBA Loan Fund, which is utilized by the Bank to satisfy its Community Reinvestment Act ("CRA") lending requirements. As this fund operates as a private fund, shares in the fund are not publicly traded but may be redeemed with 60 days' notice at cost. For that reason, the carrying amount was considered comparable to fair value at both December 31, 2023 and 2022 due to its short-term nature.

Federal Reserve Bank Stock and Federal Home Loan Bank Stock

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

Loans

The fair value of loans are estimated by discounting the future cash flows using the rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. We estimate the fair value of our loan portfolio using an exit price notion. The exit price notion requires determination of the price at which willing market participants would transact at the measurement date under current market conditions depending on facts and circumstances, such as origination rates, credit risk, transaction costs, liquidity, national and regional market trends and other adjustments, utilizing publicly available rates and indices. The application of an exit price notion requires the use of significant judgment.

Loans Held for Sale

The fair value of loans held for sale is estimated by using a market approach that includes prices for loans sold awaiting settlement and other observable inputs. The Company has determined that the inputs used to value the loans held for sale fall within Level 2 of the fair value hierarchy.

SBA Servicing Asset

Servicing assets do not trade in an active, open market with readily observable prices. The Company estimates the fair value of servicing assets using discounted cash flow models incorporating numerous assumptions from the perspective of a market participant including market discount rates and prepayment speeds. Due to the significant unobservable input related to the servicing rights, the SBA servicing asset is classified within Level 3 of the valuation hierarchy.

Other Real Estate Owned

The fair value of OREO the Bank may obtain is based on current appraised property value less estimated costs to sell. When fair value is based on unadjusted current appraised value, OREO is classified within Level 2 of the fair value hierarchy. Patriot classifies OREO within Level 3 of the fair value hierarchy when unobservable inputs are used to determine adjustments to appraised values. Patriot does not record OREO at fair value on a recurring basis, but rather initially records OREO at fair value on a non-recurring basis and then monitors property and market conditions that may indicate a change in value is warranted.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

Derivative asset (liability) - Interest Rate Swaps

The Company's derivative assets and liabilities consist of transactions as part of management's strategy to manage interest rate risk. The valuation of interest rate swap agreements does not contain any counterparty risk. The valuation of the Company's interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company has determined that the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy. See Notes 1 and 11 for additional disclosures on derivatives.

Deposits

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

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

Senior Notes, Subordinated Notes, Junior Subordinated Debt and Note Payable

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

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

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

The Company considers its own credit worthiness in determining the fair value of its senior Notes, subordinated notes, notes payable and junior subordinated debt.

Federal Home Loan Bank and Correspondent Bank Borrowings

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

Off-balance-sheet financial instruments

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

The following table provides a comparison of the carrying amounts and estimated fair values of Patriot's financial assets and liabilities as of December 31, 2023 and 2022:

(In thousands)

(In thousands)

		December 31, 2023		December 31, 2022	
	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	\$ 2,195	\$ 2,195	\$ 5,182	\$ 5,182
Interest-bearing deposits due from banks	Level 1	50,322	50,322	33,311	33,311
Restricted cash	Level 1	14,019	14,019	—	—
Available-for-sale securities	Level 2	78,925	78,925	75,093	75,093
Available-for-sale securities	Level 3	10,262	10,262	9,427	9,427
Other investments	Level 2	4,450	4,450	4,450	4,450
Federal Reserve Bank stock	Level 2	2,090	2,090	2,627	2,627
Federal Home Loan Bank stock	Level 2	4,202	4,202	3,874	3,874
Loans receivable, net	Level 3	832,934	812,856	838,006	818,960
Loans held for sale	Level 2	20,767	21,557	5,211	5,534
SBA servicing assets	Level 3	857	932	886	1,013
Other real estate owned	Level 2	2,843	2,843	—	—
Accrued interest receivable	Level 2	7,219	7,219	7,267	7,267
Interest rate swap receivable	Level 2	74	74	203	203
Financial assets, total		\$ 1,031,159	\$ 1,011,946	\$ 985,537	\$ 966,941
Financial Liabilities:					
Demand deposits	Level 2	\$ 110,056	\$ 110,056	\$ 269,636	\$ 269,636
Negotiable order of withdrawal accounts	Level 2	42,416	42,416	34,440	34,440
Savings deposits	Level 2	44,104	44,104	71,002	71,002
Interest bearing DDA	Level 2	162,196	162,196	—	—
Money market deposits	Level 2	200,280	200,280	211,000	211,000
Time deposits	Level 2	240,733	239,655	225,670	221,353
Brokered deposits	Level 1	40,526	40,453	48,698	47,684
FHLB, FRB and correspondent bank borrowings	Level 2	171,000	170,171	85,000	83,853
Senior notes	Level 2	11,723	11,397	11,640	11,103
Subordinated debt	Level 2	9,869	10,102	9,840	9,680
Junior subordinated debt owed to unconsolidated trust	Level 2	8,137	8,137	8,128	8,128
Note payable	Level 3	376	362	585	544
Accrued interest payable	Level 2	1,235	1,235	585	585
Interest rate swap liability	Level 2	74	74	203	203
Financial liabilities, total		\$ 1,042,725	\$ 1,040,638	\$ 976,427	\$ 969,211

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

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

In the normal course of its operations, Patriot assumes interest rate risk (i.e., the risk that general interest rate levels will fluctuate). As a result, the fair value of Patriot's financial assets and liabilities are affected when interest market rates change, which change may be either favorable or unfavorable. Management attempts to mitigate interest rate risk by matching the maturities of its financial assets and liabilities. However, borrowers with fixed rate obligations are less likely to prepay their obligations in a rising interest rate environment and more likely to prepay their obligations in a falling interest rate environment. Conversely, depositors receiving fixed rates are more likely to withdraw funds before maturity in a rising interest rate environment and less likely to do so in a falling interest rate environment. Management monitors market rates of interest and the maturities of its financial assets and financial liabilities, adjusting the terms of new loans and deposits in an attempt to minimize interest rate risk. Additionally, management mitigates its overall interest rate risk through its available funds investment strategy.

The following tables detail the financial assets measured at fair value on a recurring basis and the valuation techniques utilized relative to the fair value hierarchy, as of December 31, 2023 and 2022.

(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total
December 31, 2023:							
U. S. Government agency and mortgage-backed securities	\$	—	\$	65,671	\$	—	\$ 65,671
Corporate bonds		—		3,504		10,262	13,766
Subordinated notes		—		4,227		—	4,227
SBA loan pools		—		5,037		—	5,037
Municipal bonds		—		486		—	486
Available-for-sale securities	\$	—	\$	78,925	\$	10,262	\$ 89,187
Interest rate swap receivable	\$	—	\$	74	\$	—	\$ 74
Interest rate swap liability	\$	—	\$	74	\$	—	\$ 74
December 31, 2022:							
U. S. Government agency and mortgage-backed securities	\$	—	\$	59,046	\$	—	\$ 59,046
Corporate bonds		—		5,228		9,427	14,655
Subordinated notes		—		4,602		—	4,602
SBA loan pools		—		5,718		—	5,718
Municipal bonds		—		499		—	499
Available-for-sale securities	\$	—	\$	75,093	\$	9,427	\$ 84,520
Interest rate swap receivable	\$	—	\$	203	\$	—	\$ 203
Interest rate swap liability	\$	—	\$	203	\$	—	\$ 203

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

As of December 31, 2023, four corporate bonds were classified as Level 3 instruments. The fair values of these securities were determined using a present value approach. The discount rate assumed was determined based on unobservable inputs in a pricing model. During the years ended December 31, 2023, 2022 and 2021, the Company had no transfers into or out of Levels 1, 2 or 3.

The reconciliation of the beginning and ending balances for Level 3 available-for-sale securities for the years ended December 31, 2023, 2022 and 2021 is as follows:

	Year Ended December 31,		
	2023	2022	2021
Level 3 fair value, beginning of year	\$ 9,427	\$ 13,180	\$ —
Purchases	—	—	14,000
Realized gain (loss)	—	—	—
Unrealized gain (loss)	835	(3,753)	(820)
Transfers in and /or out of Level 3	—	—	—
Level 3 fair value, end of year	<u>\$ 10,262</u>	<u>\$ 9,427</u>	<u>\$ 13,180</u>

The table below presents the valuation methodology and unobservable inputs for level 3 assets measured at fair value on a non-recurring basis as of December 31, 2023 and 2022:

(In thousands)

	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
December 31, 2023:				
Individually evaluated loans, net	\$ 12,928	Real Estate Appraisals	Discount for appraisal type	5.8 % - 20 %
SBA servicing assets	932	Discounted Cash Flows	Market discount rates	14.73 % - 14.90 %
December 31, 2022:				
Impaired loans, net	\$ 12,873	Real Estate Appraisals	Discount for appraisal type	5.8 % - 20 %
SBA servicing assets	1,013	Discounted Cash Flows	Market discount rates	14.73 % - 14.90 %

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

The estimated fair value amounts have been measured as of December 31, 2023 and 2022 and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of the financial instruments measured may be different than if they had been subsequently valued.

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

Note 22. Parent Company-only Financial Statements

The following represent the condensed stand-alone financial statements of the Company, which is the sole owner and parent company of the Bank, its operating bank subsidiary.

