

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

FORM 10-Q

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

For the quarterly period ended September 30, 2024

OR

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

For the transition period from _____ to _____

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 pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	PNBK	NASDAQ Global Market

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

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of November 19, 2024, there were 3,976,073 shares of the registrant's common stock outstanding.

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PART I- FINANCIAL INFORMATION
Item 1: Consolidated Financial Statements
PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2024	December 31, 2023
	Unaudited	
<i>(In thousands, except share data)</i>		
Assets		
Cash and due from banks:		
Noninterest bearing deposits and cash	\$ 2,718	\$ 2,195
Interest bearing deposits	70,013	50,322
Restricted cash	41	14,019
Total cash, cash equivalents and restricted cash	72,772	66,536
Investment securities:		
Available-for-sale securities, at fair value	89,578	89,187
Other investments, at cost	4,450	4,450
Total investment securities	94,028	93,637
Federal Reserve Bank (FRB) stock, at cost	2,109	2,090
Federal Home Loan Bank (FHLB) stock, at cost	3,473	4,202
Loans receivable (net of allowance for credit losses: 2024: \$(14,984) and 2023: \$(15,925))	740,687	832,934
Loans held for sale	13,658	20,767
Accrued interest and dividends receivable	5,932	7,219
Premises and equipment, net	29,117	29,875
Other real estate owned	2,843	2,843
Deferred tax asset	—	24,134
Core deposit intangible, net	168	203
Other assets	9,296	8,985
Total assets	\$ 974,083	\$ 1,093,425
Liabilities		
Deposits:		
Noninterest bearing deposits	\$ 91,583	\$ 110,056
Interest bearing deposits	733,306	730,255
Total deposits	824,889	840,311
FHLB, FRB and correspondent bank borrowings	93,800	171,000
Senior notes, net	11,827	11,723
Subordinated debt, net	9,891	9,869
Junior subordinated debt owed to unconsolidated trust, net	8,144	8,137
Note payable	216	376
Advances from borrowers for taxes and insurance	3,013	1,164
Accrued expenses and other liabilities	5,917	6,462
Total liabilities	957,697	1,049,042
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 September 30, 2024: 4,049,814 shares issued; 3,976,073 shares outstanding; As of December 31, 2023: 4,049,814 shares issued; 3,976,073 shares outstanding.	106,790	106,670
Accumulated deficit	(77,360)	(47,026)
Accumulated other comprehensive loss	(13,044)	(15,261)
Total shareholders' equity	16,386	44,383
Total liabilities and shareholders' equity	\$ 974,083	\$ 1,093,425

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

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest and Dividend Income				
Interest and fees on loans	\$ 11,704	\$ 13,936	\$ 36,345	\$ 40,538
Interest on investment securities	640	640	1,933	2,007
Dividends on investment securities	89	110	238	416
Other interest income	381	384	1,516	1,064
Total interest and dividend income	12,814	15,070	40,032	44,025
Interest Expense				
Interest on deposits	6,189	6,220	19,160	15,047
Interest on FHLB, FRB and correspondent bank borrowings	926	1,624	3,354	4,783
Interest on senior debt	290	290	869	869
Interest on subordinated debt	409	409	1,219	1,068
Interest on note payable	1	2	4	7
Total interest expense	7,815	8,545	24,606	21,774
Net interest income	4,999	6,525	15,426	22,251
Provision for credit losses	1,026	4,688	4,776	8,233
Net interest income after provision for credit losses	3,973	1,837	10,650	14,018
Non-interest Income				
Loan application, inspection and processing fees	201	310	493	554
Deposit fees and service charges	78	69	398	211
Gains on sales of loans	81	3	402	169
Rental income	75	106	226	330
(Loss) gain on sale of investment securities, net	—	—	(24)	24
Digital Payments income	1,333	625	3,509	1,391
Other income	347	56	1,421	154
Total non-interest income	2,115	1,169	6,425	2,833
Non-interest Expense				
Salaries and benefits	4,710	4,833	13,489	13,761
Occupancy and equipment expense	801	870	2,480	2,593
Data processing expense	321	355	981	965
Professional and other outside services	952	702	2,530	2,343
Project expenses, net	—	—	—	93
Advertising and promotional expense	105	61	239	223
Loan administration and processing expense	58	48	118	202
Regulatory assessments	386	292	890	791
Insurance expense, net	82	70	231	215
Communications, stationary and supplies	337	232	706	664
Other operating expense	644	646	1,957	1,906
Total non-interest expense	8,396	8,109	23,621	23,756
Loss before income taxes	(2,308)	(5,103)	(6,546)	(6,905)
Provision (benefit) for income taxes	24,646	(1,333)	23,788	(1,821)
Net loss	\$ (26,954)	\$ (3,770)	\$ (30,334)	\$ (5,084)
Basic loss per share	\$ (6.78)	\$ (0.95)	\$ (7.63)	\$ (1.28)
Diluted loss per share	\$ (6.78)	\$ (0.95)	\$ (7.63)	\$ (1.28)

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net loss	<u>\$ (26,954)</u>	<u>\$ (3,770)</u>	<u>\$ (30,334)</u>	<u>\$ (5,084)</u>
Other comprehensive income (loss)				
Unrealized holding gain (loss) on securities	3,856	(3,636)	3,227	(4,143)
Income tax effect	(1,000)	938	(832)	1,069
Reclassification for realized loss (gain) on sale of investment securities	—	—	24	(24)
Income tax effect	—	—	(6)	6
Impact of update to effective tax rate	(98)	—	(196)	—
Total other comprehensive income (loss)	<u>2,758</u>	<u>(2,698)</u>	<u>2,217</u>	<u>(3,092)</u>
Comprehensive loss	<u><u>\$ (24,196)</u></u>	<u><u>\$ (6,468)</u></u>	<u><u>\$ (28,117)</u></u>	<u><u>\$ (8,176)</u></u>

See Accompanying Notes to Consolidated Financial Statements.

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

Three Months Ended September 30, 2024

(In thousands, except shares)

	Number of Shares	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance at June 30, 2024	3,976,073	\$ 106,735	\$ (50,406)	\$ (15,802)	\$ 40,527
Comprehensive (loss) income:					
Net loss	—	—	(26,954)	—	(26,954)
Unrealized holding gain on available-for-sale securities, net of tax	—	—	—	2,758	2,758
Total comprehensive (loss) income	—	—	(26,954)	2,758	(24,196)
Share-based compensation expense	—	55	—	—	55
Balance at September 30, 2024	3,976,073	\$ 106,790	\$ (77,360)	\$ (13,044)	\$ 16,386

Three Months Ended September 30, 2023

(In thousands, except shares)

	Number of Shares	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at June 30, 2023	3,965,186	\$ 106,611	\$ (44,161)	\$ (16,039)	\$ 46,411
Comprehensive loss:					
Net loss	—	—	(3,770)	—	(3,770)
Unrealized holding loss on available-for-sale securities, net of tax	—	—	—	(2,698)	(2,698)
Total comprehensive loss	—	—	(3,770)	(2,698)	(6,468)
Share-based compensation expense	—	31	—	—	31
Balance at September 30, 2023	3,965,186	\$ 106,642	\$ (47,931)	\$ (18,737)	\$ 39,974

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited) (Continued)

Nine Months Ended September 30, 2024

	Number of Shares	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
(In thousands, except shares)					
Balance at January 1, 2024	3,976,073	\$ 106,670	\$ (47,026)	\$ (15,261)	\$ 44,383
Comprehensive (loss) income:					
Net loss	—	—	(30,334)	—	(30,334)
Unrealized holding gain on available-for-sale securities, net of tax	—	—	—	2,217	2,217
Total comprehensive (loss) income	—	—	(30,334)	2,217	(28,117)
Share-based compensation expense	—	120	—	—	120
Balance at September 30, 2024	3,976,073	\$ 106,790	\$ (77,360)	\$ (13,044)	\$ 16,386

Nine Months Ended September 30, 2023

	Number of Shares	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
(In thousands, except shares)					
Balance at January 1, 2023	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:					
Net loss	—	—	(5,084)	—	(5,084)
Unrealized holding loss on available-for-sale securities, net of tax	—	—	—	(3,092)	(3,092)
Total comprehensive loss	—	—	(5,084)	(3,092)	(8,176)
Share-based compensation expense	—	77	—	—	77
Balance at September 30, 2023	3,965,186	\$ 106,642	\$ (47,931)	\$ (18,737)	\$ 39,974

See Accompanying Notes to Consolidated Financial Statements.

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

(In thousands)

	Nine Months Ended September 30,	
	2024	2023
Cash Flows from Operating Activities:		
Net loss	\$ (30,334)	\$ (5,084)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Accretion of investment premiums and discounts, net	(113)	(82)
Amortization and accretion of purchase loan premiums and discounts, net	51	1,648
Amortization of debt issuance costs	133	133
Amortization of core deposit intangible	35	35
Amortization of servicing assets of sold SBA loans	177	92
Provision for credit losses	4,776	8,233
Depreciation and amortization	823	904
Loss (gain) on sales of available-for-sale securities	24	(24)
Gain on sale of premises and equipment	(3)	—
Share-based compensation	120	77
Decrease (increase) in deferred tax assets	23,100	(5,298)
Increase in deferred tax liabilities	723	—
Originations of loans held for sale, net	(415,600)	(21,312)
Proceeds from sale of loans held for sale	421,924	4,758
Gains on sale of loans held for sale, net	(402)	(169)
Changes in assets and liabilities:		
Decrease in accrued interest and dividends receivable	1,287	143
(Increase) decrease in other assets	(361)	2,213
(Decrease) increase in accrued expenses and other liabilities	(1,105)	3,185
Net cash provided by (used in) operating activities	5,255	(10,548)
Cash Flows from Investing Activities:		
Proceeds from maturity or sales on available-for-sale securities	2,281	1,780
Principal repayments on available-for-sale securities	2,987	3,408
Purchases of available-for-sale securities	(2,319)	(10,415)
(Purchases) Redemptions of FRB stock	(19)	178
Redemptions (purchases) of FHLB stock	729	(1,498)
Origination of loans receivable	(42,246)	(152,758)
Purchases of loans receivable	(127)	(19,751)
Payments received on loans receivable	130,767	121,962
Purchases of premises and equipment	(152)	(397)
Proceeds from sale of premises and equipment	13	—
Net cash provided by (used in) investing activities	91,914	(57,491)
Cash Flows from Financing Activities:		
Decrease in deposits, net	(15,422)	(23,423)
Proceeds from FHLB daily borrowing, net	22,800	60,000
Repayments of FHLB long term borrowings	(30,000)	—
Proceeds from FRB and correspondent bank borrowings	22,000	278,500
Repayments of FRB and correspondent bank borrowings	(92,000)	(208,500)
Principal repayments of note payable	(160)	(156)
Increase in advances from borrowers for taxes and insurance	1,849	2,053
Net cash (used in) provided by financing activities	(90,933)	108,474
Net increase in cash, cash equivalents and restricted cash	6,236	40,435
Cash, cash equivalents and restricted cash at beginning of period	66,536	38,493
Cash, cash equivalents and restricted cash at end of period	\$ 72,772	\$ 78,928

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

(In thousands)

	Nine Months Ended September 30,	
	2024	2023
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 25,182	\$ 20,611
Cash paid for income taxes	\$ 500	\$ 44
Non-cash transactions:		
Net change in unrealized (gain) loss on available-for-sale securities	\$ (2,217)	\$ 3,092
Transfers of SBA loans held for sale to loans receivable	\$ 5,526	\$ —
Transfers of loans receivable to loans held for sale	\$ (4,339)	\$ —
Capitalized servicing assets	\$ 119	\$ 85
Operating lease right-of-use assets / liabilities	\$ 300	\$ 16
(Decrease) increase in interest rate swaps	\$ (24)	\$ 169
Decrease in premises and equipment recorded under other assets	\$ 93	\$ —
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)

See Accompanying Notes to Consolidated Financial Statements.

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

Note 1. Basis of Financial Statement Presentation

The accompanying unaudited interim condensed Consolidated Financial Statements of Patriot National Bancorp, Inc. (the "Company" or "PNBK") and its wholly-owned subsidiaries, Patriot Bank, N.A. (the "Bank"), Patriot National Statutory Trust I and PinPat Acquisition Corporation (collectively, "Patriot"), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") have been omitted. The accompanying unaudited interim condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included on the Annual Report on Form 10-K for the year ended December 31, 2023.

The Consolidated Balance Sheet at December 31, 2023 presented herein has been derived from the audited Consolidated Financial Statements of the Company at that date, but does not include all of the information and footnotes required by US GAAP for complete financial statements.

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 valuation of derivatives, and the valuation of servicing assets as certain of the Company's more significant accounting policies and estimates, in that they are critical to the presentation of the Company's consolidated 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 the Company's Consolidated Financial Statements.

The information furnished reflects, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and nine months ended September 30, 2024 are not necessarily indicative of the results of operations that may be expected for the remainder of 2024.

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

Note 2. Summary of Significant Accounting Policies and Transactions

Please refer to the summary of Significant Accounting Policies included in the Company's 2023 Annual Report on Form 10-K for a list of all policies in effect as of December 31, 2023.

Significant Transactions

Deferred Income taxes

Patriot's deferred tax assets and liabilities as of September 30, 2024 and December 31, 2023 are presented below:

(In thousands)	September 30, 2024	December 31, 2023
Deferred tax assets and liabilities:		
Gross deferred tax assets	\$ 25,129	\$ 25,622
Less deferred tax asset valuation allowance	(25,129)	—
Total deferred tax assets	—	25,622
Gross deferred tax liabilities	(723)	(1,488)
Net deferred tax (liabilities) assets	\$ (723)	\$ 24,134

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

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.

