PATRIOT NATIONAL BANCORP INC
Form 10KSB
March 25, 2005

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
**FORM 10 - KSB**

[ X ] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2004

[ ] 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.
(Name of small business issuer in its charter)

| | |
|---|---|
| Connecticut<br>(State or other jurisdiction of incorporation or organization) | 06-1559137<br>(IRS Employer Identification Number) |
| 900 Bedford Street<br>Stamford, Connecticut<br>(Address of principal executive offices) | 06901<br>(Zip Code) |

Issuer's telephone number (203) 324-7500

Securities registered under Section 12(b) of the Exchange Act:
None
Securities registered under Section 12(g) of the Exchange Act:
Common Stock, par value $2.00 per share

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

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenue for its most recent fiscal year: $ 21,380,455

Aggregate market value of the voting stock held by nonaffiliates of the registrant as of February 28, 2005 based on the last sale price as reported on the NASDAQ Small Cap Market: $ 28,887,830.

Number of shares of the registrant's Common Stock, par value $2.00 per share, outstanding as of February 28, 2005: 2,486,391.

Documents Incorporated by Reference

| | |
|---|---|
| Proxy Statement for 2005 Annual Meeting of Shareholders. (A definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Form 10-KSB.) | Incorporated into Part III of this Form 10-KSB |

Transitional Small Business Disclosure Format (check one):

Yes No X

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## PART I

Item 1. Description of Business

Patriot National Bancorp, Inc. ("*Bancorp*"), a Connecticut corporation, was organized in 1999 for the purpose of becoming a one-bank holding company (the "*Reorganization*") for Patriot National Bank, a national banking association headquartered in Stamford, Fairfield County, Connecticut (the "*Bank*"). Following receipt of regulatory and shareholder approvals, the Reorganization became effective as of the opening of business on December 1, 1999. Upon consummation of the Reorganization, each outstanding share of Common Stock, par value $2.00 per share, of the Bank ("*Bank Common Stock*"), was converted into the right to receive one share of Common Stock, par value $2.00 per share, of Bancorp ("*Bancorp Common Stock*"), and each outstanding option or warrant to purchase Bank Common Stock became an option or warrant to purchase an equal number of shares of Bancorp Common Stock.

The Bank was granted preliminary approval by the Comptroller of the Currency (the *"OCC"*) on March 5, 1993. It received its charter and commenced operations as a national bank on August 31, 1994. Since then, the Bank has opened branch offices in Greenwich and Old Greenwich, Connecticut in 1997 and 1999, respectively, two branch offices in Norwalk, Connecticut, one in 2001 and a second in 2003, a second Stamford location in 2003, two branch offices in Wilton, Connecticut, one in 2003 and a second in 2004, and a branch office in Darien, Connecticut in 2004. The Bank recently received regulatory approval to open two branch offices, one in Southport, Connecticut and one in Greenwich, Connecticut.

On June 30, 1999, the Bank through its wholly-owned subsidiary, PinPat Acquisition Corporation, acquired all of the outstanding capital stock of Pinnacle Financial Corp., a Connecticut corporation, Pinnacle Financial Corp., a New Jersey corporation, and Pinnacle Financial Corp., a New York corporation (collectively, "*Pinnacle*"), a residential mortgage broker. Pinnacle surrendered its mortgage licenses and the mortgage brokerage business of Pinnacle is now conducted through the Patriot National Bank Residential Lending Group (*"Residential Lending Group"*), a division of the Bank. PinPat Acquisition Corporation is presently an inactive subsidiary of the Bank.

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

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

The Bank conducts business at its main office located at 900 Bedford Street, Stamford, Connecticut and at branch offices located at 838 High Ridge Road, Stamford, Connecticut, 100 Mason Street, Greenwich, Connecticut, 184 Sound Beach Avenue, Old Greenwich, Connecticut, 16 River Street and 365 Westport Avenue in Norwalk, Connecticut, One Danbury Road and 5 River Road in Wilton, Connecticut and 800 Post Road in Darien, Connecticut. The Bank also operates mortgage origination offices at 1177 Summer Street, Stamford, Connecticut and 20 Broad Hollow Road, Melville, New York.

The Bank offers a broad range of consumer and commercial banking services with an emphasis on serving the needs of individuals, small and medium-sized businesses and professionals. The Bank offers consumer and commercial deposit accounts that include: checking accounts, interest-bearing "NOW" accounts, insured money market accounts, time certificates of deposit, savings accounts and IRA's (Individual Retirement Accounts). Other services include money orders, traveler's checks, ATM's (automated teller machines), internet banking and debit cards. In addition, the Bank may in the future offer Keogh accounts and other financial services. The Bank does not currently accept brokered deposits.