CONDENSED BALANCE SHEETS
December 31, 2023 and 2022

(In thousands)

	As of December 31,	
	2023	2022
ASSETS		
Cash and due from banks	\$ 997	\$ 11
Investment in subsidiary	73,757	89,533
Other assets	64	50
Total assets	<u>\$ 74,818</u>	<u>\$ 89,594</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Borrowings	\$ 29,729	\$ 29,608
Accrued expenses and other liabilities	706	403
Shareholders' equity	44,383	59,583
Total liabilities and shareholders' equity	<u>\$ 74,818</u>	<u>\$ 89,594</u>

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31, 2023, 2022 and 2021

(In thousands)

	Year ended December 31,		
	2023	2022	2021
Expenses:			
Interest on subordinated debt	\$ 1,502	\$ 1,078	\$ 941
Interest on senior debt	1,159	866	913
Total interest expense	2,661	1,944	1,854
Other expenses	105	87	173
Loss before benefit for income taxes	2,766	2,031	2,027
Benefit for income taxes	(737)	(550)	(540)
Loss before equity in undistributed net income of subsidiary	2,029	1,481	1,487
Equity in undistributed net (loss) income of subsidiary	(2,150)	7,642	6,581
Net (loss) income	(4,179)	6,161	5,094
Equity in subsidiary other comprehensive income (loss), net of subsidiary	384	(14,008)	(1,119)
Total comprehensive (loss) income	<u>\$ (3,795)</u>	<u>\$ (7,847)</u>	<u>\$ 3,975</u>

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to consolidated financial statements

CONDENSED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023, 2022 and 2021

(In thousands)

	Year ended December 31,		
	2023	2022	2021
Cash Flows from Operating Activities:			
Net (loss) income	\$ (4,179)	\$ 6,161	\$ 5,094
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Equity in undistributed net income (loss) of subsidiary	2,150	(7,642)	(6,581)
Dividends received from Patriot Bank, N.A.	2,500	900	500
Share-based compensation expense	105	86	150
Amortization of debt issuance costs	177	38	111
Change in assets and liabilities:			
(Increase) decrease in other assets	(14)	99	955
Increase (decrease) in accrued expenses and other liabilities	247	(8)	(399)
Net cash provided by (used in) operating activities	986	(366)	(170)
Cash Flows from Investing Activities:			
Net increase in investment in Patriot Bank N.A.	—	—	(1)
Net cash used in investing activities	—	—	(1)
Cash Flows from Financing Activities:			
Proceeds from issuance of senior notes	—	12,000	—
Repayments of senior notes	—	(12,000)	—
Net cash used in financing activities	—	—	—
Net increase (decrease) in cash and cash equivalents	986	(366)	(171)
Cash and cash equivalents at beginning of year	\$ 11	\$ 377	\$ 548
Cash and cash equivalents at end of year	\$ 997	\$ 11	\$ 377
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	\$ 2,034	\$ 1,897	\$ 1,570
Supplemental Disclosure of Non-cash Activity:			
Net change in unrealized (gain) loss on available-for-sale securities	\$ (384)	\$ 14,008	\$ 1,119
Deferred debt issuance costs	\$ 56	\$ 360	\$ —
Retained earnings adjustment - ASC 326 adoption	\$ 11,510	\$ —	\$ —

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES

Notes to consolidated financial statements

Note 23. Subsequent Event

The Company has evaluated all events or transactions that occurred through the date the Company issued these financial statements. During this period, the Company did not have any material recognizable or non-recognizable subsequent events.

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

None.

ITEM 9A. Controls and Procedures

Disclosure Controls and Procedures

Patriot maintains disclosure controls and procedures that are designed to provide reasonable assurance that information that is required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and accumulated and communicated to management in a timely fashion.

Patriot's management, with the participation of its Chief Executive Officer and its Chief Financial Officer, conducted an evaluation, as of the end of the period covered by this report, of the effectiveness of its disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e). Based on this evaluation, Patriot's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, Patriot's disclosure controls and procedures, as defined in Rule 13a-15(e), were effective at the reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

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

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2023 based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment, management concluded that, as of December 31, 2023, the Company's internal control over financial reporting was effective.

In accordance with the rules and regulations of the SEC, management's report on the design and effectiveness of Patriot's system of internal controls over financial reporting is not subject to attestation by Patriot's independent registered public accounting firm. The SEC rules and regulations applicable to Patriot only require a report by management. Accordingly, this annual report on Form 10-K for the year ended December 31, 2023 does not include an opinion by Patriot's independent registered public accounting firm regarding management's system of internal controls over financial reporting.

Changes in Internal Control Over Financial Reporting

In its Quarterly Report on Form 10-Q for the period ended September 30, 2023, management concluded that the Company's disclosure controls and procedures over financial reporting were not effective as of the end of such period, due to certain accounting error which resulted in the restatement of the Company's previous Quarterly Reports on Form 10-Q for the periods ended March 31, 2023 and June 30, 2023. The Company has since reviewed and changed its controls over the recognition of the ACL, and has concluded that the necessary changes have been made and accordingly concluded that the internal control over financial reporting was effective as of December 31, 2023. Other than disclosed herein, there were no other changes in the Company's internal control over financial reporting during the fourth fiscal quarter of 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. Other Information

None

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

None

PART III**ITEM 10. Directors, Executive Officers and Corporate Governance****Board of Directors**

The following sets forth information regarding our directors as of April 1, 2024. Unless otherwise indicated, each person holds the same position(s) of both the Company and Patriot Bank.

Name	Age	Current Position with Patriot
Michael A. Carrazza	58	Director and Chairman of the Board of Directors
David Lowery	49	Director, President and Chief Executive Officer
Edward N. Constantino	78	Director
Emile Van den Bol	60	Director
Michael J. Weinbaum	58	Director
Grace Doherty	49	Director

Michael A. Carrazza

Mr. Carrazza has been Chairman of the Board of Directors of the Company since 2010 and served as interim Chief Executive Officer of the Company from August 2016 to July 2020. Mr. Carrazza is also CEO of Solaia Capital Advisors, an investment management firm engaged in making private equity and credit investments. In 2012, Mr. Carrazza led the spin-out of the Bank of Ireland's U.S. Asset-Based Lending Group, presently known as Siena Lending Group, and served as its Chairman through 2019. Previously, Mr. Carrazza was co-founder of Bard Capital Group where he sponsored several transactions in the industrial sector. He has structured and financed the leveraged buyout of International Surface Preparation Group, Inc. from U.S. Filter/Vivendi and subsequently worked alongside its Chairman, managing the company's turnaround, financings, and subsequent sale. Mr. Carrazza also led the financing and restructuring of Mitchell Madison Group and served on the firm's Executive Team, where he assisted in the firm's global expansion and managed its sale to US Web/CKS. Mr. Carrazza began his career at Goldman, Sachs & Co. Mr. Carrazza earned his MBA in Finance from The Stern School of Business at New York University and his B.S. in Electrical Engineering from The Pennsylvania State University. The Company believes that Mr. Carrazza is qualified to be a director as he has an extensive background in the financial services industry, has served as Patriot's Chairman since 2011 and served as Interim CEO from 2016 to 2020.

David Lowery

Mr. Lowery was appointed as President and Chief Executive Officer, and director of the Company and the Bank in March 2023. Mr. Lowery joined the Bank in April 2021 as Head of Lending, and became Executive Vice President and Chief Lending Officer of the Bank in September 2021. Mr. Lowery led the Bank's SBA division, Commercial Real Estate, C&I and Consumer Lending areas. Prior to joining the Bank, Mr. Lowery served in various senior capacities with several institutions, including Senior Vice President at IBERIABANK from December 2018 to February 2021, Head of Commercial Real Estate at Metropolitan Commercial Bank from September 2015 to July 2018, and Vice President at M&T Bank where he worked from January 2008 to July 2015. Mr. Lowery earned his MBA from Loyola University in Maryland where he also received his undergraduate degree in Economics. The Company believes that Mr. Lowery is qualified to be a director as he has over 15 years of banking experience, including his experience of serving as President and CEO of Patriot Bank.

Edward N. Constantino

Mr. Constantino has been a director of the Company since October 2010 and the Lead Independent Director since October 2018. He has over 40 years of audit, advisory and tax experience working for two major accounting firms, Arthur Anderson LLP and KPMG LLP. Mr. Constantino retired from KPMG in late 2009, where he was an Audit Partner in charge of the Firm's real estate and asset management businesses. Mr. Constantino is a member of the Board of Directors and Chairman of the Special Committee of ARC Property Trust and a member of the Board of Directors and Chairman of the Audit Committee of VineBrook Trust and NexPoint Residential Trust. He also is the Chairman of the Real Estate and Facilities Committee and member of the Investment Committee at St. Francis College. Mr. Constantino also serves as a consultant for the law firm of Skadden Arps. Mr. Constantino's specific skills include auditing national and multinational organizations, internal control and compliance, financial reporting, regulatory reporting, risk management, asset valuation, accounting and finance and transaction structuring. He is a licensed CPA, a Member of the American Institute of Certified Public Accountants and a Member of the New York State Society

of Public Accountants. Mr. Constantino received a Bachelor of Business Administration degree from St. Francis University. The Company believes that Mr. Constantino is qualified to be a director as he has extensive audit, advisory and tax experience as an Audit Partner with KPMG.

Emile Van den Bol

Mr. Van den Bol has been a director of the Company since October 2010. Mr. Van den Bol has been the Chief Executive Officer of Brooklawn Capital, LLC, an investment management company which advises and invests in and finances real estate, securities and operating companies. Mr. Van den Bol retired in 2010 as Managing Director of the Commercial Real Estate Group of Deutsche Bank Securities, Inc. Mr. Van den Bol joined Deutsche Bank in 2001 as Managing Director and held several executive positions in the Commercial Real Estate Group including Global Co-Head Structured Finance, Global Head Commercial Real Estate CDO Group and Member of the Global Commercial Real Estate Executive Committee. Mr. Van den Bol was from 2005 to 2009 a Governor of the Board of the Commercial Mortgage Securities Association. From 1996 to 2001 Mr. Van den Bol was employed by Lehman Brothers where he held a number of positions including Head of Esoteric Principal Finance Group and Co-Head of Lehman Brothers Franchise Conduit. Mr. Van den Bol was a member of Morgan Stanley's Structured Finance Group from 1991 to 1996. Mr. Van den Bol received a Juris Doctor degree from University of Amsterdam and an MBA degree from the Wharton School of the University of Pennsylvania. The Company believes that Mr. Van den Bol is qualified to be a director as he has extensive financial services and investment banking experience and is a financial expert.