The Company recognize deferred tax assets to the extent we believe it is more likely than not the asset will be realized. Quarterly, management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit the use of existing deferred tax assets, including future reversals of existing taxable temporary differences, projected taxable income, tax-planning strategies, carryback potential if permitted, and the results of recent operations. A significant piece of objective negative evidence is the existence of a three or four year cumulative loss. Such objective negative evidence limits the ability of management to consider other subjective evidence, such as projected taxable income. When appropriate, the Company records a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized.

Based on our assessment performed as of September 30, 2024, we determined that a full valuation allowance was appropriate against the Company's U.S. federal and state deferred tax assets. This resulted in an increase in income tax expense of approximately \$25.1 million for the three- and nine-month periods ended September 30, 2024. Currently, the key factor on the Company's assumption of providing 100% valuation allowance was purely based on our 3-year cumulative operating losses. Once we begin generating profits, we will re-evaluate whether providing 100% valuation allowance is appropriate or if we can reassess that allowance.

Accounting Policies

Non-interest income - Digital Payments Division

The Digital Payments Division ("DPD") provides solutions to our customers in the form of acceptance, processing and settlement of prepaid, debit, and charge card payments and accounts. Each of our customers, called Program Managers ("PMs"), signs a services agreement with the Bank with customized terms and fees. The typical fees include start-up fees and transaction fees, and the fees will vary by relationship. The start-up fees are to compensate the Bank for costs of due diligence on the PMs and the program, and to onboard the PMs and programs onto our infrastructure. The transaction fees are typically based on a charge per transaction settled, or a rate on the total dollar settlement volume in a month. The fees are billed after the activities occur and collected monthly.

The Bank receives interchange revenue from the networks, both MasterCard and Visa. The interchange revenue is a unique amount per transaction that settles to the Bank through their networks on a daily basis. As a part of the Program Manager services agreement, the Bank may share part or all of the interchange revenue with the PM. The interchange revenue is recognized as point in time transactions for the Bank and records a reduction of the revenue for any part of the interchange revenue that is shared with the PM. The networks, both MasterCard and Visa, charge fees to the merchant for utilization of the network, and the fees that are collected are paid to the Bank. The interchange rate may vary, as most transaction types have their own unique rate charged by the network at the time the purchase is completed.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

Recently Issued Accounting Standards

Recently issued Accounting Pronouncements 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 2023-07

In November, 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The amendments are intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. Additionally, the amendments enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment and define other disclosure requirements. A public entity must apply the amendments retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The adoption of this standard is not expected to have an impact on the Company's financial condition or results of operations but could change certain disclosures.

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 but will likely result in additional disclosures.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

Note 3. Available-for-Sale Securities

The amortized cost, gross unrealized gains, gross unrealized losses and fair values of available-for-sale securities at September 30, 2024 and December 31, 2023 are as follows:

(In thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2024:				
U. S. Government agency and mortgage-backed securities	\$ 79,082	\$ 33	\$ (12,826)	\$ 66,289
Corporate bonds	17,995	—	(3,290)	14,705
Subordinated notes	5,000	—	(601)	4,399
SBA loan pools	4,561	—	(863)	3,698
Municipal bonds	558	—	(71)	487
Total available-for-sale securities	<u>\$ 107,196</u>	<u>\$ 33</u>	<u>\$ (17,651)</u>	<u>\$ 89,578</u>

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
Total available-for-sale securities	<u>\$ 110,056</u>	<u>\$ —</u>	<u>\$ (20,869)</u>	<u>\$ 89,187</u>

The following table presents the 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 September 30, 2024 and December 31, 2023:

(In thousands)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
September 30, 2024:						
U. S. Government agency and mortgage-backed securities	\$ 2,237	\$ (56)	\$ 61,966	\$ (12,770)	\$ 64,203	\$ (12,826)
Corporate bonds	—	—	14,705	(3,290)	14,705	(3,290)
Subordinated notes	—	—	4,399	(601)	4,399	(601)
SBA loan pools	—	—	3,698	(863)	3,698	(863)
Municipal bonds	—	—	487	(71)	487	(71)
Total available-for-sale securities	<u>\$ 2,237</u>	<u>\$ (56)</u>	<u>\$ 85,255</u>	<u>\$ (17,595)</u>	<u>\$ 87,492</u>	<u>\$ (17,651)</u>
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)
Total available-for-sale securities	<u>\$ 9,984</u>	<u>\$ (286)</u>	<u>\$ 79,203</u>	<u>\$ (20,583)</u>	<u>\$ 89,187</u>	<u>\$ (20,869)</u>

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
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As of September 30, 2024 and December 31, 2023, forty-eight of forty-nine and fifty of fifty available-for-sale securities had unrealized losses with an aggregate decline of (16.8)% and (19.0)% from the amortized cost of those securities, respectively.

At September 30, 2024, 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 September 30, 2024, 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 at September 30, 2024. All debt securities in an unrealized loss position as of September 30, 2024 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 September 30, 2024 and December 31, 2023, available-for-sale securities of \$ 35.6 million and \$68.5 million, respectively, were pledged to the Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB"). The securities were pledged primarily to secure borrowings from the FHLB and FRB.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
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The following summarizes, by class and contractual maturity, the amortized cost and estimated fair value of available-for-sale debt securities held as of September 30, 2024 and December 31, 2023. 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
September 30, 2024:								
Corporate bonds	\$ 2,000	\$ 15,995	\$ —	\$ 17,995	\$ 1,953	\$ 12,752	\$ —	\$ 14,705
Subordinated notes	3,000	2,000	—	5,000	2,580	1,819	—	4,399
SBA loan pools	—	—	4,561	4,561	—	—	3,698	3,698
Municipal bonds	153	405	—	558	142	345	—	487
Available-for-sale securities with stated maturity dates	5,153	18,400	4,561	28,114	4,675	14,916	3,698	23,289
U. S. Government agency and mortgage-backed securities	—	5,178	73,904	79,082	—	4,320	61,969	66,289
Total available-for-sale securities	\$ 5,153	\$ 23,578	\$ 78,465	\$ 107,196	\$ 4,675	\$ 19,236	\$ 65,667	\$ 89,578
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
Total available-for-sale securities	\$ 5,153	\$ 24,719	\$ 80,184	\$ 110,056	\$ 4,614	\$ 19,186	\$ 65,387	\$ 89,187

Note 4. Loans Receivable and Allowance for Credit Losses

As of September 30, 2024 and December 31, 2023, loans receivable, net, consisted of the following:

(In thousands)

	September 30, 2024	December 31, 2023
Loan portfolio segment:		
Commercial Real Estate	\$ 452,155	\$ 472,093
Residential Real Estate	94,579	106,783
Commercial and Industrial	134,333	163,565
Consumer and Other	68,418	99,688
Construction	3,829	4,266
Construction to Permanent - CRE	2,357	2,464
Loans receivable, gross	755,671	848,859
Allowance for credit losses	(14,984)	(15,925)
Loans receivable, net	\$ 740,687	\$ 832,934

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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 ("CRE") 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.

During the three and nine months ended September 30, 2024 and 2023, Patriot did not purchase any commercial real estate loans.

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. During the three and nine months ended September 30, 2024, Patriot purchased \$41,000 and \$127,000 residential real estate loans, respectively. During the three and nine months ended 2023, Patriot did not purchase any residential real estate loans.

In 2024, the Bank reentered the residential mortgage business, began originating mortgage loans through its mortgage origination unit, Residential Mortgage Division, based in Jacksonville, Florida. These mortgage loans are typically sold to third parties. For further details, refer to Loans Held for Sale disclosures in footnote 5.

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.

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Patriot's syndicated and leveraged loan portfolio totaled \$ 5.7 million at both September 30, 2024 and December 31, 2023. The syndicated and leveraged loan is included in the commercial and industrial loan classification and is comprised of loan transaction led by a major financial institution, which is the Agent Bank or Lead Arranger, and is referred to as a syndicated loan or "Shared National Credit (SNC)". The SNC loan was 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 outstanding under this program at September 30, 2024 and December 31, 2023 totaled \$26.1 million and \$48.5 million, respectively. No loans were purchased under this program for three and nine months ended September 30, 2024. For the three and nine months ended September 30, 2023, the Bank purchased \$1.8 million and \$15.4 million unsecured consumer loans, respectively.

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

During the three and nine months ended September 30, 2024, Patriot did not purchase any home equity line of credit loans ("HELOC"). During the three and nine months ended September 30, 2023, the Bank purchased HELOC loans of \$1.5 million and \$4.4 million, 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 September 30, 2024 and December 31, 2023 totaled \$3.8 million and \$4.3 million, respectively.

Construction to Permanent - Commercial Real Estate

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 commercial real estate 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.

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Small Business Administration ("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 \$31.0 million and \$30.0 million as of September 30, 2024 and December 31, 2023, respectively. During the nine months ended September 30, 2024, \$5.5 million SBA loans previously classified as held for sale were transferred to held for investment. No held for sale SBA loans were transferred to held for investment during the nine months ended September 30, 2023.

Small Business Administration Paycheck Protection Program

Under the Paycheck Protection Program of the CARES Act, small business loans were authorized 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 \$130,000 and \$133,000 as of September 30, 2024 and December 31, 2023, respectively, which are included in the commercial and industrial loan classifications.

Allowance for Credit Losses

The Company adopted ASU 2016-13 on January 1, 2023, which introduced the current expected credit loss ("CECL") methodology for estimating all expected losses over the life of a financial asset. Under the CECL methodology, the allowance for credit losses ("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 ("PD") and loss given default ("LGD"). 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.

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.

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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 \$177,000 at September 30, 2024 and \$271,000 at December 31, 2023, respectively.

The following tables summarize the activity in the allowance for credit losses, allocated to segments of the loan portfolio, for the three months ended September 30, 2024 and 2023:

(In thousands)

	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer and Other	Construction	Construction to Permanent - CRE	Total
Three Months Ended September 30, 2024							
Allowance for credit losses:							
June 30, 2024	\$ 7,958	\$ 678	\$ 1,215	\$ 5,133	\$ 5	\$ —	\$ 14,989
Charge-offs	(124)	—	(122)	(1,266)	—	—	(1,512)
Recoveries	—	—	160	263	—	—	423
Provisions (credits)	1,211	(70)	(197)	143	(3)	—	1,084 ⁽¹⁾
September 30, 2024	<u>\$ 9,045</u>	<u>\$ 608</u>	<u>\$ 1,056</u>	<u>\$ 4,273</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 14,984</u>
Three Months Ended September 30, 2023							
Allowance for credit losses:							
June 30, 2023	\$ 10,039	\$ 1,027	\$ 1,673	\$ 11,275	\$ 33	\$ 51	\$ 24,098
Charge-offs	—	(113)	(423)	(3,012)	—	—	(3,548)
Recoveries	—	3	9	306	—	—	318
Provisions (credits)	3,321	171	149	1,127	(31)	63	4,800 ⁽²⁾
September 30, 2023	<u>\$ 13,360</u>	<u>\$ 1,088</u>	<u>\$ 1,408</u>	<u>\$ 9,696</u>	<u>\$ 2</u>	<u>\$ 114</u>	<u>\$ 25,668</u>

(1) The provision on credit losses included in the above table for the three months ended September 30, 2024 does not include the credit on unfunded loan commitments of \$58,000.

(2) The provision on credit losses included in the above table for the three months ended September 30, 2023 does not include the credit on unfunded loan commitments of \$112,000.

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The following tables summarize the activity in the allowance for credit losses, allocated to segments of the loan portfolio, for the nine months ended September 30, 2024 and 2023:

(In thousands)

	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer and Other	Construction	Construction to Permanent - CRE	Unallocated	Total
Nine Months Ended September 30, 2024								
Allowance for credit losses:								
December 31, 2023	\$ 6,089	\$ 607	\$ 1,269	\$ 7,843	\$ 4	\$ 113	\$ —	\$ 15,925
Charge-offs	(282)	(21)	(936)	(5,638)	—	—	—	(6,877)
Recoveries	—	—	238	828	—	—	—	1,066
Provisions (credits)	3,238	22	485	1,240	(2)	(113)	—	4,870 ⁽³⁾
September 30, 2024	<u>\$ 9,045</u>	<u>\$ 608</u>	<u>\$ 1,056</u>	<u>\$ 4,273</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,984</u>
Nine Months Ended September 30, 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	—	(113)	(429)	(7,324)	(150)	—	—	(8,016)
Recoveries	—	14	25	739	—	—	—	778
Provisions (credits)	4,768	333	190	4,097	132	75	—	9,595 ⁽⁴⁾
September 30, 2023	<u>\$ 13,360</u>	<u>\$ 1,088</u>	<u>\$ 1,408</u>	<u>\$ 9,696</u>	<u>\$ 2</u>	<u>\$ 114</u>	<u>\$ —</u>	<u>\$ 25,668</u>

(3) The provision on credit losses for the nine months ended September 30, 2024 does not include the credit on unfunded loan commitments of \$4,000.

(4) The provision on credit losses for the nine months ended September 30, 2023 does not include the credit on unfunded loan commitments of \$4 million.