The Bank offers commercial real estate and construction loans to area businesses and developers. Real estate loans made to individuals include home mortgages, home improvement loans, bridge loans and home equity lines of credit. Other personal loans include lines of credit, installment loans and credit cards. Commercial loans offered to small and medium-sized businesses include secured and unsecured loans to service companies, real estate developers, manufacturers, restaurants, wholesalers, retailers and professionals doing business in the region. The Bank offers residential mortgages through its Residential Lending Group. The Residential Lending Group solicits and processes mortgage loan applications from consumers on behalf of permanent investors and originates loans for sale.

The Bank competes with a variety of financial institutions in its market area. Most have greater financial resources and capitalization, which gives them higher lending limits and the ability to conduct larger advertising campaigns to attract business. Generally the larger institutions offer services such as trust and international banking which the Bank is not equipped to offer directly. When the need arises, arrangements are made with correspondent institutions to provide such services. In the future, if the Bank desires to offer trust services, prior approval of the OCC will be required. To attract business in this competitive environment, the Bank relies on local promotional activities and personal contact by officers, directors and shareholders and on its ability to offer personalized services.

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

Residents and businesses in Stamford, Greenwich, Norwalk, Wilton and Darien, Connecticut provide the majority of the Bank's deposits. The Bank has focused its attention on serving the segments of its market area historically served by community banks. The Bank competes in its market by providing a high level of personalized and responsive banking service for which the Bank believes there is a need. This area is bordered by New York State to the west, the Town of Ridgefield to the north, the Town of Westport to the east, and the Long Island Sound to the south.

The Bank's loan customers extend beyond Stamford, Greenwich, Norwalk, Wilton and Darien to include nearby towns in Fairfield County, Connecticut, and towns in Westchester County, New York, although the Bank's loan business is not necessarily limited to these areas. The Bank's mortgage brokerage business is concentrated in the areas surrounding its loan origination offices. While the Bank does not currently hold or intend to attract significant deposit or loan business from major corporations with headquarters in the Fairfield County area, the Bank believes that the service, professional and related busi-nesses which have been attracted to this area, as well as the individuals that reside in this area, represent current and potential customers of the Bank.

In the normal course of business and subject to applicable government regulations, the Bank invests a portion of its assets in investment securities, which may include certain debt and equity securities, including government securities. An objective of the Bank's investment policy is to seek to optimize its return on assets while limiting its exposure to interest rate movements and to maintain adequate levels of liquidity.

The Bank's employees perform most routine day-to-day banking transactions at the Bank. However, the Bank has entered into a number of arrangements with third parties for banking services such as correspondent banking, check clearing, data processing services, credit card processing and armored carrier service.

The cities of Stamford and Norwalk and the towns of Greenwich, Wilton and Darien are presently served by approximately 151 branches of commercial banks and savings banks, most of which are offices of banks which have headquarters outside of the state or area or are subsidiaries of bank or financial holding companies whose headquarters are outside of the areas served by the Bank. In addition to banks with branches in the same areas as the Bank, there are numerous banks and financial institutions serving the communities surrounding these areas, which also draw customers from Stamford, Greenwich, Norwalk, Wilton and Darien, posing significant competition to the Bank for deposits and loans. Many of such banks and financial institutions are well established and well capitalized.

In recent years, intense market demands, economic pressures and significant legislative and regulatory actions have eroded banking industry classifications which were once clearly defined and have increased competition among banks, as well as other financial institutions. This increase in competition has caused banks and other financial service institutions to diversify their services and become more cost effective as a result of competition with one another and with new types of financial service companies, including non-bank competitors. The impact on Bancorp of federal legislation authorizing increased services by financial holding companies and interstate branching of banks has resulted in increased competition. These events have resulted in increasing homogeneity in the financial services offered by banks and other financial institutions. The impact on banks and other financial institutions of these market dynamics and legislative and regulatory changes has been increased customer awareness of product and service differences among competitors and increased merger activity.

As a bank holding company, Bancorp's operations are subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve Board (the "*Federal Reserve*

*Board*”). The Federal Reserve Board has established capital adequacy guidelines for bank holding companies that are similar to the OCC’s capital guidelines applicable to the Bank. The Bank Holding Company Act of 1956, as amended (the “*BHC Act*”), limits the types of companies that a bank holding company may acquire or organize and the activities in which it or they may engage. In general, bank holding companies and their subsidiaries are only permitted to engage in, or acquire direct control of, any company engaged in banking or in a business so closely related to banking as to be a proper incident thereto. Federal legislation enacted in 1999 authorizes certain entities to register as financial holding companies. Registered financial holding companies are permitted to engage in businesses, including securities and investment banking businesses, which are prohibited to bank holding companies. While the creation of financial holding companies is evolving, to date there has been no significant impact on Bancorp.