Michael J. Weinbaum

Mr. Weinbaum has been a director of the Company since October 2010. He has been the President of Real Estate Operations for United Capital Corp. since March 1, 2023. Mr. Weinbaum has extensive experience in real estate operations and transactions. He is a member of the International Council of Shopping Centers and has been a member of United Capital's Board of Directors since 2005. Mr. Weinbaum currently serves on the Finance Board and Board of Trustees for St. Mary's Healthcare for Children. Mr. Weinbaum received a Bachelor of Arts degree in Management from Franklin Pierce University. The Company believes that Mr. Weinbaum is qualified to be a director as he has extensive commercial real estate investment experience.

Grace Doherty

Ms. Grace Doherty was appointed as a director of the Company and the Bank in July 2023. Ms. Doherty is a financial services executive and consultant, experienced in developing innovative digital product strategies and programs for financial service companies. In January 2021, Ms. Doherty founded Serafina Strategic Consulting, through which she has been acting as an independent strategic consultant for clients in the financial service industry, including TD Bank and Mill Cities Community Investments. From September 2018 to December 2020, Ms. Doherty worked at Sterling National Bank, serving first as Group Product Director in the Retail Division and then as Group Director in the Digital Bank Division, where she focused on developing business strategy and product development. From September 2017 to September 2018, Ms. Doherty served as Vice President and Business Banking Digital Lending Product Manager in Eastern Bank, where she managed the development of product features for small business banking platforms. Ms. Doherty founded Innova Small Business Solutions, through which she acted as Independent Strategic Consultant for small businesses and non-profit agencies from March 2016 to September 2017. From May 2014 to March 2016, Ms. Doherty served as Director of Retail Products in the Consumer and Small Business Retail Division in Amalgamated Bank. Previously, Ms. Doherty served as Vice President in the New Product Development Division at Boston Financial Data Services and as Vice President at Santander Bank, in the Small Business, Asset Management and Insurance Divisions. Ms. Doherty received a Bachelor of Arts degree from Duke University, a master's in public policy from the University of Massachusetts, and an MBA from McCallum Graduate School of Business at Bentley University. The Company believes that Ms. Doherty is qualified to be a director as she has extensive financial services and banking experience.

Board Committees

The members of our Board of Directors devote time and talent to certain standing committees. Among these committees are the Audit Committee, Compensation Committee, Executive Committee, Nominating and Corporate Governance Committee, Asset and Liability Committee, Loan Committee, and Risk Committee. The current members of each committee are set forth below.

- **Audit Committee:** Messrs. Constantino (Chairman), Van den Bol and Weinbaum, each of whom is an independent director as defined by the SEC and NASDAQ rules.
- **Compensation Committee:** Messrs. Constantino (Chairman), Van den Bol and Weinbaum, each of whom is an independent director as defined by NASDAQ rules.
- **Executive Committee:** Messrs. Carrazza (Chairman), Lowery, Constantino and Van den Bol.
- **Nominating and Corporate Governance Committee:** Messrs. Van den Bol (Chairman), Constantino and Weinbaum, each of whom is an independent director as defined by NASDAQ rules.
- **Asset and Liability Committee:** Messrs. Lowery (Chairman), Constantino, Van den Bol and Weinbaum.
- **Loan Committee:** Messrs. Van den Bol (Chairman), Constantino and Russell.
- **Risk Committee:** Messrs. Lowery (Chairman), Van den Bol and Constantino.

Audit Committee Financial Expert

The Board has determined that Messrs. Constantino and Van den Bol have the professional experience necessary to qualify as audit committee financial experts under SEC rules.

Executive Officers

The following sets forth information regarding our executive officers who do not serve as directors as of April 1, 2024. Unless otherwise indicated, each person holds the same position(s) of both the Company and Patriot Bank.

Name	Age	Current Position with Patriot
Joseph D. Perillo	68	Executive Vice President and Chief Financial Officer
Frederick K. Staudmyer	68	Secretary and Chief Human Resources Officer; Executive Vice President and Chief Administrative Officer of the Bank
Judith P. Corprew	62	Executive Vice President and Chief Compliance & Risk Officer of the Bank
Thomas E. Slater	55	Executive Vice President and Chief Credit Officer of the Bank
Steven Grunblatt	59	Executive Vice President and Chief Information Office of the Bank
Alfred Botta	51	Executive Vice President and Chief Payments Officer of the Bank

Joseph D. Perillo

Mr. Perillo has served as Executive Vice President and Chief Financial Officer of the Company and Patriot Bank since May 2017. He served as a senior executive consultant for several months beginning in January 2017, tasked with assessing the finance department's processes and improving operations and internal controls. Mr. Perillo is a recognized finance industry leader with over two decades of experience in the banking industry, having served as Chief Accounting Officer and Chief Financial Officer for iQor Inc., a \$1.5 billion global leader in business process outsourcing. He began in public accounting with KPMG and then spent over 20 years in banking with Citibank, NatWest and as Senior Vice President & Controller for GreenPoint Financial, then one of the 50 largest banking companies in the U.S. Mr. Perillo earned his Bachelor of Science in accounting from St. John's University and is a Certified Public Accountant.

Frederick K. Staudmyer

Mr. Staudmyer has served as the Company's Secretary and Chief Human Resources Officer since November 2014. He is also the Executive Vice President and Chief Administrative Officer of Patriot Bank, N.A., overseeing human resources, retail, and business banking, corporate governance, property development and facilities management. Mr. Staudmyer previously served as Assistant Dean at Cornell University's Johnson Graduate School of Management. Bringing more than 30 years of human resources, general management, and corporate leadership experience, he has served at leading financial institutions where he directed talent acquisition and development, including this role at Chase Manhattan Bank, now JPMorgan Chase. He previously served as Chief Human Resources Officer for Ziff Communications and Ziff Davis Publishing. He also co-founded and served as President and COO at a national legal services and staffing company for over seven years. Mr. Staudmyer earned his MBA from

the Johnson Graduate School of Management at Cornell and his Bachelor of Science at Cornell's School of Industrial & Labor Relations. He currently serves on the Board of Directors of the Human Services Council of Connecticut. He has served on the board of directors of the MBA Career Services Council and as an Advisory Council Member of Cornell University's Entrepreneurial and Personal Enterprise Program.

Judith P. Corprew

Ms. Corprew has served as Executive Vice President and Chief Compliance & Risk Officer of Patriot Bank since March 2015, ensuring compliance with local, state and federal regulations, and risk management. She serves on the management committees for: Regulatory Compliance, Enterprise Risk, Steering and CRA. She holds a Certified Regulator Compliance Manager certification, a highly regarded recognition by the American Bankers Association. With three decades of credit and risk management experience, she has held leadership positions at community-focused financial institutions and mortgage companies throughout the Tri-State area. Early in her banking career, Ms. Corprew was awarded honors for establishing a profitable mortgage center. A staunch advocate for teaching financial literacy skills, Ms. Corprew has led educational seminars and events at local schools, clubs and community organizations. She has also held workshops on first-time home buying, credit and budgeting. She has served as a member of the United Way Stamford Financial Stability Collaborative, and has served as a financial coach for the United Way. She is a member of the Bank Compliance Association of Connecticut, and the Institute of Certified Bankers and Regulatory Compliance Group of Fairfield County. She is also a board member of Housatonic Community College Foundation, serving as Vice President, a board member of Future Five and a member of The Helpers Club Scholarship Foundation of Stamford. Ms. Corprew earned her bachelor's degree from Rutgers University and a master's degree in finance from Post University in Waterbury, CT.

Thomas E. Slater

Mr. Slater joined Patriot Bank in December 2022 as Executive Vice President and Chief Credit Officer. Mr. Slater joins the Bank with over 25 years of experience in commercial banking industry. Mr. Slater also has extensive experience in commercial real estate, as well as commercial and industrial lending. Since April 2017, Mr. Slater has been serving as Senior Vice President and Senior Credit Officer at Investors Bank. From May 2004 to April 2017, Mr. Slater served multiple positions in TD Bank, including as Assistant Vice President, Credit Department Manager, Vice President, Credit Policy Administrator, Credit Officer, and Commercial Credit Manager. From August 1996 to May 2004, Mr. Slater worked in PNC Bank in various roles, including Portfolio Analyst, Portfolio Manager, Relationship Manager, and Middle Market Underwriter. From March 1995 to August 1996, Mr. Slater worked as a Loan Review Officer in Trust Company Bank. Before entering the commercial banking industry, Mr. Slater began his career as an Associate National Bank Examiner in the Office of the Controller of the Currency, where he worked from July 1990 to March 1995. Mr. Slater holds a Bachelor of Science degree in Economics from Rutgers University.

Steven Grunblatt

Mr. Grunblatt joined Patriot Bank in 2014 as Senior Vice President, Director of Technology and became Executive Vice President and Chief Information Officer in April 2021. He has over twenty-five years of experience in various facets of information technology, including management and oversight of all aspects of vendor management, infrastructure and technology implementation. Mr. Grunblatt graduated from the Wharton School of Business in Pennsylvania with a bachelor's degree in Economics.

Alfred Botta

Mr. Botta joined the Bank in 2018 as Senior Vice President, Director of Payments and became Executive Vice President and Chief Payment Officer of the Bank in September 2022. He has over twenty years of experience in the payments and prepaid market space and has been responsible for the growth of the Bank's payments division. Prior to joining the Bank, Mr. Botta served as Chief Revenue Officer and Director of Payments of Bank Mobile Technologies, Inc. (previously a wholly-owned subsidiary of Customers Bank). Mr. Botta also served on senior management roles with several institutions including Metropolitan Commercial Bank, CashZone (the retail check cashing division of Metropolitan Commercial Bank), PreCash, Inc., PreCommunications Inc., and IDT Corporation. Mr. Botta studied at Adelphi University focusing in Business Administration and Operations.