The following tables summarize, by loan portfolio segment, the amount of loans receivable evaluated individually and collectively for allowance for credit losses as of September 30, 2024:

	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer and Other	Construction	Construction to Permanent - CRE	Total
September 30, 2024							
Allowance for credit losses:							
Individually evaluated loans	\$ 7,010	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7,010
Collectively evaluated loans	2,035	608	1,056	4,273	2	—	7,974
Total allowance for credit losses	<u>\$ 9,045</u>	<u>\$ 608</u>	<u>\$ 1,056</u>	<u>\$ 4,273</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 14,984</u>
Loans receivable, gross:							
Individually evaluated loans	\$ 28,254	\$ —	\$ 4,378	\$ —	\$ —	\$ 2,357	\$ 34,989
Collectively evaluated loans	423,901	94,579	129,955	68,418	3,829	—	720,682
Total loans receivable, gross	<u>\$ 452,155</u>	<u>\$ 94,579</u>	<u>\$ 134,333</u>	<u>\$ 68,418</u>	<u>\$ 3,829</u>	<u>\$ 2,357</u>	<u>\$ 755,671</u>

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The following tables summarize, by loan portfolio, 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	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	\$ 6,089	\$ 607	\$ 1,269	\$ 7,843	\$ 4	\$ 113	\$ 15,925
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	\$ 472,093	\$ 106,783	\$ 163,565	\$ 99,688	\$ 4,266	\$ 2,464	\$ 848,859

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 firm to perform a semi-annual 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.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

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
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Loan Portfolio Vintage Analysis

The following tables summarize loan amortized cost by vintage, credit quality indicator, class of loans and charge-offs based on year of origination as of September 30, 2024:

	Term of Loans by Origination								Total Loans Receivable Gross							
As of September 30, 2024:	2024	2023	2022	2021	2020	Prior	Revolving									
Loan portfolio segment:																
Commercial Real Estate:																
Pass	\$	—	\$	106,912	\$	130,761	\$	89,463	\$	3,331	\$	74,427	\$	—	\$	404,894
Special mention		—		—		12,693		899		—		436		—		14,028
Substandard		—		867		3,974		17,252		233		10,907		—		33,233
Total		—		107,779		147,428		107,614		3,564		85,770		—		452,155
Current period gross charge-offs		—		—		—		—		—		282		—		282
Residential Real Estate:																
Pass		373		—		1,227		2,831		9,633		77,192		741		91,997
Special mention		—		—		—		—		1,053		1,398		—		2,451
Substandard		—		—		—		—		—		131		—		131
Total		373		—		1,227		2,831		10,686		78,721		741		94,579
Current period gross charge-offs		—		—		—		—		—		21		—		21
Commercial and Industrial:																
Pass		872		2,785		14,230		20,564		1,003		6,337		78,612		124,403
Special mention		—		5		19		40		—		887		750		1,701
Substandard		—		263		505		843		5,706		808		104		8,229
Total		872		3,053		14,754		21,447		6,709		8,032		79,466		134,333
Current period gross charge-offs		—		—		—		—		—		936		—		936
Consumer and Other:																
Pass		282		3,247		20,085		2,346		—		16,517		24,545		67,022
Substandard		—		59		459		19		—		424		435		1,396
Total		282		3,306		20,544		2,365		—		16,941		24,980		68,418
Current period gross charge-offs		—		253		4,900		485		—		—		—		5,638
Construction:																
Pass		—		—		—		3,829		—		—		—		3,829
Total		—		—		—		3,829		—		—		—		3,829
Construction to Permanent - CRE:																
Substandard		—		—		—		2,357		—		—		—		2,357
Total		—		—		—		2,357		—		—		—		2,357
Total loans	\$	1,527	\$	114,138	\$	183,953	\$	140,443	\$	20,959	\$	189,464	\$	105,187	\$	755,671
Total Current period gross charge-offs	\$	—	\$	253	\$	4,900	\$	485	\$	—	\$	1,239	\$	—	\$	6,877
Loans receivable, gross:																
Pass	\$	1,527	\$	112,944	\$	166,303	\$	119,033	\$	13,967	\$	174,473	\$	103,898	\$	692,145
Special mention		—		5		12,712		939		1,053		2,721		750		18,180
Substandard		—		1,189		4,938		20,471		5,939		12,270		539		45,346
Total Loans receivable, gross	\$	1,527	\$	114,138	\$	183,953	\$	140,443	\$	20,959	\$	189,464	\$	105,187	\$	755,671
Current period gross charge-offs	\$	—	\$	253	\$	4,900	\$	485	\$	—	\$	1,239	\$	—	\$	6,877

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
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The following tables summarize loan amortized cost by vintage, credit quality indicator, class of loans and charge-offs based on year of origination as of December 31, 2023:

	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
Total	104,683	146,372	111,308	3,681	41,832	64,217	—	472,093
Current period gross charge-offs	—	—	—	—	6,341	5	—	6,346
Residential Real Estate:								
Pass	—	1,251	2,975	11,577	15,770	74,596	614	106,783
Total	—	1,251	2,975	11,577	15,770	74,596	614	106,783
Current period gross charge-offs	—	—	—	—	—	515	—	515
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
Total	2,718	14,264	23,900	8,004	10,016	8,128	96,535	163,565
Current period gross charge-offs	—	182	85	—	516	144	—	927
Consumer and Other:								
Pass	6,470	36,668	4,724	—	5,590	14,314	30,945	98,711
Substandard	197	645	61	—	—	—	74	977
Total	6,667	37,313	4,785	—	5,590	14,314	31,019	99,688
Current period gross charge-offs	114	9,013	1,280	—	6	66	—	10,479
Construction:								
Pass	—	—	3,812	—	—	—	—	3,812
Substandard	—	—	—	—	454	—	—	454
Total	—	—	3,812	—	454	—	—	4,266
Current period gross charge-offs	—	—	150	—	—	—	—	150
Construction to Permanent - CRE:								
Special mention	—	—	2,464	—	—	—	—	2,464
Total	—	—	2,464	—	—	—	—	2,464
Total loans	\$ 114,068	\$ 199,200	\$ 149,244	\$ 23,262	\$ 73,662	\$ 161,255	\$ 128,168	\$ 848,859
Total Current period gross charge-offs	\$ 114	\$ 9,195	\$ 1,515	\$ —	\$ 6,863	\$ 730	\$ —	\$ 18,417
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
Total Current period gross charge-offs	\$ 114	\$ 9,195	\$ 1,515	\$ —	\$ 6,863	\$ 730	\$ —	\$ 18,417

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
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Loan Portfolio Aging Analysis

The following tables summarize performing and non-performing (i.e., non-accruing) loans receivable by portfolio segment, by aging category, by delinquency status as of September 30, 2024:

(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 September 30, 2024:									
Loan portfolio segment:									
Commercial Real Estate:									
Pass	\$ 185	\$ —	\$ —	\$ 185	\$ 401,524	\$ 401,709	\$ 3,185	\$ 404,894	
Special mention	770	—	—	770	13,258	14,028	—	14,028	
Substandard	306	—	3,979	4,285	3,878	8,163	25,070	33,233	
	1,261	—	3,979	5,240	418,660	423,900	28,255	452,155	
Residential Real Estate:									
Pass	—	—	—	—	91,997	91,997	—	91,997	
Special mention	—	—	—	—	2,451	2,451	—	2,451	
Substandard	—	—	—	—	—	—	131	131	
	—	—	—	—	94,448	94,448	131	94,579	
Commercial and Industrial:									
Pass	—	1,111	—	1,111	120,184	121,295	3,108	124,403	
Special mention	19	—	—	19	1,682	1,701	—	1,701	
Substandard	604	350	—	954	5,986	6,940	1,289	8,229	
	623	1,461	—	2,084	127,852	129,936	4,397	134,333	
Consumer and Other:									
Pass	810	508	—	1,318	65,704	67,022	—	67,022	
Substandard	—	—	—	—	—	—	1,396	1,396	
	810	508	—	1,318	65,704	67,022	1,396	68,418	
Construction:									
Pass	—	—	—	—	3,829	3,829	—	3,829	
	—	—	—	—	3,829	3,829	—	3,829	
Construction to Permanent - CRE:									
Substandard	—	—	—	—	—	—	2,357	2,357	
	—	—	—	—	—	—	2,357	2,357	
Total	\$ 2,694	\$ 1,969	\$ 3,979	\$ 8,642	\$ 710,493	\$ 719,135	\$ 36,536	\$ 755,671	
Loans receivable, gross:									
Pass	\$ 995	\$ 1,619	\$ —	\$ 2,614	\$ 683,238	\$ 685,852	\$ 6,293	\$ 692,145	
Special mention	789	—	—	789	17,391	18,180	—	18,180	
Substandard	910	350	3,979	5,239	9,864	15,103	30,243	45,346	
Loans receivable, gross	\$ 2,694	\$ 1,969	\$ 3,979	\$ 8,642	\$ 710,493	\$ 719,135	\$ 36,536	\$ 755,671	

As of September 30, 2024, the loan 90 days past due and still accruing of \$ 4.0 million, represented a 50% participation in a matured CRE loan for which an extension has been agreed to in exchange for a principal reduction and cash collateral, both of which have been deposited with lead bank pending documentation.

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

(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, 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	

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The following tables summarize non-performing (i.e., non-accruing) loans by aging category and status, within the applicable loan portfolio segment as of September 30, 2024 and December 31, 2023:

(In thousands)

(In thousands)

	Non-accruing Loans						
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Non-accruing Loans	
As of September 30, 2024:							
Loan portfolio segment:							
Commercial Real Estate:							
Pass	\$ —	\$ —	\$ 3,185	\$ 3,185	\$ —	\$ 3,185	
Substandard	—	—	16,055	16,055	9,015	25,070	
Residential Real Estate:							
Substandard	—	—	131	131	—	131	
Commercial and Industrial:							
Pass	—	—	2,660	2,660	448	3,108	
Substandard	—	4	991	995	294	1,289	
Consumer and Other:							
Substandard	—	1	1,395	1,396	—	1,396	
Construction to permanent - CRE:							
Substandard	—	—	2,357	2,357	—	2,357	
Total non-accruing loans	\$ —	\$ 5	\$ 26,774	\$ 26,779	\$ 9,757	\$ 36,536	

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

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 loans are typically charged-off when they become 120 days past due (180 days for open ended consumer credit). 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 generally 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, and therefore are collectively evaluated for credit losses, and not individually measured for credit losses.

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If non-accrual loans had been performing in accordance with the original contractual terms, additional interest income (net of cash collected) of approximately \$894,000 and \$2.2 million would have been recognized during the three and nine months ended September 30, 2024, respectively. During the three and nine months ended September 30, 2023, additional interest income (net of cash collected) of approximately \$328,000 and \$605,000 would have been recognized, respectively.

Interest income collected and recognized on non-accruing loans for the three and nine months ended September 30, 2024 was \$ 325,000 and \$543,000, respectively. During the three and nine months ended September 30, 2023, interest income collected and recognized on non-accruing loans was \$152,000 and \$396,000, respectively.

Individually Evaluated Loans

The following table reflects information about the individually evaluated loans by class as of September 30, 2024 and December 31, 2023:

(In thousands)

	September 30, 2024			December 31, 2023		
	Recorded Investment	Principal Outstanding	Related Allowance	Recorded Investment	Principal Outstanding	Related Allowance
<u>With no related allowance recorded:</u>						
Commercial Real Estate	\$ 3,808	\$ 4,498	\$ —	\$ 2,838	\$ 5,879	\$ —
Commercial and Industrial	4,378	5,432	—	2,266	2,899	—
Construction	—	—	—	454	461	—
Construction to permanent - CRE	2,357	2,476	—	—	—	—
	10,543	12,406	—	5,558	9,239	—
<u>With a related allowance recorded:</u>						
Commercial Real Estate	24,446	25,367	7,010	9,937	10,137	3,813
Commercial and Industrial	—	—	—	1,638	3,159	392
	24,446	25,367	7,010	11,575	13,296	4,205
<u>Individually evaluated loans, Total:</u>						
Commercial Real Estate	28,254	29,865	7,010	12,775	16,016	3,813
Commercial and Industrial	4,378	5,432	—	3,904	6,058	392
Construction	—	—	—	454	461	—
Construction to permanent - CRE	2,357	2,476	—	—	—	—
Total	\$ 34,989	\$ 37,773	\$ 7,010	\$ 17,133	\$ 22,535	\$ 4,205

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The following table summarizes additional information regarding individually evaluated loans by class for the three and nine months ended September 30, 2024 and 2023:

(In thousands)	Three Month Ended September 30,				Nine Months Ended September 30,			
	2024		2023		2024		2023	
	Average Recorded Investment	Interest Income Recognized	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	\$ 3,923	\$ —	\$ 384	\$ —	\$ 3,922	\$ —	\$ 591	\$ —
Residential Real Estate	—	—	183	—	—	—	694	—
Commercial and Industrial	4,479	125	3,246	97	3,720	236	2,639	212
Consumer and Other	—	—	—	—	—	—	205	—
Construction	—	—	362	—	—	—	840	—
Construction to permanent - CRE	2,357	—	—	—	2,411	—	—	—
	10,759	125	4,175	97	10,053	236	4,969	212
<u>With a related allowance recorded:</u>								
Commercial Real Estate	24,627	59	10,405	—	25,018	274	13,833	15
Residential Real Estate	—	—	1,352	—	—	—	1,514	—
Commercial and Industrial	—	—	4,052	55	—	—	3,821	169
Consumer and Other	—	—	18	—	—	—	7	—
	24,627	59	15,827	55	25,018	274	19,175	184
<u>Individually evaluated loans, Total:</u>								
Commercial Real Estate	28,550	59	10,789	—	28,940	274	14,424	15
Residential Real Estate	—	—	1,535	—	—	—	2,208	—
Commercial and Industrial	4,479	125	7,298	152	3,720	236	6,460	381
Consumer and Other	—	—	18	—	—	—	212	—
Construction	—	—	362	—	—	—	840	—
Construction to permanent - CRE	2,357	—	—	—	2,411	—	—	—
Total	\$ 35,386	\$ 184	\$ 20,002	\$ 152	\$ 35,071	\$ 510	\$ 24,144	\$ 396

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 in excess of \$100,000 as well as selected substandard loans. 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.