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

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

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

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, ("*Riegle-Neal Act*") was enacted to ease restrictions on interstate banking. Effective September 29, 1995, the Riegle-Neal Act allows the Federal Reserve Board to approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's state, without regard to whether the transaction is prohibited by the laws of any state. The Federal Reserve Board may not approve the acquisition of a bank that has not been in existence for the minimum time period (not exceeding five years) specified by the statutory law of the host state. The Riegle-Neal Act also prohibits the Federal Reserve Board from approving an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. The Riegle-Neal Act does not affect the authority of states to limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent that such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% statewide concentration limits contained in the Riegle-Neal Act.

Bancorp is subject to capital adequacy rules and guidelines issued by the OCC, the Federal Reserve Board and the Federal Deposit Insurance Corporation ("*FDIC*"), and the Bank is subject to capital adequacy rules and guidelines issued by the OCC. These substantially identical rules and guidelines require Bancorp to maintain certain minimum ratios of capital to adjusted total assets and/or risk-weighted assets. Under the provisions of the Federal Deposit Insurance Corporation Improvements Act of 1991, the Federal regulatory agencies are required to implement and enforce these rules in a stringent manner. Bancorp is also subject to applicable provisions of Connecticut law insofar as they do not conflict with, or are not otherwise preempted by, Federal banking law.

Bancorp is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), and, in accordance with the Exchange Act, files periodic reports, proxy statements and other information with the Securities and Exchange Commission (the *"SEC"*).

The Bank's operations are subject to regulation, supervision and examination by the OCC and the FDIC.

Federal and state banking regulations regulate, among other things, the scope of the business of a bank, a bank holding company or a financial holding company, the investments a bank may make, deposit reserves a bank must maintain, the nature and amount of collateral for certain loans a bank makes, the establishment of branches and the activities of a bank with respect to mergers and acquisitions. The Bank is a member of the Federal Reserve System and is subject to applicable provisions of the Federal Reserve Act and regulations thereunder. The Bank is subject to the federal regulations promulgated pursuant to the Financial Institutions Supervisory

Act to prevent banks from engaging in unsafe and unsound practices, as well as various other federal and state laws and consumer protection laws. The Bank is also subject to the comprehensive provisions of the National Bank Act.

The OCC regulates the number and locations of the branch offices of a national bank. The OCC may only permit a national bank to maintain branches in locations and under the conditions imposed by state law upon state banks. At this time, applicable Connecticut banking laws do not impose any material restrictions on the establishment of branches by Connecticut banks throughout Connecticut.

The earnings and growth of Bancorp, the Bank and the banking industry are affected by the monetary and fiscal policies of the United States Government and its agencies, particularly the Federal Reserve Board. The Open Market Committee of the Federal Reserve Board implements national monetary policy to curb inflation and combat recession. The Federal Reserve Board uses its power to adjust interest rates in United States Government securities, the Discount Rate and deposit reserve retention rates. The actions of the Federal Reserve Board influence the growth of bank loans, investments and deposits. They also affect interest rates charged on loans and paid on deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

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

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

On July 20, 2002, the Sarbanes-Oxley Act of 2002 was enacted, the primary purpose of which is to protect investors through improved corporate governance and responsibilities of and disclosures by public companies. The Act contains provisions for the limitations of services that external auditors may provide as well as requirements for the credentials of Audit Committee members. In addition, the principal executive and principal financial officers are required to certify in quarterly and annual reports that they have reviewed the report; and based on the officers' knowledge, the reports accurately present the financial condition and results of operations of the company and contain no untrue statement or omission of material fact. The officers also certify their responsibility for establishing and maintaining a system of internal controls which insure that all material information is made known to the officers; this certification also includes the evaluation of the effectiveness of disclosure controls and procedures and their impact upon financial reporting. Section 404 of the Act entitled Management Assessment of Internal Controls, requires that each annual report include an internal control report which states that it is the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting, as well as an assessment by management of the effectiveness of the internal control structure and procedures for financial reporting. This section further requires that the external auditors attest to, and report on, the assessment made by management. On March 2, 2005, the SEC extended the Section 404 compliance dates for non-accelerated filers (those issuers with non-affiliated public float of less than $75 million) to fiscal years ending on or after July 16, 2006. Due to the burdens on smaller companies in designing and implementing compliance with this section, this one year extension will provide smaller companies, such as Bancorp, with the necessary opportunity to more thoroughly evaluate their systems of internal controls.

Bancorp does not anticipate that compliance with applicable federal and state banking laws will have a material adverse effect on its business or the business of the Bank. Neither Bancorp nor the Bank has any material patents, trademarks, licenses, franchises, concessions and royalty agreements or labor contracts, other than the charter granted to the Bank by the OCC. The Bank has, however, registered the trademark "Patriot" and the corresponding logo with the State of Connecticut Trademark Office. Compliance by Bancorp and the Bank with federal, state and local provisions which have been enacted or adopted regulating or otherwise relating to the discharge of material into the environment is not expected to have a material effect upon the capital expenditures, earnings or competitive position of Bancorp.