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act and the regulations promulgated thereunder require our executive officers, directors and persons who beneficially own more than 10% of our common stock to file forms with the SEC to report their ownership of the Company's shares and any changes in ownership. We have reviewed all forms filed electronically with the SEC during, and with respect to, fiscal year of 2023. Based on that review and written information given to us by all of our directors and executive officers, we believe that all of our directors, executive officers and holders of more than 10% of our stock filed on a timely basis all reports that they were required to file under Section 16(a) during fiscal year of 2023, except that each of Edward N. Constantino, Emile Van den Bol, and Michael J. Weinbaum were late in filing a Form 4 related to a restricted stock grant.

Code of Ethics

Each of our Chief Executive Officer and Chief Financial Officer is required to comply with the Patriot National Bancorp, Inc. Code of Conduct for Senior Executive Financial Officers adopted by our Board of Directors. The Code of Conduct was adopted to deter wrongdoing and promote honest and ethical conduct; full, fair, accurate and timely disclosure in public documents; compliance with law; prompt internal reporting of Code of Conduct violations, and accountability for adherence to the Code of Conduct. The Code of Conduct was filed with the SEC as Exhibit 14 to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004. In addition, all of our directors, officers and employees are required to comply with a Code of Ethics and Conflict of Interest Policy which is filed herewith as Exhibit 14.2.

Shareholders may request a copy of either Code, without charge, by contacting Joseph D. Perillo, Chief Financial Officer, Patriot National Bancorp, Inc., 900 Bedford Street, Stamford, Connecticut 06901, (203) 252-5920.

Clawback Policy

We have adopted a clawback policy on November 30, 2023 that applies to our executive officers (the "Clawback Policy"), which is filed herewith as Exhibit 97.1.

The Clawback Policy gives the Compensation Committee the discretion, in connection with an accounting restatement of our previously issued financial statements, to require executive officers to reimburse us for any erroneously awarded compensation paid to such executive officers that otherwise would not have been paid had it been determined based on the restated financial statements.

ITEM 11. Executive Compensation

Summary Compensation Table

The table below sets forth, for the last two fiscal years, the compensation earned by our Chief Executive Officer, and three other executive officers who received the highest annual compensation.

Name/Principal Position(s) (1)	Year	Salary	Bonus and Incentive	Restricted Stock	All Other Annual Compensation(2)	Total
David Lowery	2023	\$ 358,559	\$ 54,600	\$ 11,491	\$ 9,646	\$ 434,296
Director, President and Chief Executive Officer	2022	\$ 271,500	\$ 54,600	\$ 31,800	\$ 7,590	\$ 365,490
Robert G. Russell	2023	\$ 138,083	\$ 130,000	\$ —	\$ 6,202	\$ 274,285
Former Director, President and Chief Executive Officer	2022	\$ 368,637	\$ 130,000	\$ —	\$ 12,150	\$ 510,787
Joseph D. Perillo	2023	\$ 287,490	\$ 54,600	\$ —	\$ 14,262	\$ 356,352
Chief Financial Officer	2022	\$ 273,888	\$ 54,600	\$ —	\$ 12,840	\$ 341,328
Alfred Botta	2023	\$ 270,000	\$ 182,978	\$ —	\$ 9,900	\$ 462,878
Executive Vice President and Chief Payments Officer of the Bank	2022	\$ 241,226	\$ 73,821	\$ —	\$ 9,150	\$ 324,197
Judith P. Corprew	2023	\$ 280,245	\$ 54,600	\$ —	\$ 8,262	\$ 343,107
Executive Vice President and Chief Compliance & Risk Officer of Patriot Bank, N.A.	2022	\$ 272,499	\$ 57,000	\$ —	\$ 5,555	\$ 335,054
Michael A. Carrazza	2023	\$ 150,000	\$ —	\$ —	\$ 3,067	\$ 153,067
Chairman	2022	\$ 150,000	\$ —	\$ —	\$ 2,769	\$ 152,769

* Robert G. Russell served as our Director, President and Chief Executive Officer until April 21, 2023. On the same day, David Lowery was appointed to replace Mr. Russell as Director, President and Chief Executive Officer.

(1) (2) The "All Other Compensation" column for the fiscal year ended December 31, 2023 and 2022 includes the following compensation items:

Named Executive Officer	2023			2022		
	Contribution to 401(k) Plan	Car Allowance	Total	Contribution to 401(k) Plan	Car Allowance	Total
David Lowery	\$ 9,646	\$ —	\$ 9,646	\$ 7,590	\$ —	\$ 7,590
Robert G. Russell	4,202	2,000	6,202	6,150	6,000	12,150
Joseph D. Perillo	8,262	6,000	14,262	6,840	6,000	12,840
Alfred Botta	9,900	—	9,900	9,150	—	9,150
Judith P. Corprew	8,262	—	8,262	5,555	—	5,555
Michael A. Carrazza	\$ 3,067	\$ —	\$ 3,067	\$ 2,769	\$ —	\$ 2,769

Outstanding Equity Awards at Fiscal Year-End

David Lowery, President and Chief Executive Officer of the Company and the Bank had unvested equity awards of 6,000 shares at December 31, 2023.

Executive Compensation Incentive Plan

In 2017, the Company adopted the Executive Compensation Incentive Plan, referred to as the “2017 Plan.” The 2017 Plan applies to the President and all Executive Vice Presidents at Patriot Bank. The 2017 plan was developed in order to attract, retain and motivate key executives by offering compensation incentives for delivering pre-defined budgeted operating results. The 2017 Plan is market competitive and designed to promote safe and sound business practices, where compensation objectives and risk taking are responsible, within policy guidelines and compatible with effective controls and risk-management. The 2017 Plan provides for awards based on a balance of bank results and individual executive performance. Awards are paid 50% in cash and 50% in restricted stock awards vesting over three years granted under the 2020 Plan. There were no awards issued under the Executive Compensation Incentive Plan during 2023 and 2022.

401(k) Plan

Patriot Bank maintains a tax-qualified 401(k) Plan under Section 401(a) of the Code with a cash or deferred arrangement under Section 401(k) of the Code. Employees become eligible to make salary reduction contributions to the 401(k) Plan on the first day of the month coinciding with or next following the date that the employee has attained 21 years of age and completed 1 month of service. Employees become eligible to receive any matching or discretionary contributions made to the 401(k) by Patriot Bank after the completion of six months and at least 500 hours of service.

Under the 401(k) Plan, participants may elect to have Patriot Bank contribute a portion of their compensation each year, subject to certain limitations imposed by the Code. The 401(k) Plan permits Patriot Bank to make discretionary matching and additional discretionary contributions to the 401(k) Plan. Participants in the 401(k) Plan may direct the investment of their accounts in several types of investment funds.

Participants are always 100% vested in their elective deferrals, matching and discretionary matching contributions and related earnings under the 401(k) Plan.

Patriot National Bancorp, Inc. 2020 Stock Plan

In 2011, the Company adopted the Patriot National Bancorp, Inc. 2012 Stock Plan (the “2012 Plan”), which was approved and ratified by shareholders of the Company on December 13, 2011. On November 1, 2020, the Board of Directors of the Company approved an amendment of the 2012 Plan and renamed it as the Patriot National Bancorp, Inc. 2020 Restricted Stock Award Plan (the “2020 Plan”), which was approved and ratified by shareholders of the Company on December 22, 2021.

On November 10, 2022, the Board of Directors approved the Amendment and Restatement of the 2020 Plan (the “Amended and Restated 2020 Plan”), which was approved and ratified by shareholders of the Company on December 14, 2022. The 2020 Plan was amended primarily to (i) reduce the total number of shares authorized for issuance thereunder from 3,000,000 to 400,000; and (ii) limit the maximum number of shares of Company’s Common Stock granted during a single fiscal year to any non-employee director, together with any cash fees paid to such director, to be no more than a total value of \$300,000.

The 2020 Plan is administered by the Compensation Committee of the Company’s Board of Directors. Grants under the 2020 Plan are made in the form of restricted stock. Only directors and employees of the Company are eligible to receive grants of restricted stock under the 2020 Plan. The grants of restricted stock may be subject to vesting, in one or more installments, upon the happening of certain events, upon the passage of a certain period of time. The vesting of restricted stock awards may be accelerated in accordance with terms of the plan. The Compensation Committee shall make the terms and conditions applicable to the vesting of restricted stock awards.

Director Compensation

The following table sets forth certain information regarding the compensation earned by or awarded to each of our non-employee directors who served on our Board during the fiscal year ended December 31, 2023.

Name	Fees Earned or Paid		
	in Cash	Stock Awards(1)	Total
Edward N. Constantino	\$ 74,025	\$ 14,346	\$ 88,371
Emile Van den Bol	72,075	14,346	86,421
Michael J. Weinbaum	42,225	14,346	56,571
Grace Doherty	8,950	7,173	16,123

(1) The "Stock Awards" column represents the aggregate grant date fair value computed in accordance with ASC Topic 718 for awards of restricted stock granted under our 2020 Plan during fiscal 2023. We calculated the estimated fair value of the restricted stock awards using the market price of our common stock on the grant date. As of December 31, 2023, the aggregate number of unvested stock awards held by each of our non-employee directors was as follows: Edward N. Constantino – 1,587; Emile Van den Bol – 1,587; Michael J. Weinbaum – 1,587; and Grace Doherty – 972.