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.

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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 three and nine months ended September 30, 2024 and 2023, the Company had no modified loans made to borrowers experiencing financial difficulty. There were no modified loans that had a payment default during the three and nine months ended September 30, 2024 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty. As of September 30, 2024 and December 31, 2023, 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. As of September 30, 2024, there were no SBA loans held for sale. There were \$ 9.9 million 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. During the three and nine months ended September 30, 2024, \$5.5 million SBA loans previously classified as held for sale were transferred to held for investment. No SBA held for sale loans were transferred to held for investment in the three and nine months ended September 30, 2023.

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 a third party, amounted to approximately \$46.0 million and \$47.5 million at September 30, 2024 and December 31, 2023, respectively. As of September 30, 2024 and December 31, 2023, the servicing asset has a carrying value of \$791,000 and \$857,000, respectively, and fair value of \$848,000 and \$932,000, respectively. Income and fees collected for loan servicing are credited to noninterest income when earned, net of amortization on the related servicing assets. The servicing asset is included in other assets on the Consolidated Balance Sheets.

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The following table presents an analysis of the activity in the SBA servicing assets for the three and nine months ended September 30, 2024 and 2023:

(In thousands)

	Three Month Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Beginning balance	\$ 790	\$ 882	\$ 857	\$ 886
Servicing rights capitalized	38	27	111	85
Servicing rights amortized	(15)	(23)	(49)	(45)
Servicing rights disposed	(22)	(7)	(128)	(47)
Ending balance	<u>\$ 791</u>	<u>\$ 879</u>	<u>\$ 791</u>	<u>\$ 879</u>

Loans held for sale - Consumer Loans

The 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 September 30, 2024 and December 31, 2023, the Bank had credit card loans held for sale totaling \$10.2 million and \$10.8 million, respectively. The credit card loans 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.

Loans held for sale Residential Mortgage Loans

In 2024, the Bank reentered the residential mortgage business. The Residential Mortgage Division, located in Jacksonville, FL, generates the loans and typically sells them to third parties. As of September 30, 2024, the Company reported residential mortgage loans held for sale totaling \$3.5 million. These loans are recorded at the lower of aggregate cost or market value. For the three and nine months ended September 30, 2024, a total gain on sale of \$10,000 and \$24,000 was recorded, respectively. A servicing asset of \$ 8,000 was recognized for the three and nine months ended September 30, 2024.

Note 6. Deposits

The following table presents the balance of deposits held, by category as of September 30, 2024 and December 31, 2023:

(In thousands)

	September 30, 2024	December 31, 2023
Non-interest bearing	\$ 91,583	\$ 110,056
<u>Interest bearing:</u>		
Negotiable order of withdrawal accounts	27,984	33,035
Savings deposits	38,824	44,104
Interest bearing DDA	183,132	171,577
Money market	178,479	200,280
Certificates of deposit, \$250,000 or less	167,788	175,988
Certificates of deposit, more than \$250,000	65,022	64,745
Brokered deposits	72,077	40,526
Interest bearing, Total	<u>733,306</u>	<u>730,255</u>
Total Deposits	<u>\$ 824,889</u>	<u>\$ 840,311</u>

The deposits from Digital Payments Division are included in the non-interest-bearing deposits, interest bearing DDA and money market deposits, and totaled approximately \$235.1 million and \$213.4 million as of September 30, 2024 and December 31, 2023, respectively.

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As of September 30, 2024, contractual maturities of Certificates of Deposit ("CDs"), and brokered deposits is summarized as follows:

<i>(In thousands)</i>	Certificates of Deposit \$250,000 or less	Certificates of Deposit more than \$250,000	Brokered Deposits	Total
1 year or less	\$ 143,289	\$ 52,906	\$ 17,334	\$ 213,529
More than 1 year through 2 years	20,292	9,464	49,701	79,457
More than 2 years through 3 years	3,935	2,652	5,042	11,629
More than 3 years through 4 years	69	—	—	69
More than 4 years through 5 years	203	—	—	203
	<u>\$ 167,788</u>	<u>\$ 65,022</u>	<u>\$ 72,077</u>	<u>\$ 304,887</u>

Note 7. Derivatives

Derivatives Not Designated in Hedge Relationships

Patriot is party to interest rate swap 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. These interest rate swaps with customers are simultaneously offset by interest rate swaps that Patriot executes with a third party, such that Patriot minimizes its net risk exposure resulting from such transactions. Because the interest rate swaps associated with this 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.

As of September 30, 2024 and December 31, 2023, Patriot did not have any cash pledged for collateral on its interest rate swaps. No net gain or loss was recognized in other noninterest income on the Consolidated Statements of Operations during the three and nine months ended September 30, 2024 and 2023.

Information about the valuation methods used to measure the fair value of derivatives is provided in Note 13 to the 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
September 30, 2024					
Classified in Other Assets:					
3rd party interest rate swap	\$ 1,300	4.80	4.38 %	1 Mo. SOFR + 2.00%	\$ 50
Classified in Other Liabilities:					
Customer interest rate swap	1,300	4.80	4.38 %	1 Mo. SOFR + 2.00%	(50)
December 31, 2023					
Classified in Other Assets:					
3rd party interest rate swap	1,327	5.50	4.38 %	1 Mo. SOFR + 2.00%	74
Classified in Other Liabilities:					
Customer interest rate swap	1,327	5.50	4.38 %	1 Mo. SOFR + 2.00%	(74)

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Note 8. Share-Based Compensation and Employee Benefit Plan

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 September 30, 2024, 74,540 shares of stock were 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 shares and changes for the three and nine months ended September 30, 2024 and 2023:

	Number of Shares Awarded	Weighted Average Grant Date Fair Value
Three months ended September 30, 2024:		
Unvested at June 30, 2024	108,839	\$4.16
Granted	53,125	\$1.60
Unvested at September 30, 2024	161,964	\$3.32
Nine months ended September 30, 2024:		
Unvested at December 31, 2023	17,506	\$6.09
Granted	144,458	\$2.98
Unvested at September 30, 2024	161,964	\$3.32
	Number of Shares Awarded	Weighted Average Grant Date Fair Value
Three months ended September 30, 2023		
Unvested at June 30, 2023	22,660	\$7.11
Granted	4,761	\$9.04
Unvested at September 30, 2023	27,421	\$7.45
Nine months ended September 30, 2023:		
Unvested at December 31, 2022	22,660	\$7.11
Granted	4,761	\$9.04
Unvested at September 30, 2023	27,421	\$7.45

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.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
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Unrecognized compensation expense attributable to the unvested restricted shares outstanding as of September 30, 2024 amounted to \$ 493,000, which amount is expected to be recognized over the weighted average remaining life of the awards of 2.4 years.

For the three and nine months ended September 30, 2024, the Company recognized total share-based compensation expense of \$ 55,000 and \$120,000, respectively. The share-based compensation attributable to employees of Patriot amounted to \$43,000 and \$88,000, respectively. Included in share-based compensation expense attributable to Patriot's external directors, were \$12,000 and \$32,000, respectively. The directors received total compensation of \$56,000 and \$184,000 respectively, which amounts are included in other operating expenses in the consolidated statements of operations.

For the three and nine months ended September 30, 2023, the Company recognized total share-based compensation expense of \$ 31,000 and \$77,000, respectively. The share-based compensation attributable to employees of Patriot amounted to \$14,000 and \$42,000, respectively. Included in share-based compensation expense were \$16,000 and \$34,000 attributable to Patriot's external directors, who received total compensation of \$ 73,000 and \$181,000 for each of those periods, respectively.

Dividends

The Company has not paid any dividends since 2020 and has no present plans to pay dividends.

Retirement 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. During the three and nine months ended September 30, 2024, Patriot made matching contributions to the 401(k) Plan of \$68,000 and \$236,000, respectively. During the three and nine months ended September 30, 2023, compensation expense under the 401(k) aggregated \$71,000 and \$228,000, respectively.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

Note 9. 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 shares of common stock outstanding. Diluted earnings per share reflects additional shares of common stock that would have been outstanding if potentially dilutive shares of common stock had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential shares of common stock that may be issued by the Company relate to 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 table summarizes the computation of basic and diluted loss per share for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Basis loss per share:				
Net loss attributable to Common shareholders	\$ (26,954)	\$ (3,770)	\$ (30,334)	\$ (5,084)
Divided by:				
Weighted average shares outstanding	3,976,073	3,965,186	3,976,073	3,965,186
Basic loss per share of common stock	<u>\$ (6.78)</u>	<u>\$ (0.95)</u>	<u>\$ (7.63)</u>	<u>\$ (1.28)</u>
Diluted loss per share:				
Net loss attributable to Common shareholders	\$ (26,954)	\$ (3,770)	\$ (30,334)	\$ (5,084)
Weighted average shares outstanding	3,976,073	3,965,186	3,976,073	3,965,186
Effect of potentially dilutive restricted shares of common stock	— ⁽¹⁾	— ⁽²⁾	— ⁽³⁾	— ⁽⁴⁾
Divided by:				
Weighted average diluted shares outstanding	3,976,073	3,965,186	3,976,073	3,965,186
Diluted loss per share of common stock	<u>\$ (6.78)</u>	<u>\$ (0.95)</u>	<u>\$ (7.63)</u>	<u>\$ (1.28)</u>

(1) The weighted average diluted shares outstanding does not include 91,697 anti-dilutive restricted shares of common stock for the three months ended September 30, 2024.

(2) The weighted average diluted shares outstanding does not include 1,651 anti-dilutive restricted shares of common stock for the three months ended September 30, 2023.

(3) The weighted average diluted shares outstanding does not include 44,296 anti-dilutive restricted shares of common stock for the nine months ended September 30, 2024.

(4) The weighted average diluted shares outstanding does not include 3,009 anti-dilutive restricted shares of common stock for the nine months ended September 30, 2023.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
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Note 10. Financial Instruments with Off-Balance Sheet Risk

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

The contractual amount of commitments to extend credit and standby letters of credit represents the maximum amount of potential accounting loss should: the contract be fully drawn upon; the customer default; and the value of any existing collateral become 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.

Financial instruments with credit risk at September 30, 2024 and December 31, 2023 are as follows:

<i>(In thousands)</i>	September 30, 2024	December 31, 2023
<u>Commitments to extend credit:</u>		
Unused lines of credit	\$ 70,762	\$ 63,435
Undisbursed construction loans	861	2,607
Home equity lines of credit	24,997	26,488
	<u>\$ 96,620</u>	<u>\$ 92,530</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. Patriot has established an allowance for credit loss of \$177,000 and \$271,000 as of September 30, 2024 and December 31, 2023, respectively, which is included in accrued expenses and other liabilities.

Standby letters of credit are written commitments issued by Patriot 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.

As of September 30, 2024, the Bank has an irrevocable stand-by letter of credit for a maximum of \$ 45 million, issued by the Federal Home Loan Bank of Boston on behalf of the Bank, with Mastercard as the beneficiary, which expires on April 30, 2025.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
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Note 11. 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 Federal Deposit Insurance Corporation ("FDIC"), the Office of the Comptroller of the Currency ("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."

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 September 30, 2024.

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The Company and Bank's regulatory capital amounts and ratios at September 30, 2024 and December 31, 2023 are summarized as follows:

	September 30, 2024				December 31, 2023			
	Patriot National Bancorp,		Patriot Bank, N.A.		Patriot National Bancorp,		Patriot Bank, N.A.	
	Inc.				Inc.			
(Dollar amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk weighted assets):								
Actual	\$ 61,681	7.82 %	\$ 73,206	9.29 %	\$ 89,727	10.00 %	\$ 100,683	11.22 %
To be Well Capitalized ⁽¹⁾	—	—	78,837	10.00 %	—	—	89,732	10.00 %
For capital adequacy with Capital ⁽²⁾ Buffer	—	—	82,779	10.50 %	—	—	94,218	10.50 %
For capital adequacy	63,090	8.00 %	63,070	8.00 %	71,788	8.00 %	71,785	8.00 %
Tier 1 Capital (to risk weighted assets):								
Actual	43,018	5.45 %	64,543	8.19 %	73,282	8.17 %	94,238	10.50 %
To be Well Capitalized ⁽¹⁾	—	—	63,070	8.00 %	—	—	71,785	8.00 %
For capital adequacy with Capital ⁽²⁾ Buffer	—	—	67,012	8.50 %	—	—	76,272	8.50 %
For capital adequacy	47,317	6.00 %	47,302	6.00 %	53,841	6.00 %	53,839	6.00 %
Common Equity Tier 1 Capital (to risk weighted assets):								
Actual	35,018	4.44 %	64,543	8.19 %	65,282	7.27 %	94,238	10.50 %
To be Well Capitalized ⁽¹⁾	—	—	51,244	6.50 %	—	—	58,325	6.50 %
For capital adequacy with Capital ⁽²⁾ Buffer	—	—	55,186	7.00 %	—	—	62,812	7.00 %
For capital adequacy	35,488	4.50 %	35,477	4.50 %	40,381	4.50 %	40,379	4.50 %
Tier 1 Leverage Capital (to average assets):								
Actual	43,018	4.35 %	64,543	6.53 %	73,282	6.76 %	94,238	8.70 %
To be Well Capitalized ⁽¹⁾	—	—	49,383	5.00 %	—	—	54,170	5.00 %
For capital adequacy	39,516	4.00 %	39,506	4.00 %	43,339	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.