The Company's directors who are also executive officers do not receive compensation for service on the Board of Directors or any of its committees. On an annual basis, each non-employee director receives \$1,150 for each board meeting in which they participate and annual retainer fees totaling \$19,100. They also receive fees ranging from \$375 to \$750 for each committee meeting in which they participate. In addition, non-employee directors who serve as the chair of a committee receive additional retainer fees ranging from \$3,000 to \$9,200 per year. In addition, each non-employee director receives an annual equity grant of restricted stock units with a grant date value of approximately \$14,346 for Edward N. Constantino, Emile Van den Bol, and Michael J. Weinbaum, and \$7,173 for Grace Doherty. The restricted stocks will vest in full in four equal annual installments, beginning on the first anniversary of the grant date. The Company's directors are also reimbursed for reasonable and necessary out-of-pocket expenses incurred in connection with their service to the Company, including travel expenses.

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

Security Ownership of Certain Beneficial Owners and Management of Patriot

The table below provides certain information about beneficial ownership of Patriot common stock as of April 1, 2024 with respect to: (i) each person, or group of affiliated persons, who is known to Patriot to own more than five percent (5%) of Patriot common stock; (ii) each of the Patriot's directors; (iii) each of the Patriot's executive officers; and (iv) all of Patriot's directors and executive officers as a group.

Except as otherwise noted, to the knowledge of the Company, all persons listed below have sole voting and dispositive power with respect to all shares of Patriot common stock they beneficially own, except to the extent authority is shared by spouses under applicable law. Applicable percentage ownership is based on 3,976,073 shares of Patriot common stock outstanding as of April 1, 2024. In computing the number of shares of common stock beneficially owned by a person and applicable percentage of ownership of that person, we deemed outstanding shares of common stock subject to options held by that person that are currently exercisable or exercisable within sixty (60) days of April 1, 2024. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated, the address of each shareholder is in care of Patriot National Bancorp, Inc., 900 Bedford Street, Stamford, CT 06901.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percent of Class
Michael A. Carrazza	67,254 (1)	1.69 %
David C. Lowery	9,000	*
Joseph D. Perillo	4,263 (2)	*
Frederick K. Staudmyer	3,203	*
Judith P. Corprew	2,026	*
Thomas E. Slater	2,463	*
Steve Grunblatt	2,500	*
Alfred Botta	—	*
Edward N. Constantino	15,524	*
Emile Van den Bol	63,137	1.59 %
Michael J. Weinbaum	361,696	9.10 %
Grace Doherty	243	*
All Directors and Executive Officers	531,309	13.36 %
AFP Forty Six Corp.	342,172 (5)	8.61 %
Harvey Sandler Revocable Trust	317,248 (6)	7.98 %
Siguler Guff Advisers, LLC	460,589 (7)	11.58 %
SMC Holdings I, LP	427,691 (8)	10.76 %
LMI Partners, LLC	285,915 (9)	7.19 %
AllianceBernstein L.P.	388,977 (10)	9.78 %

* Less than one percent (1%)

(1) Includes 12,221 shares held by Solaia Capital Management Profit Sharing Plan for the benefit of Mr. Carrazza, with regard to which Mr. Carrazza has sole voting and dispositive power, and 55,033 vested shares directly owned by Mr. Carrazza.

(2) Includes 3,185 shares held in an IRA for the benefit of Mr. Perillo.

(3) Includes 1,000 shares held in a SEP IRA for the benefit of Mr. Constantino.

(4) Includes 19,524 shares of common stock owned directly by Mr. Weinbaum and 342,172 shares owned by AFP Forty Six Corp. ("AFP"), of which Mr. Weinbaum serves as President.

(5) Based solely on the information set forth in the Schedule 13G/A filed with the SEC on December 10, 2023, Michael Weinbaum is President of AFP and therefore may be deemed to have voting and dispositive power over the shares held by AFP. Mr. Weinbaum disclaims beneficial ownership of the Common Stock held by AFP except to the extent of his pecuniary interest therein. The address of AFP is 9 Park Place, Great Neck, NY 11021.

(6) Based solely on the information set forth in the Schedule 13G/A filed with the SEC on April 13, 2021, Gary Rubin and Andrew Sandler are trustees of Harvey Sandler Revocable Trust, and therefore may be deemed to have voting and dispositive power over the shares held by Harvey Sandler Revocable Trust. The address of Harvey Sandler Revocable Trust is 2080 NW Boca Raton Blvd Ste 2 Boca Raton, FL 33431.

(7) Based solely on the information set forth in the Schedule 13G/A filed with the SEC on January 20, 2023, Siguler Guff Advisers, LLC ("SGA") is 100% owned by Siguler Guff & Company, LP. The general partner of Siguler Guff & Company, LP is Siguler Guff Holdings GP, LLC. George W. Siguler, Andrew J. Guff, Donald P. Spencer and Kenneth J. Burns are the owners of Siguler Guff Holdings GP, LLC and the executive officers of SGA, and therefore may be deemed to have voting and dispositive power over the shares held by SGA. Address of SGA is c/o Siguler Guff & Company, LP, 200 Park Avenue, 23rd Floor, New York, NY 10166.

(8) Based solely on the information set forth in the Schedule 13G filed with the SEC on April 27, 2021, SMC Holdings I G.P., LLC ("SMC GP") is the general partner of SMC Holdings I, LP. John L. Steffens and Gregory P. Ho each serves as a Managing Member of SMC GP, and therefore may be deemed to have voting and dispositive power over the shares held by SMC GP. The address of SMC GP is c/o Spring Mountain Capital, LP, 650 Madison Avenue, 20th Floor, New York, NY 10022.

⁽⁹⁾ Based solely on the information set forth in the Schedule 13G filed with the SEC on April 16, 2021, Earl A. Samson III is Manager of LMI Partners, LLC, and therefore may be deemed to have voting and dispositive power over the shares held by LMI Partners, LLC. The address of LMI Partners, LLC is 954 Lexington Avenue, Suite 124, New York, NY 10021.

⁽¹⁰⁾ Based solely on the information set forth in the Schedule 13G/A filed with the SEC on February 14, 2024, by AllianceBernstein L.P. ("AllianceBernstein") AllianceBernstein has sole voting and dispositive power over 388,977 shares. The address of AllianceBernstein is 501 Commerce Street, Nashville, TN 37203.

Equity Compensation Plan Information as of the End of Fiscal 2023

The table below provides information as of December 31, 2023, with respect to the compensation plan under which equity securities of the Company are authorized for issuance to directors, officers or employees.

Equity Compensation Plans	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Approved by the shareholders	—	\$ —	218,998
Not approved by the shareholders	—	\$ —	—
Total	—	\$ —	218,998

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

Certain Relationships and Related Transactions

In the ordinary course of business, the Bank has made loans to officers and directors (including loans to members of their immediate families and loans to companies of which a director owns 10% or more). In the opinion of management, all of such loans were made in the ordinary course of business of the Bank on substantially the same terms, including interest rates and collateral requirements, as those then prevailing for comparable transactions with persons not related to the lender. The Bank believes that at the time of origination such loans did not involve more than the normal risk of collectability or present any other unfavorable features. There were no loans to officers and directors outstanding as of December 31, 2023 and 2022. Deposits from related parties aggregated \$64,000 for both as of December 31, 2023 and 2022.

Information about transactions involving related persons is assessed by the Company's independent directors. Related persons include the Company's directors and executive officers as well as immediate family members of such directors and officers. If the independent directors approve or ratify a material transaction involving a related person, then the transaction would be disclosed in accordance with the SEC rules. If the related person is a director, or a family member of a director, then that director would not participate in those discussions.

Board Independence

The Board has determined that the following current directors, constituting a majority of the members of the Board, are independent as defined in the applicable listing standards of the Nasdaq Stock Market, Inc.: Messrs. Constantino, Van den Bol, Weinbaum and Doherty. Each current member of the Audit, Compensation, and Nominating and Governance Committees is an independent director pursuant to all applicable listing standards of Nasdaq. The Board of Directors has also determined that each current member of the Audit Committee also meets the additional independence standards for audit committee members established by the SEC, and each member of the Compensation Committee also qualifies as a "non-employee director" as defined in Rule 16b-3 of the Securities Exchange Act of 1934, as amended.

ITEM 14. Principal Accountant Fees and Services**Principal Accounting Fees and Services**

The following table sets forth the aggregate amounts of principal accounting fees we paid to our independent registered public accountants for professional services performed in fiscal years ended December 31, 2023 and 2022 for: (i) audit fees – consisting of fees billed for services rendered for the audit of our annual financial statements and the review of our quarterly financial statements; (ii) audit-related fees – consisting of fees billed for services rendered that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as audit fees; and (iii) all other fees – consisting of fees billed for all other services rendered.

	Year Ended December 31,	
	2023	2022
Audit fees (1)	\$ 623,689	\$ 436,800
Audit related fees (1)	—	—
All other fees(1)	23,625	19,950
	<u>\$ 647,314</u>	<u>\$ 456,750</u>

(1) The aggregate fees included in Audit Fees are fees billed for the fiscal years. The aggregate fees included in each of the other categories are fees billed in the fiscal years.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy for pre-approval of audit and permitted non-audit services by the Company's independent registered public accountants. The Audit Committee will consider annually and, if appropriate, approve the provision of audit services by its external auditor and consider and, if appropriate, pre-approve the provision of certain defined audit and non-audit services. The Audit Committee also will consider on a case-by-case basis and, if appropriate, approve specific engagements that are not otherwise pre-approved.

Any proposed engagement that does not fit within the definition of a pre-approved service may be presented to the Audit Committee for consideration at its next regular meeting or, if earlier consideration is required, to the Audit Committee or one or more of its members. The member or members to whom such authority is delegated shall report any specific approval of services at its next regular meeting. The Audit Committee will regularly review summary reports detailing all services being provided to the Company by its external auditor.

The Audit Committee pre-approved all of the audit and non-audit services provided by RSM during the years ended December 31, 2023 and 2022.