On April 17, 2024, based on its supervisory profile, the Bank was notified by the OCC that it established individual minimum capital ratios (IMCR) for the Bank. Specifically, the Bank is required to maintain the following ratios: a common equity tier 1 capital ratio of 10.00%, a Tier 1 capital ratio of 10.00%, a Tier 1 leverage ratio of 9.00% and a total risk-based capital to risk-weighted assets of 11.50%.

As of September 30, 2024, the Bank did not meet all of its regulatory capital requirements. The common equity tier 1 capital was \$ 64.5 million, or 8.19% of risk-weighted assets, below the required level of 10.00%. The Tier 1 capital was \$64.5 million, or 8.19% of risk-weighted assets, also below the required level of 10.00%. The Tier 1 leverage capital was \$64.5 million, or 6.53% of average assets, falling short of the required 9.00%. The total risk-based capital was \$73.2 million, or 9.29% of risk-weighted assets, below the required 11.50%. During 2024, the Bank significantly reduced its total and risk-based assets to work towards achieving the IMCR targets. This trend will continue into the remainder of 2024 with a goal of achieving the IMCR targets.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

Note 12. 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 the 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).

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).

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

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 September 30, 2024 and December 31, 2023 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 loan portfolio is 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 resulting in prior periods no longer being comparable. 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.

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 Note 8 for additional disclosures on derivatives.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

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, and 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 Borrowings

The fair value of FHLB advances is estimated using a discounted cash flow calculation that applies current FHLB interest rates for advances of similar maturity to a schedule of maturities of such advances. Patriot does not record FHLB advances 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. Patriot does not record the off-balance-sheet financial instruments (i.e., commitments to extend credit) at fair value on a recurring basis.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

The following table provides a comparison of the carrying amounts and estimated fair values of Patriot's financial assets and liabilities as of September 30, 2024 and December 31, 2023:

(In thousands)

(In thousands)		September 30, 2024		December 31, 2023	
	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	\$ 2,718	\$ 2,718	\$ 2,195	\$ 2,195
Interest-bearing deposits due from banks	Level 1	70,013	70,013	50,322	50,322
Restricted cash	Level 1	41	41	14,019	14,019
Available-for-sale securities	Level 2	78,437	78,437	78,925	78,925
Available-for-sale securities	Level 3	11,141	11,141	10,262	10,262
Other investments	Level 2	4,450	4,450	4,450	4,450
Federal Reserve Bank stock	Level 2	2,109	2,109	2,090	2,090
Federal Home Loan Bank stock	Level 2	3,473	3,473	4,202	4,202
Loans receivable, net	Level 3	740,687	719,395	832,934	812,856
Loans held for sale	Level 2	13,658	13,658	20,767	21,557
SBA servicing assets	Level 3	791	848	857	932
Other real estate owned	Level 2	2,843	2,843	2,843	2,843
Accrued interest receivable	Level 2	5,932	5,932	7,219	7,219
Interest rate swap receivable	Level 2	50	50	74	74
Financial assets, total		\$ 936,343	\$ 915,108	\$ 1,031,159	\$ 1,011,946
Financial Liabilities:					
Demand deposits	Level 2	\$ 91,583	\$ 91,583	\$ 110,056	\$ 110,056
Negotiable order of withdrawal accounts	Level 2	27,984	27,984	33,035	33,035
Savings deposits	Level 2	38,824	38,824	44,104	44,104
Interest bearing DDA	Level 2	183,132	183,132	171,577	171,577
Money market deposits	Level 2	178,479	178,479	200,280	200,280
Time deposits	Level 2	232,810	232,294	240,733	239,655
Brokered deposits	Level 1	72,077	70,995	40,526	40,453
FHLB, FRB and correspondent bank borrowings	Level 2	93,800	93,800	171,000	170,171
Senior notes	Level 2	11,827	11,669	11,723	11,397
Subordinated debt	Level 2	9,891	9,888	9,869	10,102
Junior subordinated debt owed to unconsolidated trust	Level 2	8,144	8,144	8,137	8,137
Note payable	Level 3	216	210	376	362
Accrued interest payable	Level 2	525	525	1,235	1,235
Interest rate swap liability	Level 2	50	50	74	74
Financial liabilities, total		\$ 949,342	\$ 947,577	\$ 1,042,725	\$ 1,040,638

The carrying amount of cash and noninterest bearing balances due from banks, restricted cash, 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.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

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 September 30, 2024 and December 31, 2023:

<i>(In thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2024:				
U. S. Government agency and mortgage-backed securities	\$ —	\$ 66,289	\$ —	\$ 66,289
Corporate bonds	—	3,564	11,141	14,705
Subordinated notes	—	4,399	—	4,399
SBA loan pools	—	3,698	—	3,698
Municipal bonds	—	487	—	487
Available-for-sale securities	\$ —	\$ 78,437	\$ 11,141	\$ 89,578
Interest rate swap receivable	\$ —	\$ 50	\$ —	\$ 50
Interest rate swap liability	\$ —	\$ 50	\$ —	\$ 50
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

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.

As of September 30, 2024 and 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 three and nine months ended September 30, 2024 and 2023, the Company had no transfers into or out of Levels 1, 2 or 3.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

The reconciliation of the beginning and ending balances during the three and nine months ended September 30, 2024 and 2023 for Level 3 available-for-sale securities is as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Level 3 fair value, beginning of period	\$ 10,365	\$ 9,882	\$ 10,262	\$ 9,427
Purchases	—	—	—	—
Realized gain (loss)	—	—	—	—
Unrealized (loss) gain	776	(11)	879	444
Transfers in and /or out of Level 3	—	—	—	—
Level 3 fair value, end of period	\$ 11,141	\$ 9,871	\$ 11,141	\$ 9,871

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 September 30, 2024 and December 31, 2023:

(In thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
September 30, 2024:				
Individually evaluated loans, net	\$ 27,979	Real Estate Appraisals	Discount for appraisal type	5.8 % - 20%
SBA servicing assets	848	Discounted Cash Flows	Market discount rates	14.73 % - 14.90%
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%

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 September 30, 2024 and December 31, 2023, 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.

Note 13. Subsequent Events

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 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

"Safe Harbor" Statement Under Private Securities Litigation Reform Act of 1995

This Quarterly Report on Form 10-Q 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.

Many possible events or factors could affect Patriot's future financial results and performance and could cause the actual results, performance or achievements of Patriot to differ materially from any anticipated results expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others:

- (1) changes in prevailing interest rates which would affect the interest earned on the Company's interest earning assets and the interest paid on its interest bearing liabilities;
- (2) the timing of re-pricing of the Company's interest earning assets and interest bearing liabilities;
- (3) the effect of changes in governmental monetary policy;
- (4) the effect of changes in regulations applicable to the Company and the Bank and the conduct of its business;
- (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks;
- (6) the ability of competitors that are larger than the Company to provide products and services which it is impracticable for the Company to provide;
- (7) the state of the economy and real estate values in the Company's market areas, and the consequent effect on the quality of the Company's loans;
- (8) demand for loans and deposits in our market area;
- (9) recent governmental initiatives that are expected to have a profound effect on the financial services industry and could dramatically change the competitive environment of the Company;
- (10) other legislative or regulatory changes, including those related to residential mortgages, changes in accounting standards, and Federal Deposit Insurance Corporation ("FDIC") premiums that may adversely affect the Company;
- (11) the application of generally accepted accounting principles in the United States of America ("U.S. GAAP"), consistently applied;
- (12) the fact that one period of reported results may not be indicative of future periods;
- (13) the state of the economy in the greater New York metropolitan area and its particular effect on the Company's customers, vendors and communities and other such factors, including risk factors, as may be described in the Company's other filings with the Securities and Exchange Commission (the "SEC");
- (14) political, social, legal and economic instability, civil unrest, war, catastrophic events, acts of terrorism;
- (15) possible future outbreaks of infectious diseases, including the ongoing novel coronavirus (COVID-19) outbreak;
- (16) changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for c losses;
- (17) our ability to access cost-effective funding;
- (18) our ability to implement and change our business strategies;
- (19) changes in the quality or composition of our loan or investment portfolios;
- (20) technological changes that may be more difficult or expensive than expected;
- (21) our ability to manage market risk, credit risk and operational risk in the current economic environment;
- (22) our ability to enter new markets successfully and capitalize on growth opportunities;
- (23) changes in consumer spending, borrowing and savings habits;
- (24) our ability to retain key employees;
- (25) our compensation expense associated with equity allocated or awarded to our employees;
- (26) the premiums paid for the guaranteed portion of SBA loans by third party investors; and
- (27) our ability to meet regulatory capital requirements.

The risks and uncertainties included here are not exhaustive. In addition to those included herein further information concerning our business, including additional factors that could materially affect our financial results, is included in our other filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Form 10-K"). Further, it is not possible to assess the effect of all risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. In addition, we disclaim any obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this report.

Critical Accounting Policies

The preparation of consolidated financial statements in accordance with U.S. 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 the accounting for the allowance for credit losses, the analysis and valuation of its investment securities, the valuation of deferred tax assets, the valuation of derivatives, and the valuation of servicing assets as certain of the Company's most critical accounting policies and estimates in that they are important to the portrayal of the Company's financial condition and results of operations. They require management's most subjective and complex judgment as a result of the need to make estimates about the effect of matters that are inherently uncertain. Refer to the 2023 Form 10-K for additional information.

Summary

The Company reported net loss of \$27.0 million (\$6.78 basic and diluted loss per share) for the quarter ended September 30, 2024, compared to a net loss of \$3.8 million (\$0.95 basic and diluted loss per share) for the quarter ended September 30, 2023. The \$23.2 million increase in net loss for the quarter was primarily driven by a full valuation allowance on deferred tax assets ("DTA") of \$25.1 million, see Note 2 - Summary of Significant Accounting Policies for more information. This increase was partially offset by a pretax \$3.7 million reduction in provision for credit losses and a pretax \$1.5 million decrease in net interest income.

For the nine months ended September 30, 2024, the net loss was \$30.3 million, or \$7.63 basic and diluted loss per share, compared to a net loss of \$5.1 million, (\$1.28 basic and diluted loss per share) for the nine months ended September 30, 2023. This represents a year-over-year increase in net loss of \$25.3 million. The primary driver of this increase was the same \$25.1 million DTA valuation allowance, see Note 2 - Summary of Significant Accounting Policies for more information. This increase is offset by fluctuations including lower pretax net interest income of \$6.8 million, lower pretax provision for credit losses of \$3.5 million and higher pretax noninterest income of \$3.6 million, primarily from revenue on the Digital Payments Division.

FINANCIAL CONDITION

Total assets decreased \$119.3 million to \$974.1 million as of September 30, 2024, compared to \$1.09 billion at December 31, 2023, primarily due to the decline in loans receivable of \$93.2 million as of September 30, 2024.

Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash increased from \$66.5 million at December 31, 2023 to \$72.8 million at September 30, 2024. The increase in 2024 reflects the intention to boost balance sheet liquidity. For further details, refer to the Consolidated Statements of Cash Flows.

Investments

The following table is a summary of the Company's investment securities portfolio, at fair value, at the dates shown:

(In thousands)	September 30,	December 31,	Increase /(Decrease)	
	2024	2023	(\$)	(%)
U. S. Government agency and mortgage-backed securities \$	66,289	\$ 65,671	\$ 618	0.94 %
Corporate bonds	14,705	13,766	939	6.82 %
Subordinated notes	4,399	4,227	172	4.07 %
SBA loan pools	3,698	5,037	(1,339)	(26.58)%
Municipal bonds	487	486	1	0.21 %
Total available-for-sale securities, at fair value	89,578	89,187	391	0.44 %
Other investments, at cost	4,450	4,450	—	— %
Total investment securities	\$ 94,028	\$ 93,637	\$ 391	0.42 %

Total investments increased by \$0.4 million, from \$93.6 million at December 31, 2023 to \$94.0 million at September 30, 2024. The increase in the nine months ended September 30, 2024 was primarily attributable to a \$2.3 million increase in purchase of available-for-sale securities and a \$3.3 million unrealized gain on securities, partially offset by the sale and repayment of securities totaling \$5.3 million. During the nine months ended September 30, 2024, the Bank sold available-for-sale securities of \$2.3 million and recognized a net loss of \$24,000.

Loans held for investment

The following table provides the composition of the Company's loan held for investment portfolio as of September 30, 2024 and December 31, 2023:

(In thousands)	September 30, 2024		December 31, 2023	
	Amount	%	Amount	%
Loan portfolio segment:				
Commercial Real Estate	\$ 452,155	59.83 %	472,093	55.62 %
Residential Real Estate	94,579	12.52 %	106,783	12.58 %
Commercial and Industrial	134,333	17.78 %	163,565	19.27 %
Consumer and Other	68,418	9.05 %	99,688	11.74 %
Construction	3,829	0.51 %	4,266	0.50 %
Construction to permanent - CRE	2,357	0.31 %	2,464	0.29 %
Loans receivable, gross	755,671	100.00 %	848,859	100.00 %
Allowance for credit losses	(14,984)		(15,925)	
Loans receivable, net	\$ 740,687		\$ 832,934	

The Company's loan portfolio decreased \$93.2 million, from \$848.9 million at December 31, 2023 to \$755.7 million at September 30, 2024. The Company has continued the trend of restricting loan growth and allowing loans to pay down as the balance sheet is reduced in order to strengthen capital ratios.

SBA loans held for investment were included in the commercial real estate loans and commercial and industrial loan classifications above. As of September 30, 2024 and December 31, 2023, SBA loans included in the commercial and industrial loans were \$11.6 million and \$17.1 million, respectively. SBA loans included in the commercial real estate loans were \$19.5 million and \$12.9 million, respectively.