Part IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) The consolidated financial statements and exhibits listed below are filed as part of this Annual Report on Form 10-K.

- (1) The Company's Consolidated Financial Statements, the Notes thereto and the Report of the Independent Registered Public Accounting Firm are included in PART II, Item 8. "Financial Statements and Supplementary Data."
- (2) Financial statement schedules have been omitted because they are not applicable, not required, or the required information is included in the Consolidated Financial Statements or Notes thereto.
- (3) Exhibits. Reference is made to Item 15(b) below.

(b) *Exhibits*. The Exhibit Index, which immediately precedes the signature page, is incorporated by reference into this Annual Report on Form 10-K.

(c) *Financial Statement Schedules*. Reference is made to Item 15(a)(2) above.

Item 16. Form 10-K Summary

None

EXHIBIT INDEX

Exhibits No.	Description
2.1**	Termination and Release Agreement, dated as of July 18, 2022, by and among Patriot National Bancorp, Inc., and American Challenger Development Corp. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 20, 2022).
3.1	Certificate of Incorporation of Patriot National Bancorp, Inc. (incorporated by reference to Exhibit 3(i) to the Company's Current Report on Form 8-K filed on December 1, 1999)
3.2	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated July 16, 2004 (incorporated by reference to Exhibit 3(i)(A) to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004 filed on March 25, 2005)
3.3	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated June 15, 2006 (incorporated by reference to Exhibit 3(i)(B) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 filed on November 14, 2006)
3.4	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp Inc., dated October 6, 2010 (incorporated by reference to Exhibit 3.I to the Company's Current Report Form 8-K filed on October 21, 2010)
3.5	Amended and Restated By-laws of Patriot National Bancorp Inc. (incorporated by reference to Exhibit 3(ii) to the Company's Current Report on Form 8-K filed on November 1, 2010)
4.1	Form of 6.25% Fixed to Floating Rate Subordinated Note (incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 filed on August 14, 2018)
4.2	Form of 8.5% Senior Note due 2026 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 21, 2022).

[Table of Contents](#)

10.1†	Patriot National Bancorp, Inc. Amendment and Restatement of the 2020 Restricted Stock Award Plan (incorporated by reference to Exhibit A to the Company's Proxy statement on Schedule 14A filed on November 10, 2022).
10.2	Form of Subordinated Note Purchase Agreement (incorporated by reference to Exhibit 10(6) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 filed on August 14, 2018)
10.3***	Investment Agreement, dated as of November 14, 2021, between Patriot National Bancorp, Inc., Patriot Bank, N.A and Oaktree Opportunities Fund Xb Holdings (Delaware), L.P. and Oaktree Opportunities Fund XI Holdings (Delaware), L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 16, 2021).
10.4***	Investment Agreement, dated as of November 14, 2021, between Patriot National Bancorp, Inc., Patriot Bank, N.A and AG Credit Solutions Master Fund II A, L.P., AG Credit Solutions Non ECI Master Fund, L.P., AG Potomac Fund, L.P., AG Capital Solutions SMA One, L.P., AG Cataloochee, L.P., and AG Centre Street Partnership, L.P.(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 16, 2021).
10.5***	Investment Agreement, dated as of November 14, 2021, between Patriot National Bancorp, Inc. and Eagle Strait I LLC and Eagle Strait II LLC (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on November 16, 2021).
14.1	Code of Conduct for Senior Financial Officers (incorporated by reference to Exhibit 14 to the Company's Annual Report on Form 10 -KSB for the year ended December 31, 2004 (Commission File No. 000-29599)
14.2*	Code of Ethics and Conflict of Interest Policy
21.1	Subsidiaries of Bancorp (incorporated by reference to Exhibit 21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019 filed on April 29, 2020)
23.1*	Consent of RSM US LLP
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1*	Section 1350 Certifications
97.1*	Patriot National Bancorp, Inc. Clawback Policy
101.INS#*	Inline XBRL Instance Document
101.SCH#	Inline XBRL Schema Document
101.CAL#	Inline XBRL Calculation Linkbase Document
101.LAB#	Inline XBRL Labels Linkbase Document
101.PRE#	Inline XBRL Presentation Linkbase Document
101.DEF#	Inline XBRL Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

† Management Contracts and Compensatory Plans, Contracts or Arrangements.

* Provided herewith.

** Schedules and exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. PNBK agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request.

*** Schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. PNBK agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request.

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

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 1, 2024

Patriot National Bancorp, Inc. (Registrant)

By: /s/ Joseph D. Perillo

Name: Joseph D. Perillo

Title: Executive Vice President and Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in capacities and on the dates indicated.

Signature	Title	Date
/s/ David Lowery David Lowery	Chief Executive Officer and Director (Principal Executive Officer)	April 1, 2024
/s/ Joseph D. Perillo Joseph D. Perillo	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	April 1, 2024
/s/ Michael Carrazza Michael Carrazza	Chairman and Director	April 1, 2024
/s/ Edward N. Constantino Edward N. Constantino	Director	April 1, 2024
/s/ Emile Van den Bol Emile Van den Bol	Director	April 1, 2024
/s/ Michael J. Weinbaum Michael J. Weinbaum	Director	April 1, 2024
/s/ Grace Doherty Grace Doherty	Director	April 1, 2024

Policy Name: **CODE OF ETHICS /CONFLICT OF INTEREST POLICY**

Last Review/Update: March 2024

Policy Number: I – 1

Purpose:

To establish an appropriate guide for Bank Staff and Directors, the following Code of Ethics has been adopted by Patriot Bank, N.A. and Patriot National Bancorp Inc., collectively referred to as “the Bank.”

Policy:

Personal Reputation

It is imperative that each individual conducts him/herself at all times in a manner that reflects credit on the Bank, its Staff and Directors. Everyone associated with the Bank must maintain a reputation for good morals, ethics and integrity, and must remain above reproach throughout his or her business career. The Bank and its Staff and Directors must, at all times, comply with all applicable laws and regulations. The Bank will not condone the activities of Staff and Directors who achieve results through violation of the law or unethical business dealings. This includes any payments for illegal acts, indirect contributions, rebates and bribery. The Bank does not permit any activity that fails to stand the closest possible public scrutiny or that will cause adverse publicity for the Bank.

General Employee Conduct

The Bank expects its Staff and Directors to conduct themselves in a businesslike manner. Drinking, gambling, fighting, swearing, and similar unprofessional activities are strictly prohibited while on the job.

Bank Staff and Directors must not engage in sexual harassment or conduct themselves in a way that could be construed as such, for example, by using inappropriate language, keeping or posting inappropriate materials in their work area, or accessing inappropriate materials on their computer.

All business conduct should be well above the minimum standards required by law. Accordingly, Bank Staff and Directors must ensure that their actions cannot be interpreted as being, in any way, in contravention of the laws and regulations governing the Bank's operations.

Bank Staff and Directors uncertain about the application or interpretation of any legal requirements should refer the matter to their superior, who, if necessary, should seek the advice of the Bank's legal counsel.

Conflict of Interest

Staff members and Directors in performing any of their functions or duties for the Bank should not take actions or participate in any determinations which involve or give the appearance of conflict of interest. This conflict could arise out of business or personal matters of a family member, close relative, or any person, organization, or entity with which he or she may have a close personal relationship or financial interest. Directors and Staff should withdraw from any discussions or considerations of such matter, abstain from voting on any such matters, and should ensure that records or minutes so indicate.

Principles and Practices

In performing his or her duties, each Bank Staff and Director must:

- (1) maintain high standards of honest and ethical conduct and avoid any actual or apparent conflict of interest as defined above;
- (2) report to a member of executive management and/or the Chief Human Resource Officer, or for Executive Officers and Directors, to the Audit Committee of the Board of Directors, any conflict of interest that may arise and any material transaction or relationship that reasonably could be expected to give rise to conflict;
- (3) provide; or cause to be provided, full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with or submits to the Securities and Exchange Commission and in other public communications;
- (4) comply and take all reasonable actions to cause others to comply with applicable governmental laws, rules, and regulations; and
- (5) promptly report violations of this Code to [the Chief Administrative Officer], or for Officers and Directors, to the Audit Committee.

Waiver

Any request for a waiver of any provision of this Code must be in writing and addressed to the Chief Administrative Officer, or for Executive Officers and Directors, to the Audit Committee. Any waiver of this Code for Officers and Directors may be made only by the Board or Audit Committee and will be disclosed promptly on Form 8-K or any other means approved by the Securities and Exchange Commission and Nasdaq Stock Market.

Compliance and Accountability

The Audit Committee will assess compliance with this Code, report material violations to the Board of Directors, and recommend to the Board appropriate action.

Regardless of the circumstances, if any Staff member or Director senses that a course of action they have pursued, are presently pursuing, or are contemplating pursuing, may involve them in a conflict of interest with the Bank; they should immediately communicate all the facts to their superior.

Personal Investment and Finance

Staff members and Directors may not borrow from, invest in, or enter into personal business relationships with customers, prospects or suppliers of the Bank without full disclosure and authorization by the Board of Directors. Normal consumer transactions conducted through ordinary retail sources or borrowings from recognized lending institutions are appropriate and are excluded from the requirements previously mentioned.

Confidential Information

All information obtained by virtue of association with the Bank must be held in strictest confidence. No hint of information or of even having knowledge of Bank account, names of depositors or borrowers, their sources of income, obligations, etc., or any other information can ever be revealed to unauthorized persons.

Trading in Bank Stock

While the Staff and Directors are encouraged to own Bank stock, active trading in the Bank's stock to make a quick profit is not acceptable. The normal purchase and sale of stock is encouraged. Directors and Bank Staff are encouraged to own the Bank's stock (trading symbol: 'PNBK'). Directors and Staff shall not buy or sell shares in PNBK based on "insider" information, nor should they recommend such trades to outsiders based upon such information. "Insider" information is defined as information, financial or otherwise, that has a probable likelihood of materially affecting the share price and such information is unavailable at the time to other shareholders and prospective shareholders. Directors and Executive Officers must specifically comply with the Bank's Insider Trading Policy.

Outside Interests

Acceptance by employees of outside employment or membership on an outside board involves possibilities of conflict of interest. Staff members are encouraged to serve in civic, charitable, or religious groups. Any other such position should be approved by the Chief Administrative Officer, in the case of an executive officer, by the Board of Directors.

Community Activity

The Bank, as an institution, cannot engage in politics. Staff members and Directors, however, are encouraged to stay well informed on local, state, and national affairs and to meet their responsibility to vote in all elections. The Bank's Staff and Directors are encouraged to participate in community affairs whether it is political, charitable, or business related. Staff members, Officers and Directors should assure themselves that their participation in these activities in no way indicates Bank sponsorship and in no way reflects unfavorably on the Bank. Prior approval of political activities involving Bank time or financial support must be approved in advance by Senior Management.

Gifts and Entertainment

Substantial gifts, personal favors and excessive entertainment from Bank customers should be courteously and tactfully declined. Non-Bank commissions, fees, or propositions involving personal gain to a non-officer, Officer or Director in connection with the handling of a banking transaction are highly improper and in most cases illegal. Non-officers, Officers, or Directors should not solicit or receive anything of value in connection with any transaction. Gifts that mark significant non-business events, such as holidays, birthdays, weddings, etc., may be accepted if they are of nominal value. Nominal value is considered to be no more than \$50.00. Anything over that amount must be reported to the Chief Compliance Officer.

Kickbacks and Secret Commissions

The Federal Bank Bribery Act makes it a serious crime to offer or accept anything of value in connection with the business of the Bank if your intent is to either influence, or be influenced by, a third party.

Regarding the Bank's business activities, Bank Staff and Directors may not receive payment or compensation of any kind, except as authorized under the Bank's remuneration policies. In particular, the Bank strictly prohibits the acceptance of kickbacks and secret commissions from suppliers, employees or others. Any breach of this rule will result in immediate termination and prosecution to the fullest extent of the law.

Corporate Opportunities

Staff and Directors are prohibited from taking personal advantage of opportunities that are discovered through the use of Bank information or position. No Staff or Director may use Bank information or position for personal gain and no Staff or Director may compete with the Bank directly or indirectly. When in doubt, Staff or Directors should discuss with their superiors and/or the Board in advance situations which may involve the personal use of a corporate opportunity.

Protection of Bank Assets

Staff and Directors should strive at all times to protect the Bank's assets and preserve their efficient use. Loss or impairment of assets through carelessness or waste may impair the Bank's financial condition and/or expose it to legal action. All Bank assets should be used for legitimate business purposes of the Bank.

This obligation extends to proprietary information of the Bank, including intellectual property such as trademarks, copyrights, trade names, logos, trade secrets and patents. It also includes the Bank's strategic and marketing plans, records, customer lists, employee information and any non-public financial information. Evidence of unauthorized disclosure of this type of information should be immediately reported to a member of Senior Management or to the Board.

Undesirable Business

Bank Staff and Directors are to avoid any appearance of discrimination in the acceptance of business brought to the Bank by reputable persons. However, it should be kept in mind that accounts offered or loans requested from known controversial or unsavory firms or persons should be declined. Such relationships often lead to loss and embarrassment for the Bank and should be carefully considered.

Establishment of Charges

Interest rates on deposits and loans, terms of loans, service and analysis charges, etc., will be determined solely on the basis of what is in the best interests of the Bank and its customers. Under no circumstances should any preliminary agreements or understanding be established with Bank customers concerning rates and charges that are not in accordance with stated rates and policies unless approved through the Bank's normal management approval process.

Competition

Competition between the Bank and any other financial institution must always be positive. Professional and timely service to the Bank's customers is a far more effective business approach than criticism of a competitor. Such criticism is not in keeping with the character of this Bank and should have no place in the conversation of those associated with the Bank.

Informational Requests

Bank Staff and Directors are expected to refer all requests from public officials, newspapers, television, magazines and other media for statements about the Bank to the President & CEO or the Chairman of the Board.

Financial Performance

Bank Staff and Directors are expected to refer all questions from shareholders or other parties concerning the Bank's stock or financial performance to the President & CEO or the Chief Financial Officer.

Dealing with outside People and Organizations.

Bank Staff and Directors must take care to separate their personal roles from their Bank positions when communicating on matters not involving Bank business. Bank Staff and Directors must not use Bank identification, stationary, supplies and equipment for personal or political matters.

Bank Records and Communications

Accurate and reliable records of many kinds are necessary to meet the Bank's legal and financial obligations and to manage the affairs of the Bank. The Bank's books and records must reflect, in an accurate, timely and compliant manner, all business transactions. The Bank Staff responsible for accounting and recordkeeping must fully disclose and record all assets, liabilities, or both, and must exercise diligence in enforcing these requirements.

Bank Staff and Directors must not make or engage in any false record or communication of any kind, whether internal or external, including but not limited to:

False expense, attendance, production, financial, or similar reports and statements. False advertising, deceptive marketing practices, or other misleading representations.

Prompt Communications

In all matters relevant to customers, suppliers, government authorities, the public and others in the Bank, all Bank Staff and Directors must make every effort to achieve complete, accurate, and timely communications, responding promptly and courteously to all proper requests for information and to all complaints.

Duties and Violations

Bank Staff and Directors are required to report violations of the Code of Ethics to the Chief Administrative Officer or the President & CEO. Violations of the Code of Ethics will result in disciplinary action up to and including immediate discharge from the Bank.

Respect for Diversity

Every individual possesses qualities which differ from those of their coworkers. These include not only such characteristics as race, gender and age, but less obvious attributes such as political affiliation, appearance and education. The diversity of the Bank's employees should be viewed not as differences, but as potential. Diversity provides a unique opportunity to obtain a variety of perspectives, experience and resources in addressing issues encountered by the Bank and in achieving its goals. The Bank strives to create an environment that encourages and respects diversity in order to permit everyone to perform and contribute to their maximum potential.

The Bank is committed to equal opportunities for all of its personnel, regardless of race, color, gender, age, religion, disability, national origin, marital status, sexual orientation, genetic predisposition, citizenship, veteran status or any other characteristic which may be considered "different". In addition, the Bank firmly prohibits sexual and other forms of harassment in the workplace. Complete presentations of the Bank's Equal Employment Opportunity and Harassment policies are contained in the Employee Handbook. All managers and employees are expected to thoroughly review and comply with these requirements.

Communication and Computer Systems

The use of the Bank's communication and computer systems requires particular care. E-mail, voice mail and Internet exchanges, such as those on social internet sites, are not private and their source is identifiable. Electronic communications may remain part of the Bank's business records long after they have been deleted. Employees must ensure that the content of their electronic communications, both professional and personal, does not adversely impact their co-workers, the Bank's public image or that of its customers, representatives or suppliers.

Electronic communications may not be used improperly for personal reasons, such as messages of a political or religious nature, or exchanges containing obscene or otherwise offensive language or material. As a condition of employment, each Bank employee must agree to comply with the Information Security Policy regarding workstation usage.

The Bank reserves the right to access its communications and computer systems without notice.

Inappropriate use of electronic communications, either professional or personal, will result in disciplinary action by the Bank up to and including termination.

Where to Report Violations

Employees are required to notify their supervisors of actual or suspected violations of law or the principles set forth in this Employee Handbook. Failure to advise management of, or detect, an offense may itself be grounds for discipline. If an employee feels that discussing an issue with his/her supervisor would be inappropriate, he/she may confer with the AVP or VP of Human Resources, Chief Administrative Officer or the President & CEO.

Substantial effort will be made to treat reports of suspected illegalities or failures to comply with the Code of Ethics in a confidential manner. Any report will be investigated promptly, thoroughly and fairly.

Exceptions

Any exception to the Code of Ethics policy must conform with applicable law and regulation and be approved by any two of the following, the President & CEO, Chief Administrative Officer, AVP/VP-Human Resources or Chairman of the Board, and reported to the Board, or its designee, at the next regularly scheduled meeting. An exception may only be granted after full written disclosure of all material facts.

Employee Acknowledgement

This Code of Ethics is a critical element of the Bank's program to prevent and detect violations of the law and Bank policy. Employees must sign and return to the Human Resources Department, annually, the Bank form confirming that they have reviewed, understand, complied with, and will continue to comply with, the Code of Ethics.

Acknowledgement

I have read and received a copy of the Code of Ethics and fully understand my obligations and responsibilities as outlined therein.

Signature: ____ Date: ____

Printed Name: ____

This is a general statement of policy and as such, it does not constitute a term or provision of any contract of employment or implied contract of employment between Patriot Bank and any employee, nor does it create contractual obligations on behalf of Patriot Bank to anyone.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Post-Effective Amendment No. 1 to Registration Statement (No. 333-179204) on Form S-8 of Patriot National Bancorp, Inc., of our report dated April 1, 2024, relating to the consolidated financial statements of Patriot National Bancorp, Inc., appearing in this Annual Report on Form 10-K of Patriot National Bancorp, Inc. for the year ended December 31, 2023.

/s/ RSM US LLP

Hartford, Connecticut
April 1, 2024

**CERTIFICATION
BY CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14**

I, David Lowery, certify that:

1. I have reviewed this annual report on Form 10-K of Patriot National Bancorp, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 1, 2024

/s/ David Lowery

David Lowery

President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION
BY PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13A-14

I, Joseph D. Perillo, certify that:

1. I have reviewed this annual report on Form 10-K of Patriot National Bancorp, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 1, 2024

/s/ Joseph D. Perillo

Joseph D. Perillo

Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of PATRIOT NATIONAL BANCORP, INC. (the "*Company*") on Form 10-K for the period ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), we, David Lowery and Joseph D. Perillo, the Chief Executive Officer and the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David Lowery

David Lowery

President and Chief Executive Officer (Principal Executive Officer)

/s/ Joseph D. Perillo

Joseph D. Perillo

Chief Financial Officer

(Principal Financial Officer)

Date: April 1, 2024

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission and shall not be considered filed as part of the Report.