At September 30, 2024, the net loan to deposit ratio was 89.8% and the net loan to total assets ratio was 76.0%. At December 31, 2023, these ratios were 99.1% and 76.2%, respectively.

The following table provides the composition of the commercial real estate loan portfolio segment as of September 30, 2024 and December 31, 2023:

(In thousands)	September 30, 2024		December 31, 2023	
	Amount	%	Amount	%
Commercial Real Estate				
CRE owner occupied	\$ 85,345	18.88 %	\$ 83,120	17.61 %
CRE multifamily	80,683	17.84 %	82,342	17.44 %
CRE office	62,959	13.92 %	61,368	13.00 %
CRE retail	56,787	12.56 %	63,918	13.54 %
Other CRE non-owner occupied	166,381	36.80 %	181,345	38.41 %
Total	\$ 452,155	100.00 %	\$ 472,093	100.00 %

The following table provides the commercial real estate loan portfolio segment by geographic concentrations as of September 30, 2024 and December 31, 2023:

(In thousands)	September 30, 2024		December 31, 2023	
	Amount	%	Amount	%
New York	\$ 224,064	49.55 %	\$ 241,711	51.20 %
Connecticut	103,911	22.98 %	111,523	23.62 %
New Jersey	36,858	8.15 %	37,277	7.90 %
Outside Market ⁽¹⁾	87,322	19.31 %	81,582	17.28 %
Total Commercial Real Estate	\$ 452,155	100.00 %	\$ 472,093	100.00 %

(1) Outside Market consists of loans in all other states, none of which are greater than 5% of the total.

Allowance for Credit Losses ("ACL") on Loans

The allowance for credit losses on loans was \$15.0 million as of September 30, 2024, compared to \$15.9 million as of December 31, 2023, a reduction of \$941,000. The decrease in allowance was mainly due to reduction in loan balances and the recognition of charge-offs on the unsecured consumer loan portfolio. Based upon the overall assessment and evaluation of the loan portfolio at September 30, 2024, management believes \$15.0 million in the allowance for credit losses, which represented 1.98% of gross loans outstanding, is 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 on loans for the three and nine months ended September 30, 2024 and 2023:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Balance at beginning of the period	\$ 14,989	\$ 24,098	\$ 15,925	\$ 10,310
Charge-offs:				
Commercial Real Estate	(124)	—	(282)	—
Residential Real Estate	—	(113)	(21)	(113)
Commercial and Industrial	(122)	(423)	(936)	(429)
Consumer and Other	(1,266)	(3,012)	(5,638)	(7,324)
Construction	—	—	—	(150)
Total charge-offs	(1,512)	(3,548)	(6,877)	(8,016)
Recoveries:				
Residential Real Estate	—	3	—	14
Commercial and Industrial	160	9	238	25
Consumer and Other	263	306	828	739
Total recoveries	423	318	1,066	778
Net charge-offs	(1,089)	(3,230)	(5,811)	(7,238)
Impact of CECL adoption	—	—	—	13,001
Provision for credit losses	1,084	4,800	4,870	9,595
Balance at end of the period	\$ 14,984	\$ 25,668	\$ 14,984	\$ 25,668
Ratios:				
Net charge-offs to average loans (annualized)	(0.56)%	(1.40)%	(0.96)%	(1.07)%
Allowance for credit losses to total loans	1.98 %	2.88 %	1.98 %	2.88 %
Allowance for credit losses to nonaccrual loans	41.01 %	83.26 %	41.01 %	83.26 %

For the three months ended September 30, 2024, net charge-offs decreased \$2.1 million to \$1.1 million, with a net charge-offs to average loans ratio of 0.56%, compared to \$3.2 million and 1.40% for the three months ended September 30, 2023.

For the nine months ended September 30, 2024, net charge-offs declined \$1.4 million to \$5.8 million, with a net charge-offs to average loans ratio of 0.96% , down from \$7.2 million and 1.07% for the nine months ended September 30, 2023.

The reduction in net charge-offs for both three and nine months ended September 30, 2024 was primary driven by a \$1.7 million decrease in charge-offs related to purchased unsecured consumer loans as the portfolio balances have declined.

The average loan balance decreased by \$137.4 million, from \$921.2 million for the three months ended September 30, 2023, to \$783.8 million for the three months ended September 30, 2024. For the nine-month period, the average loan balance decreased \$89.4 million, from \$899.5 million in 2023 to \$810.1 million in 2024. This decrease in average loan balance for the three and nine months ended September 30, 2024, reflects the Company's continued approach of limiting loan growth and allowing loans to pay down to strengthen capital ratios as the balance sheet is reduced.

As of September 30, 2024 and September 30, 2023, the ACL was \$15.0 million and \$25.7 million, respectively. The decrease was due to significant charge-offs of reserved CRE and consumer loans after September 30, 2023, which also impacted the ACL to loans ratio of 1.98%, compared to an ACL of \$25.7 million and an ACL to loans ratio of 2.88% as of September 30, 2023.

The nonaccrual loan was \$36.5 million as of September 30, 2024, compared to \$30.8 million as of September 30, 2023. The allowance for credit losses to nonaccrual loans ratio was 41.01% as of September 30, 2024, compared to 83.26% as of September 30, 2023. The rate at September 30, 2023 was significantly higher due to reserves on individually evaluated CRE loans that were subsequently charged-off after September 30, 2023.

The following table provides an allocation of allowance for credit losses on loans by portfolio segment:

(In thousands)

	September 30, 2024		December 31, 2023	
	Allowance for credit losses	Percent of loans in each category to total loans	Allowance for credit losses	Percent of loans in each category to total loans
Commercial Real Estate	\$ 9,045	59.83 %	\$ 6,089	55.62 %
Residential Real Estate	608	12.52 %	607	12.58 %
Commercial and Industrial	1,056	17.78 %	1,269	19.27 %
Consumer and Other	4,273	9.05 %	7,843	11.74 %
Construction	2	0.51 %	4	0.50 %
Construction to permanent - CRE	—	0.31 %	113	0.29 %
Total Allowance for credit losses	\$ 14,984	100.00 %	\$ 15,925	100.00 %

Non-performing Assets

The following table presents non-performing assets as of September 30, 2024 and December 31, 2023:

	September 30, 2024	December 31, 2023
Non-accruing loans:		
Commercial Real Estate	\$ 28,255	\$ 12,775
Residential Real Estate	131	—
Commercial and Industrial	4,397	3,921
Consumer and Other	1,396	977
Construction	—	454
Construction to Permanent - CRE	2,357	—
Total non-accruing loans	36,536	18,127
Loans past due over 90 days and still accruing	3,979	341
Other real estate owned	\$ 2,843	\$ 2,843
Total nonperforming assets	\$ 43,358	\$ 21,311
Nonperforming assets to total assets	4.45 %	1.95 %
Nonperforming loans to total loans, net	5.47 %	2.22 %

As of September 30, 2024, non-accrual loans increased to \$36.5 million, compared to \$18.1 million as of December 31, 2023. The non-accrual loans at September 30, 2024 was comprised of 116 borrowers. Of these, 14 loans were individually evaluated, and a specific reserve of \$7.0 million was established for them. 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, 2023, the \$18.1 million of non-accrual loans was comprised of 139 borrowers. Of which, 19 loans were individually evaluated, and a specific reserve of \$4.2 million was established.

Loans held for sale

SBA loans held for sale totaled nil and \$9.9 million as of September 30, 2024 and December 31, 2023, respectively. SBA 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 loans, respectively. For the three and nine months ended September 30, 2024, total gain on sale of \$67,000 and \$378,000 was recorded. A servicing asset of \$791,000 and \$857,000 was recognized as of September 30, 2024 and December 31, 2023, respectively.

As of September 30, 2024, the credit card loans held for sale from Digital Payments division totaled \$10.2 million. The credit card loans expected to be held for no longer than three days before being sold. The credit card receivable are fully cash-secured by deposits at Patriot. The credit card loans are sold to the third party as a whole loan sale transaction, priced at Par, thus there is no servicing asset or gain or loss on sale.

In 2024, the Bank reentered the residential mortgage business. The Residential Mortgage Division, located in Jacksonville, FL, generates the loans and typically sells them to third parties. As of September 30, 2024, the Company reported residential mortgage loans held for sale totaling \$3.5 million. These loans are recorded at the lower of aggregate cost or market value. For the three and nine months ended September 30, 2024, a total gain on sale of \$10,000 and \$24,000 was recorded. A servicing asset of \$8,000 was recognized as of September 30, 2024.

Deferred Taxes

As of September 30, 2024 the carrying value of the deferred tax assets is nil as there is a full valuation allowance against all of the DTAs. As of December 31, 2023, DTAs were \$24.1 million, consisting predominately of Federal and state net operating losses, capitalized costs and allowance for credit losses.

The effective tax provision rate for the three months ended September 30, 2024 was 1067.85%, compared to the effective tax benefit rate for the three months ended September 30, 2023 of (26.12)%. The effective tax provision and benefit rates for the nine months ended September 30, 2024 and September 30, 2023 were 363.40% and (26.37)%, respectively. The Company's effective rates for both periods were affected by state taxes and non-deductible expenses and the full valuation allowance against all of the DTAs in the third quarter of 2024.

As of September 30, 2024, Patriot has \$54.7 million of net operating losses ("NOLs") available for Connecticut tax purposes at September 30, 2024, which may be used to offset up to 50% of taxable income in any year. The NOLs expire between 2030 and 2044.

Valuation Allowance against Deferred Tax Assets

Patriot recognizes income taxes under the asset and liability method. Under this method, deferred tax assets (DTAs) and liabilities (DTLs) 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. DTAs and DTLs 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.

The Company recognize deferred tax assets to the extent we believe it is more likely than not the asset will be realized. Quarterly, management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit the use of existing deferred tax assets, including future reversals of existing taxable temporary differences, projected taxable income, tax-planning strategies, carryback potential if permitted, and the results of recent operations. A significant piece of objective negative evidence is the existence of a three or four year cumulative loss. Such objective negative evidence limits the ability of management to consider other subjective evidence, such as projected taxable income. When appropriate, the Company records a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized.

Based on our assessment performed as of September 30, 2024, we determined that a full valuation allowance was appropriate against the Company's U.S. federal and state deferred tax assets. This resulted in an increase in our income tax expense of approximately \$25.1 million for the nine months ended September 30, 2024. Currently, the key factor on the Company's assumption of providing 100% valuation allowance was purely based on our historical operating losses. Once we begin generating profits, we will re-evaluate whether providing 100% valuation allowance is appropriate or if we can reassess that allowance. As deferred tax assets associated with NOL carryforwards are already a direct reduction to Tier 1 Capital, the valuation allowance at September 30, 2024 resulted in a reduction of Tier 1 Capital of \$19.9 million.

Deposits

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

(In thousands)

	September 30, 2024	December 31, 2023	Increase/(Decrease)	
			\$	%
Non-interest bearing:				
Non-interest bearing	\$ 80,376	\$ 95,109	\$ (14,733)	(15.49)%
Non-interest bearing DDA- Digital Payments	11,207	14,947	(3,740)	(25.02)%
Total non-interest bearing	91,583	110,056	(18,473)	(16.79)%
Interest bearing:				
Negotiable order of withdrawal accounts (NOW)	27,984	33,035	(5,051)	(15.29)%
Savings	38,824	44,104	(5,280)	(11.97)%
Interest bearing DDA	17,780	7,127	10,653	149.47 %
Interest bearing DDA - Digital Payments	165,352	164,450	902	0.55 %
Money market	119,899	166,294	(46,395)	(27.90)%
Money market - Digital Payments	58,580	33,986	24,594	72.37 %
Certificates of deposit, \$250,000 or less	167,788	175,988	(8,200)	(4.66)%
Certificates of deposit, more than \$250,000	65,022	64,745	277	0.43 %
Brokered deposits	72,077	40,526	31,551	77.85 %
Total Interest bearing	733,306	730,255	3,051	0.42 %
Total Deposits	\$ 824,889	\$ 840,311	\$ (15,422)	(1.84)%
Total Digital Payments deposits	\$ 235,139	\$ 213,383	\$ 21,756	10.20 %
Total retail branch bank deposits	\$ 399,889	\$ 394,819	\$ 5,070	1.28 %
Total uninsured deposits	264,749	334,300	(69,551)	(20.80)%
Uninsured deposits to total deposits	32.10 %	39.78 %		
Non-GAAP uninsured deposits to total deposits excluding Digital Payments deposits	16.38 %	20.06 %		

Non-GAAP Financial Measures:

In addition to evaluating the Company's financial performance in accordance with U.S. generally accepted accounting principles ("GAAP"), management may evaluate certain non-GAAP financial measures, such as uninsured deposits to total deposits excluding Digital Payments deposits. A computation and reconciliation of non-GAAP financial measures used for these purposes is contained in the accompanying Reconciliation of GAAP to Non-GAAP Measures tables. We believe that by excluding Digital Payments deposits, management can present a view of uninsured deposits that better reflects the Company's traditional deposit base, providing investors with useful information for understanding our uninsured deposits position and financial stability. Digital Payments deposits are analyzed for FDIC insurance at the Program Manager level. Certain accounts are reciprocal deposits through the IntraFi network and therefore the entire deposit balances qualify for FDIC insurance. The remaining deposit balances are aggregated at the Program Manager level, and any deposits exceeding \$250,000 are considered uninsured.