PATRIOT NATIONAL BANCORP, INC.

CLAWBACK POLICY

OVERVIEW

In accordance with the applicable rules (the "**Nasdaq Rules**") of The Nasdaq Stock Market (" **Nasdaq**"), Section 10D and Rule 10D-1 (" **Rule 10D-1**") of the Securities Exchange Act of 1934, as amended (the " **Exchange Act**"), the Board of Directors (the " **Board**") of Patriot National Bancorp, Inc. (the " **Company**") has adopted this Policy (the " **Policy**") to provide for the recovery of Erroneously Awarded Incentive-based Compensation (as defined herein) from Executive Officers (as defined herein).

RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION

Recovery Process

In the event of an Accounting Restatement (as defined herein), the Company will reasonably promptly recover the Erroneously Awarded Compensation Received in accordance with Nasdaq Rules and Rule 10D-1 as follows:

1. After an Accounting Restatement, the Compensation Committee (if composed entirely of independent directors, or in the absence of such a committee, a majority of independent directors serving on the Board) (the " **Committee**") shall determine the amount of any Erroneously Awarded Compensation Received by each Executive Officer and shall promptly notify each Executive Officer with a written notice containing the amount of any Erroneously Awarded Compensation and a demand for repayment or return of such compensation, as applicable.
 - (a) For Incentive-based Compensation based on (or derived from) the Company's stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement:
 - i. The amount to be repaid or returned shall be determined by the Committee based on a reasonable estimate of the effect of the Accounting Restatement on the Company's stock price or total shareholder return upon which the Incentive-based Compensation was Received; and
 - ii. The Company shall maintain documentation of the determination of such reasonable estimate and provide the relevant documentation as required to Nasdaq.
2. The Committee shall have discretion to determine the appropriate means of recovering Erroneously Awarded Compensation based on the particular facts and circumstances. Notwithstanding the foregoing, except as set forth in "Limited Exception" below, in no event may the Company accept an amount that is less than the amount of Erroneously Awarded Compensation in satisfaction of an Executive Officer's obligations hereunder.
3. To the extent that the Executive Officer has already reimbursed the Company for any Erroneously Awarded Compensation Received under any duplicative recovery obligations established by the Company or applicable law, it shall be appropriate for any such reimbursed amount to be credited to the amount of Erroneously Awarded Compensation that is subject to recovery under this Policy.
4. To the extent that an Executive Officer fails to repay all Erroneously Awarded Compensation to the Company when due, the Company shall take all actions reasonable and appropriate to recover such Erroneously Awarded Compensation from the applicable Executive Officer. The applicable Executive Officer shall be required to reimburse the Company for any and all expenses reasonably incurred (including legal fees) by the Company in recovering such Erroneously Awarded Compensation in accordance with the immediately preceding sentence.

Limited Exception

Notwithstanding anything herein to the contrary, the Company shall not be required to take the actions as set forth in "Recovery Process" above if the Committee determines that recovery would be impracticable and any of the following three conditions are met:

1. The Committee has determined that the direct expenses paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered. Before making this determination, the Company must make a reasonable attempt to recover the Erroneously Awarded Compensation, documented such attempt(s) and provided such documentation to Nasdaq;
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2. Recovery would violate home country law where that law was adopted prior to November 28, 2022, provided that, before determining that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of home country law, the Company has obtained an opinion of home country counsel, acceptable to Nasdaq, that recovery would result in such a violation and a copy of the opinion is provided to Nasdaq; or
3. Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

DISCLOSURE REQUIREMENTS

The Company shall file all disclosures with respect to this Policy required by applicable U.S. Securities and Exchange Commission ("SEC") filings and rules.

PROHIBITION OF INDEMNIFICATION

The Company shall not be permitted to insure or indemnify any Executive Officer against (i) the loss of any Erroneously Awarded Compensation that is repaid, returned or recovered pursuant to the terms of this Policy, or (ii) any claims relating to the Company's enforcement of its rights under this Policy. Further, the Company shall not enter into any agreement that exempts any Incentive-based Compensation that is granted, paid or awarded to an Executive Officer from the application of this Policy or that waives the Company's right to recovery of any Erroneously Awarded Compensation, and this Policy shall supersede any such agreement (whether entered into before, on or after the Effective Date of this Policy).

ADMINISTRATION AND INTERPRETATION

This Policy shall be administered by the Committee, and any determinations made by the Committee shall be final and binding on all affected individuals.

The Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy and for the Company's compliance with Nasdaq Rules, Section 10D, Rule 10D-1 and any other applicable law, regulation, rule or interpretation of the SEC or Nasdaq promulgated or issued in connection therewith.

AMENDMENT; TERMINATION

The Committee may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary. Notwithstanding anything in this paragraph to the contrary, no amendment or termination of this Policy shall be effective if such amendment or termination would (after taking into account any actions taken by the Company contemporaneously with such amendment or termination) cause the Company to violate any federal securities laws, SEC rule or Nasdaq rule.

OTHER RECOVERY RIGHTS

This Policy shall be binding and enforceable against all Executive Officers and, to the extent required by applicable law or guidance from the SEC or Nasdaq, their beneficiaries, heirs, executors, administrators or other legal representatives. The Committee intends that this Policy will be applied to the fullest extent required by applicable law. Any employment agreement, equity award agreement, compensatory plan or any other agreement or arrangement with an Executive Officer shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by the Executive Officer to abide by the terms of this Policy. Any right of recovery under this Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company under applicable law, regulation or rule or pursuant to the terms of any policy of the Company or any provision in any employment agreement, equity award agreement, compensatory plan, agreement or other arrangement.

DEFINITIONS

For purposes of this Policy, the following capitalized terms shall have the meanings set forth below.

"Accounting Restatement" means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (a "Big R" restatement), or to correct errors that are not material to previously issued financial statements but would result in a material misstatement if (a) the errors were left uncorrected in the current report or (b) the error correction was recognized in the current period (a "little r" restatement). For the avoidance of doubt, an out-of-period of adjustment (i.e., when the error is immaterial to the previously issued financial statements and the correction of the error is also immaterial to the current period) does not trigger a compensation recovery under this Policy because it is not an "accounting restatement."

“Clawback Eligible Incentive Compensation” means all Incentive-based Compensation Received by an Executive Officer (i) on or after October 2, 2023, the effective date of the applicable Nasdaq Rules, (ii) after beginning service as an Executive Officer, (iii) who served as an Executive Officer at any time during the applicable performance period relating to any Incentive-based Compensation (whether or not such Executive Officer is serving at the time the Erroneously Awarded Compensation is required to be repaid to the Company), (iv) while the Company has a class of securities listed on a national securities exchange or a national securities association, and (v) during the applicable Clawback Period (as defined herein).

“Clawback Period” means, with respect to any Accounting Restatement, the three completed fiscal years of the Company immediately preceding the Restatement Date (as defined herein), and if the Company changes its fiscal year, any transition period of less than nine months within or immediately following those three completed fiscal years.

“Erroneously Awarded Compensation” means, with respect to each Executive Officer in connection with an Accounting Restatement, the amount of Clawback Eligible Incentive Compensation that exceeds the amount of Incentive-based Compensation that otherwise would have been Received had it been determined based on the restated amounts, computed without regard to any taxes paid. For an example of the calculation, see Footnotes 235 and 237 of SEC Release No. 33-11126 (<https://www.sec.gov/rules/final/2022/33-11126.pdf>). For further guidance on the calculation, see text accompanying Footnotes 243 and 244 of SEC Release No. 33-11126 regarding cash awards, pool plans and equity awards.

“Executive Officer” means each individual who is currently or was previously designated as an “officer” of the Company as defined in Rule 16a-1(f) under the Exchange Act. For the avoidance of doubt, the identification of an Executive Officer for purposes of this Policy shall include each executive officer who is or was identified pursuant to Item 401(b) of Regulation S-K under the Exchange Act, as applicable, as well as the principal financial officer and principal accounting officer (or, if there is no principal accounting officer, the controller).

“Financial Reporting Measures” means measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and all other measures that are derived wholly or in part from such measures. Stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return) shall, for purposes of this Policy, be considered Financial Reporting Measures. For the avoidance of doubt, a Financial Reporting Measure need not be presented in the Company’s financial statements or included in a periodic or other filing with the SEC.

“Incentive-based Compensation” means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

“Received” means, with respect to any Incentive-based Compensation, actual or deemed receipt, and Incentive-based Compensation shall be deemed received in the Company’s fiscal period during which the Financial Reporting Measure specified in the Incentive-based Compensation award is attained, even if the payment or grant of the Incentive-based Compensation to the Executive Officer occurs after the end of that period.

“Restatement Date” means the earlier to occur of (i) the date the Board, a committee of the Board or the officers of the Company authorized to take such action if Board action is not required, conclude(s), or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, or (ii) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement.

Effective as of November 30, 2023.

Exhibit A

ATTESTATION AND ACKNOWLEDGEMENT OF CLAWBACK POLICY

By my signature below, I acknowledge and agree that:

- I have received and read the attached Clawback Policy (the “ **Policy**”).
- I hereby agree to abide by all of the terms of this Policy both during and after my employment with Patriot National Bancorp, Inc. (the “**Company**”), including, without limitation, by promptly repaying or returning any Erroneously Awarded Compensation (as defined in the Policy) to the Company as determined in accordance with the Policy.

Signature:___

Printed Name:___

Date:___