The non-GAAP financial measures should not be considered a substitute for GAAP basis measures and results, and we strongly encourage investors to review our consolidated financial statements in their entirety and not to rely on any single financial measure.

Reconciliation of GAAP to Non-GAAP Measures (unaudited):
(Dollars in thousands)

	September 30, 2024	December 31, 2023
Non-GAAP Uninsured deposits to total deposits excluding Digital Payments deposits		
Total deposits	\$ 824,889	\$ 840,311
Digital Payments deposits	235,139	213,383
Non-GAAP total deposits excluding Digital Payments deposits	589,750	626,928
Total uninsured deposits		
Total uninsured deposits	\$ 264,749	\$ 334,300
Total uninsured Digital Payments deposits	168,177	208,524
Total uninsured deposits excluding Digital Payments deposits	96,572	125,776
Non-GAAP uninsured deposits to total deposits excluding Digital Payments deposits	16.38 %	20.06 %

Borrowings

Total borrowings were \$123.9 million and \$201.1 million as of September 30, 2024 and December 31, 2023, respectively. Borrowings consist primarily of FHLB advances, senior notes, subordinated notes, junior subordinated debentures and a note payable. The senior notes, subordinated notes and 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.

FHLB-B advances are structured to facilitate the Bank's management of its balance sheet and liquidity requirements. During the three months ended September 30, 2024, the Company repaid \$30.0 million in long-term advances. As a result, the outstanding advances decreased from \$101.0 million as of December 31, 2023, to \$93.8 million as of September 30, 2024. At September 30, 2024, the FHLB-B advances carried a fixed interest rates of 5.03% with maturities of 1 day.

At September 30, 2024, collateral for FHLB-B borrowings consisted of a mixture of real estate loans and securities with book value of \$221.2 million. Remaining unused borrowing capacity under this line totaled \$5.4 million at September 30, 2024.

In addition, Patriot has a \$2.0 million revolving line of credit with the FHLB-B. For the three and nine months ended September 30, 2024 and 2023, no funds had been borrowed under the line of credit.

Interest expense incurred for the three and nine months ended September 30, 2024 were \$292,000 and \$1.0 million, respectively. Interest expense incurred for the three and nine months ended September 30, 2023 were \$748,000 and \$3.8 million, respectively.

Correspondent Bank - Line of Credit

Patriot has entered into unsecured federal funds sweep and federal funds line of credit facility agreements with certain correspondent banks. Borrowings available under the agreements totaled \$5.0 million and \$22.0 million at September 30, 2024 and December 31, 2023, 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, Automated Clearing House (ACH), and other clearinghouse transactions.

There was no outstanding balance under the agreements at September 30, 2024 and December 31, 2023. Interest expense incurred for the three and nine months ended September 30, 2024 was \$2,000 and \$4,000, respectively. For three and nine months ended September 30, 2023, interest expense incurred was nil and \$117,000, respectively.

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 September 30, 2024, the book value of the pledged loans totaled \$25.5 million, with a collateral value of \$19.4 million. No funds were borrowed from the Discount Window under the FRBNY's Borrower-in-Custody ("BIC") program, and no interest expense was incurred for the three and nine months ended September 30, 2024. For the three and nine months ended September 30, 2023, a total of \$12.0 million was borrowed, and interest expense incurred was \$43,000 and \$48,000, respectively.

In July 2023, the Bank established a collateralized funding line of \$73.8 million at par value under the Federal Reserve's newly established Bank Term Funding Program ("BTFP"). The program provided additional funding to eligible depository institutions, assuring they can meet the needs of all their depositors. The program served 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 allowed for a fixed rate borrowing at market rates, for up to one year, with repayment permitted at any time without penalty. The BTFP ceased allowing any new advances after March 11, 2024. As of September 30, 2024, Patriot paid off the BTFP borrowing of \$70.0 million that was outstanding as of December 31, 2023. Interest expense incurred for the three and nine months ended September 30, 2024 was \$632,000 and \$2.3 million, respectively. Interest expense incurred for the three and nine months ended September 30, 2023 was \$833,000.

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 2016 Senior Notes was extended from December 22, 2021 to June 30, 2022.

On June 22, 2022, the Company amended and restated the 2016 Senior Notes. The maturity date of the Senior Notes was further extended to December 31, 2022, and the interest rate increased from (i) 7% to 7.25% from July 1, 2022 until September 30, 2022 and (ii) from 7.25% to 7.50% thereafter. The 2016 Senior Notes was 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 2022 Senior Notes, the Company incurred \$326,000 of costs, which are being amortized over the term of the 2022 Senior Notes to recognize a constant rate of interest expense. At September 30, 2024 and December 31, 2023, \$173,000 and \$277,000 of unamortized debt issuance costs were deducted from the face amount of the 2022 Subordinated Notes included in the Consolidated Balance Sheet, respectively.

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 three and nine months ended September 30, 2024, the Company recognized interest expense of \$290,000 and \$869,000, respectively. Interest expense incurred for the three and nine months ended September 30, 2023 was \$290,000 and \$869,000, respectively.

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 bore 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.

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 September 30, 2024 and December 31, 2023, \$109,000 and \$131,000 of unamortized debt issuance costs were deducted from the face amount of the Subordinated Notes included in the consolidated balance sheet, respectively.

For the three and nine months ended September 30, 2024, the Company recognized interest expense of \$229,000 and \$680,000, respectively. Interest expense incurred for the three and nine months ended September 30, 2023 was \$229,000 and \$556,000, 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 SOFR plus 3.15% and mature on March 26, 2033, at which time the principal amount borrowed will be due. 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. As of September 30, 2024 and December 31, 2023, the unamortized placement fee deducted from the face amount of the junior subordinated debt owed to the unconsolidated trust amounted to \$104,000 and \$111,000, respectively, and accrued interest on the junior subordinated debentures was \$9,000 and \$12,000, respectively.

For the three and nine months ended September 30, 2024, the Company recognized interest expense of \$180,000 and \$539,000, respectively. Interest expense incurred for the three and nine months ended September 30, 2023 was \$180,000 and \$512,000, 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.

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 September 30, 2024 and December 31, 2023, the outstanding balance on the note was \$216,000 and \$376,000, respectively. The note is secured by a first Mortgage Deed and Security Agreement on the purchased property. The note originally set to mature in August 2024, was extended from August 25, 2024 to September 1, 2025, with the Bank continuing its scheduled principal and interest payments.

For the three and nine months ended September 30, 2024, the Company recognized interest expense of \$1,000 and \$4,000, respectively. Interest expense incurred for the three and nine months ended September 30, 2023 was \$2,000 and \$7,000, respectively.

Derivatives

As of September 30, 2024, Patriot has two interest rate swaps ("swaps"). 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 swap is matched in offsetting terms to the third party interest rate swap. The 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 noninterest income. The Company recognized no gain on the swaps for the three and nine months ended September 30, 2024 and 2023.

Further discussion of the fair value of derivatives is set forth in Note 8 to the consolidated financial statements.

Equity

Equity decreased \$28.0 million, from \$44.4 million at December 31, 2023 to \$16.4 million at September 30, 2024. This decrease was primarily due to a net loss of \$30.3 million for the nine months ended September 30, 2024, partially offset by a net unrealized gain in investments of \$2.2 million.

Off-Balance Sheet Commitments

The Company's off-balance sheet commitments primarily consist of commitments to lend of \$96.6 million and \$92.5 million as of September 30, 2024 and December 31, 2023, respectively.

As of September 30, 2024, the Bank has an irrevocable stand-by letter of credit for a maximum of \$45 million, issued by the Federal Home Loan Bank of Boston on behalf of the Bank, with Mastercard as the beneficiary, which expires on April 30, 2025.

Average Balances

The following tables present daily average balance sheets, interest income, interest expense and the corresponding yields earned and rates paid for the three and nine months ended September 30, 2024 and 2023:

(In thousands)

	Three Months Ended September 30,					
	2024			2023		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Interest Earning Assets:						
Loans	\$ 783,787	\$ 11,704	5.92 %	\$ 921,232	\$ 13,936	6.00 %
Investments	96,654	729	3.02 %	99,481	750	3.02 %
Cash equivalents and other	27,509	381	5.49 %	25,038	384	6.08 %
Total interest earning assets	907,950	12,814	5.60 %	1,045,751	15,070	5.72 %
Cash and due from banks	24,653			2,619		
Allowance for credit losses	(14,646)			(22,611)		
OREO	2,843			—		
Other assets	46,832			68,403		
Total Assets	\$ 967,632			\$ 1,094,162		
Liabilities						
Interest bearing liabilities:						
Deposits	\$ 699,661	\$ 6,189	3.51 %	\$ 742,684	\$ 6,220	3.32 %
Borrowings	86,527	926	4.25 %	135,175	1,624	4.77 %
Senior notes	11,805	290	9.83 %	11,666	290	9.94 %
Subordinated debt	18,029	409	9.00 %	17,990	409	9.02 %
Note Payable	232	1	1.71 %	444	2	1.79 %
Total interest bearing liabilities	816,254	7,815	3.80 %	907,959	8,545	3.73 %
Demand deposits	101,026			131,664		
Other liabilities	8,609			8,183		
Total Liabilities	925,889			1,047,806		
Shareholders' equity	41,743			46,356		
Total Liabilities and Shareholders' Equity	\$ 967,632			\$ 1,094,162		
Net interest income		\$ 4,999			\$ 6,525	
Interest margin			2.18 %			2.48 %
Interest spread			1.80 %			1.99 %

(In thousands)

	Nine Months Ended September 30,					
	2024			2023		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Interest Earning Assets:						
Loans	\$ 810,086	\$ 36,345	5.98 %	\$ 899,505	\$ 40,538	6.03 %
Investments	96,209	2,171	3.01 %	101,243	2,423	3.19 %
Cash equivalents and restricted cash	37,851	1,516	5.34 %	26,019	1,064	5.47 %
Total interest earning assets	944,146	40,032	5.65 %	1,026,767	44,025	5.73 %
Cash and due from banks	13,468			3,439		
Allowance for credit losses	(14,129)			(22,958)		
OREO	2,843			—		
Other assets	58,639			68,867		
Total Assets	\$ 1,004,967			\$ 1,076,115		
Liabilities						
Interest bearing liabilities:						
Deposits	\$ 717,299	\$ 19,160	3.56 %	\$ 696,776	\$ 15,047	2.89 %
Borrowings	103,582	3,354	4.31 %	119,074	4,783	5.37 %
Senior notes	11,770	869	9.84 %	11,639	869	9.96 %
Subordinated debt	18,019	1,219	9.01 %	17,980	1,068	7.94 %
Note Payable	285	4	1.87 %	496	7	1.89 %
Total interest bearing liabilities	850,955	24,606	3.85 %	845,965	21,774	3.44 %
Demand deposits	103,323			153,000		
Other liabilities	7,404			28,529		
Total Liabilities	961,682			1,027,494		
Shareholders' equity	43,285			48,621		
Total Liabilities and Shareholders' Equity	\$ 1,004,967			\$ 1,076,115		
Net interest income		\$ 15,426			\$ 22,251	
Interest margin			2.18 %			2.90 %
Interest spread			1.80 %			2.29 %

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 three and nine months ended September 30, 2024 and 2023.

(In thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2024 compared to 2023			2024 compared to 2023		
	Increase/(Decrease)			Increase/(Decrease)		
	Volume	Rate	Total	Volume	Rate	Total
Interest Earning Assets:						
Loans	\$ (2,222)	\$ (10)	\$ (2,232)	\$ (4,273)	\$ 80	\$ (4,193)
Investments	(35)	14	(21)	(213)	(39)	(252)
Cash equivalents and other	38	(41)	(3)	488	(36)	452
Total interest earning assets	(2,219)	(37)	(2,256)	(3,998)	5	(3,993)
Interest bearing liabilities:						
Deposit	784	(815)	(31)	(3,295)	7,408	4,113
Borrowings	(586)	(112)	(698)	(1,243)	(186)	(1,429)
Senior notes	3	(3)	—	10	(10)	—
Subordinated debt	—	—	—	—	151	151
Note payable and other	(1)	—	(1)	(3)	—	(3)
Total interest bearing liabilities	200	(930)	(730)	(4,531)	7,363	2,832
Increase (decrease) in net interest income	\$ (2,419)	\$ 893	\$ (1,526)	\$ 533	\$ (7,358)	\$ (6,825)

Results of Operations

For the three months ended September 30, 2024, interest income and dividend income was \$12.8 million, which decreased \$2.3 million as compared to \$15.1 million for the quarter ended September 30, 2023. Total interest expense was \$7.8 million for the three months ended September 30, 2024, which decreased \$730,000 as compared to \$8.5 million for the three months ended September 30, 2023. Net interest income decreased \$1.5 million from \$6.5 million for the three months ended September 30, 2023 to \$5.0 million for the three months ended September 30, 2024.

For the nine months ended September 30, 2024, interest income and dividend income was \$40.0 million, which decreased \$4.0 million as compared to \$44.0 million for the nine months ended September 30, 2023. Total interest expense was \$24.6 million, which increased \$2.8 million as compared to \$21.8 million for the nine months ended September 30, 2023. Net interest income was \$15.4 million for the nine months ended September 30, 2024, which decreased \$6.8 million from \$22.3 million for the nine months ended September 30, 2023.

The decline for both three and nine months ended September 30, 2024 reflects a lower loan balance and narrower net interest margin due to higher deposit costs and increase in nonaccrual loans.

The net interest margin was 2.18% for the quarter ended September 30, 2024, compared to 2.48% for the quarter ended September 30, 2023. For the nine months ended September 30, 2024 and 2023, the net interest margin was 2.18% and 2.90%, respectively. The decline in interest margins for the three and nine months ended September 30, 2024 compared to the same periods in 2023, was primarily associated with an increase in the cost of deposits and other borrowings due to the significant rise in market interest rates and a decline in loan interest income due to the declining loan balance and the increase in nonaccrual loans, partially mitigated by the rise in variable rate interest earning assets.

Provision for Credit Losses ("PCL")

For the three months ended September 30, 2024, the provision for credit losses was \$1.0 million, consisting of a \$1.1 million loan provision and a \$58,000 credit for off-balance-sheet exposure reserves. In comparison, for the three months ended September 30, 2023, the provision for credit losses was \$4.7 million, including a \$4.8 million loan provision and a \$112,000 credit for off-balance-sheet exposure reserves.

For the nine months ended September 30, 2024, the PCL was \$4.8 million, which included a \$4.9 million loan provision and a \$94,000 credit for off-balance-sheet exposure reserves. For the nine months ended September 30, 2023, the provision was \$8.2 million, consisting of a \$9.6 million provision and a \$1.4 million credit for off-balance-sheet exposure reserves.

For the three months ended September 30, 2024, the Bank has been selectively managing down its credit exposure in certain higher-risk areas. The loan portfolio declined from \$889.9 million as of September 30, 2023, to \$755.7 million as of September 30, 2024. This reduction in credit exposure has required a lower level of reserves. Consequently, the ACL for loans outstanding decreased from \$25.7 million as of September 30, 2023, to \$15.0 million as of September 30, 2024.

One key driver in both the level of outstanding loans and reserves is the pool of purchased unsecured consumer loans, which decreased from \$58.3 million as of September 30, 2023 to \$26.1 million as of September 30, 2024. Correspondingly, the reserves for this pool also fell, declining from \$9.2 million as of September 30, 2023 to \$3.8 million as of September 30, 2024. Additionally, as of September 30, 2023, the Bank had obligations of \$18.1 million yet to fund under these same pools, against which the bank held \$1.1 million of reserves. During the fourth quarter of 2023, the Bank entered into an agreement with the originator and servicer that released the Bank from any obligation for further funding, thereby freeing up the aforementioned \$1.1 million of reserves.

As of September 30, 2023, the ACL also included \$6.2 million of reserves against an \$8.9 million loan that had been originated in part for community development purposes. The loan was used to finance a special-use property and was charged-off during the fourth quarter of 2023, resulting in a loss of approximately \$5.9 million.

Non-interest income

Non-interest income for the three months ended September 30, 2024 was \$2.1 million, compared to \$1.2 million for the three months ended September 30, 2023. For the nine months ended September 30, 2024 and 2023, non-interest income was \$6.4 million and \$2.8 million, respectively. The increase was primarily attributable to higher non-interest income from the Bank's Digital Payments Division.

Non-interest expense

Non-interest expense for the three months ended September 30, 2024 increased to \$8.4 million, compared to \$8.1 million for the three months ended September 30, 2023. Non-interest expense for the nine months ended September 30, 2024 was \$23.6 million, compared to \$23.8 million for the nine months ended September 30, 2023.

Provision for income taxes

The Company reported a provision for income taxes of \$24.6 million and \$23.8 million for the three and nine months ended September 30, 2024, respectively, compared to a benefit for income taxes of \$1.3 million and \$1.8 million for the three and nine months ended September 30, 2023, respectively. The provision for income taxes for the third quarter of 2024 included a valuation allowance recorded against all deferred tax assets of \$25.1 million, See Note 2 - Summary of Significant Accounting Policies.

Liquidity

The Company measures liquidity in two primary ratios: on-hand liquidity to total liabilities, and total liquidity to total liabilities. On-hand liquidity is comprised of interest-bearing cash and cash equivalents and unpledged available-for-sale securities. Total liquidity includes on-hand liquidity, plus total available credit lines, plus availability of brokered deposits which is subject to internal limitations. The Company monitors other metrics in addition to on-hand liquidity and total liquidity to manage concentration risk in certain types of liabilities.

The Company's on-hand liquidity and total liquidity ratios for the periods ending September 30, 2024 and December 31, 2023, are as follows:

<i>(In thousands)</i>	September 30, 2024	December 31, 2023
On-hand liquidity		
Interest-bearing cash and cash equivalents	\$ 70,013	\$ 50,322
Available-for-sale securities, at fair value	89,578	89,187
Less: pledged available-for-sale securities	(35,627)	(68,465)
Total on-hand liquidity	123,964	71,044
Borrowing capacity		
FHLB borrowing capacity	146,301	174,533
FRB borrowing capacity	19,379	81,401
Unsecured credit lines from correspondent banks	5,000	22,000
Brokered deposit capacity	123,733	126,047
Total borrowing capacity	294,413	403,981
Less: used borrowing capacity		
FHLB capacity used (including the standby letter of credit)	(140,860)	(173,147)
FRB capacity used	—	(70,000)
Outstanding brokered deposits	(72,077)	(40,526)
Total used borrowing capacity	(212,937)	(283,673)
Total liquidity	\$ 205,440	\$ 191,352
Total liabilities	\$ 957,697	\$ 1,049,042
On-hand liquidity to total liabilities	12.94 %	6.77 %
Total liquidity to total liabilities	21.45 %	18.24 %

On-hand liquidity increased \$53 million from December 31, 2023 to September 30, 2024 due to the payoff of the \$70 million Federal Reserve BTFP borrowing, which released the pledge of certain available-for-sale securities. The payoff of the BTFP will have a slight benefit on the Company's Net Interest Income as the rate on the BTFP was slightly higher than the current replacement funding. Both on-hand liquidity to total liabilities and total liquidity to total liabilities increased at September 30, 2024 compared to December 31, 2023 due to the increased total liquidity and the reduction in total liabilities as the overall balance sheet has shrunk in an effort to improve the Bank's capital ratios.

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.

Net cash provided by operating activities increased by \$15.8 million in the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023. Within this activity there was a significant increase in originations of loans held for sale and proceeds from sale of assets held for sale. This activity is primarily related to the Digital Payments Division credit card loans. This program started in the third quarter of 2023 and continues today. The activity generates non-interest income and only requires short term liquidity as the loans are originated and expected to be sold within three days.

Net cash provided by investing activities increased by \$149 million for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023. The increase is primarily due to lower originations of loans receivable and purchases of loans receivable as the Company is focused on lowering total assets to improve the Company's capital ratios.

Net cash provided by financing activities decreased by \$199 million for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023. The decrease is primarily due to activity in proceeds from FRB and correspondent bank borrowings and repayments of FRB and correspondent bank borrowings. The Company did not require as much funding from FRB and correspondent bank borrowings due to the net cash provided by lower loan originations and loan purchases.

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 since 2020 but may resume in future periods.

The primary source of liquidity at the Company is returns 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.

Capital

The following tables illustrate the Company's and the Bank's regulatory capital ratios at September 30, 2024 and December 31, 2023:

	September 30, 2024				December 31, 2023			
	Patriot National Bancorp,		Patriot Bank, N.A.		Patriot National Bancorp,		Patriot Bank, N.A.	
	Inc.				Inc.			
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollar amounts in thousands)</i>								
Total Capital (to risk weighted assets)	\$ 61,681	7.82 %	\$ 73,206	9.29 %	\$ 89,727	10.00 %	\$ 100,683	11.22 %
Tier 1 Capital (to risk weighted assets)	43,018	5.45 %	64,543	8.19 %	73,282	8.17 %	94,238	10.50 %
Common Equity Tier 1 Capital (to risk weighted assets)	35,018	4.44 %	64,543	8.19 %	65,282	7.27 %	94,238	10.50 %
Tier 1 Leverage Capital (to average assets)	43,018	4.35 %	64,543	6.53 %	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. Management continuously assesses the adequacy of the Bank's capital with the goal to maintain a "well capitalized" classification.

On April 17, 2024, based on its supervisory profile, the Bank was notified by the OCC that it established individual minimum capital ratios ("IMCR") for the Bank. Specifically, the Bank is required to maintain the following ratios: a common equity tier 1 capital ratio of 10.00%, a Tier 1 capital ratio of 10.00%, a Tier 1 leverage ratio of 9.00% and a total capital ratio of 11.50%.

As of September 30, 2024, the Bank did not meet all of its regulatory capital requirements. The common equity tier 1 capital was \$64.5 million, or 8.19% of risk-weighted assets, below the required level of 10.00%. The Tier 1 capital was \$64.5 million, or 8.19% of risk-weighted assets, also below the required level of 10.00%. However, the Tier 1 leverage capital was \$64.5 million, or 6.53% of average assets, falling short of the required 9.00%. The total risk-based capital was \$73.2 million, or 9.29% of risk-weighted assets, below the required 11.50%. During the second quarter, the Bank significantly reduced its total and risk-based assets to work towards achieving the IMCR targets. This trend will continue through the remainder of 2024 with a goal of achieving the IMCR in 2025. The Company has restricted new loan originations significantly to allow the loan portfolio to decline in order to lower average assets and risk weighted assets. Average assets are down \$100 million to \$984 million at September 30, 2024 from \$1,083 million at December 31, 2023, reflecting the actions of the Company during the year to lower assets.

If a bank fails to maintain its capital ratios above the higher minimums established in the IMCR, the OCC may issue a capital directive requiring the bank to submit and adhere to an acceptable plan to achieve or maintain its required capital levels. Additionally, the OCC may deem a bank's failure to maintain capital ratios above the IMCR an unsafe or unsound practice within the meaning of 12 USC 1818.¹

Impact of Inflation and Changing Prices

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

Item 3: Quantitative and Qualitative Disclosures about Market Risk

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

The Company'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 Company'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 Company's Investment, ALCO and Liquidity policies.

Management analyzes the Company'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.

¹ The Office of the Comptroller of Currency Policy and Procedure Manual, PPM 5310-3.

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

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

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

Net Portfolio Value - Performance Summary

(In thousands)		As of September 30, 2024			As of December 31, 2023		
		Estimated Value	Change from Base (\$)	Change from Base (%)	Estimated Value	Change from Base (\$)	Change from Base (%)
Projected Interest Rate Scenario							
+200	\$	89,739	\$ (20,213)	(18.38)%	\$ 107,524	\$ (5,779)	(5.10)%
+100		102,320	(7,632)	(6.94)%	112,036	(1,267)	(1.12)%
BASE		109,952	—	—	113,303	—	—
-100		113,081	3,129	2.85 %	114,032	729	0.64 %
-200		112,743	2,791	2.54 %	106,718	(6,585)	(5.81)%

Net Interest Income - Performance Summary

(In thousands)		September 30, 2024			December 31, 2023		
		Estimated Value	Change from Base (\$)	Change from Base (%)	Estimated Value	Change from Base (\$)	Change from Base (%)
Projected Interest Rate Scenario							
+200	\$	24,167	\$ (2,131)	(8.10)%	\$ 34,529	\$ 483	1.42 %
+100		25,334	(964)	(3.67)%	34,425	379	1.11 %
BASE		26,298	—	—	34,046	—	—
-100		27,609	1,311	4.99 %	34,120	74	0.22 %
-200		28,785	2,487	9.46 %	34,595	549	1.61 %

Item 4: Controls and Procedures

Evaluation of 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.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting during the Company's fiscal quarter ended September 30, 2024 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

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.

PART II - OTHER INFORMATION

Item 1: Legal Proceedings

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.

Item 5: Other Information

None.

ITEM 6: Exhibits

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

No.	Description
3(i)	Certificate of Incorporation of Patriot National Bancorp, Inc. (incorporated by reference to Exhibit 3(i) to the Company's Current Report on Form 8-K filed on December 1, 1999).
3(i)(A)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated July 16, 2004 (incorporated by reference to Exhibit 3(i)(A) to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004 filed on March 25, 2005).
3(i)(B)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated June 15, 2006 (incorporated by reference to Exhibit 3(i)(B) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 filed on November 14, 2006).
3(i) (C)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp Inc. dated October 6, 2010 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 21, 2010)
3(ii)	Amended and Restated By-laws of Patriot National Bancorp, Inc. (incorporated by reference to Exhibit 3(ii) to the Company's Current Report on Form 8-K filed on November 1, 2010)
31(1)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31(2)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32*	Section 1350 Certifications
101.INS#	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 Definition Linkbase Document
104	Cover Page Interactive Data File (embedded with the Inline XBRL and contained in Exhibit 101)

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

* The certification is being furnished and shall not be deemed filed.

SIGNATURES

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

Date: November 19, 2024

Patriot National Bancorp, Inc. (Registrant)

By: /s/ David Finn

David Finn

Executive Vice President and Interim Chief Financial Officer

By: /s/ David Lowery

David Lowery

President and Chief Executive Officer

EXHIBIT 31 (1)

CERTIFICATION

BY CHIEF EXECUTIVE OFFICER

PURSUANT TO RULE 13A-14

I, David Lowery, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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;
 - (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.

/s/ David Lowery

David Lowery

President and Chief Executive Officer

November 19, 2024

EXHIBIT 31 (2)

CERTIFICATION

BY PRINCIPAL FINANCIAL OFFICER

PURSUANT TO RULE 13A-14

I, David Finn, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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;
 - (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.

/s/ David Finn

David Finn

Executive Vice President and Interim Chief Financial Officer
(Principal Financial Officer)

November 19, 2024

EXHIBIT 32

**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 Quarterly Report of Patriot National Bancorp, Inc. (the "*Company*") on Form 10-Q for the period ended September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), we, David Lowery and David Finn, the Chief Executive Officer and the Interim 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

/s/ David Finn

David Finn
Executive Vice President and Interim Chief Financial Officer

November 19, 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.