As of December 31, 2004, Bancorp had 102 full-time employees and 8 part-time employees. None of the employees of Bancorp is covered by a collective bargaining agreement.

Item 2. Description of Properties

Patriot National Bancorp Inc.'s corporate headquarters and main branch banking office is located at 900 Bedford Street in Stamford, Connecticut. The building is leased by the Bank as are its eight other branch banking offices and two mortgage origination offices; the Bank also leases space at its main office for additional parking. Lease commencement dates for office locations range from January 1, 2001 to September 1, 2004 and lease expiration dates fall between March 31, 2005 and October 15, 2014. Subsequent to December 31, 2004 the Bank entered into a lease for a new branch location with a lease expiration date of March 22, 2015. In addition, the Bank is in the process of negotiating a lease for a New York mortgage origination office to replace the lease expiring March 31, 2005. Most of the leases contain rent escalation provisions as well as renewal options for one or more periods.

The Bank has sublet and licensed excess space in two of its locations to an attorney. See also, "Item 12. Certain Relationships and Related Transactions."

All leased properties are in good condition.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of 2004, no matter was submitted to a vote of shareholders.

## PART II

Item 5. Market for Common Equity, Related Shareholder Matters and Small Business Issuer Purchases of Equity Securities

Market Information

Bancorp Common Stock is traded on the NASDAQ Small Cap Market under the Symbol "PNBK." On December 31, 2004, the last sale price for Bancorp Common Stock on NASDAQ Small Cap Market was $18.40.

The following table sets forth the high and low sales price and dividends per share of Bancorp Common Stock for the last two fiscal years for each quarter as reported on the NASDAQ Small Cap Market.

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Sales Price | | Cash Dividends | Sales Price | | Cash Dividends |
| Quarter Ended | High | Low | Declared | High | Low | Declared |
| March 31 | $ 16.25 | $ 12.49 | $ 0.030 | $ 10.56 | $ 9.50 | $ 0.025 |
| June 30 | 15.25 | 14.03 | 0.035 | 10.80 | 9.10 | 0.030 |
| September 30 | 14.99 | 13.51 | 0.035 | 11.45 | 9.65 | 0.030 |
| December 31 | 18.60 | 14.01 | 0.035 | 12.50 | 10.76 | 0.030 |

Holders

There were approximately 761 shareholders of record of Bancorp Common Stock as of December 31, 2004.

Dividends

2001 marked the first year in which Bancorp paid a dividend on Bancorp Common Stock; since then, the Company has consistently paid dividends.

Bancorp's ability to pay future dividends on its Common Stock depends on the Bank's ability to pay dividends to Bancorp. In accordance with OCC rules and regulations, the Bank may continue to pay dividends only if the total amount of all dividends that will be paid, including the proposed dividend, by the Bank in any calendar year does not exceed the total of the Bank's retained net income of that year to date, combined with the retained net income of the preceding two years, unless the proposed dividend is approved by the OCC. In addition, the OCC and/or the FDIC may impose further restrictions on dividends. Future dividends depend on many factors, including management's estimates of future earnings and Bancorp's need for capital.

Recent Sales of Unregistered Securities

During the fourth quarter of 2004 Bancorp did not have any sales of unregistered securities.

Purchases of Equity Securities by the Small Business Issuer and Affiliated Purchasers

During the fourth quarter of 2004 there were no such purchases of Bancorp Common Stock.

Securities Authorized for Issuance under Equity Compensation Plans

The following table presents information as of December 31, 2004 for equity compensation plans maintained by Bancorp.

**Equity Compensation Plan Information**

| | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br><br>(a) | Weighted-average exercise price of outstanding options, warrants and rights<br><br>(b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br><br>(c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 110,000 | $10.13 | - |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 110,000 | $10.13 | - |

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Item 6. Management's Discussion and Analysis or Plan of Operation

Patriot National Bancorp, Inc
Financial Highlights

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Operating Data** | | | | | |
| Interest and dividend income | $ 18,678,251 | $ 15,214,702 | $ 12,604,718 | $ 13,722,943 | $ 14,694,135 |
| Interest expense | 7,008,508 | 5,588,255 | 4,764,693 | 6,866,960 | 8,017,615 |
| Net interest income | 11,669,743 | 9,626,447 | 7,840,025 | 6,855,983 | 6,676,520 |
| Provision for loan losses | 556,000 | 563,000 | 468,000 | 250,000 | 325,900 |
| Noninterest income | 2,702,204 | 4,813,740 | 4,113,820 | 3,509,955 | 2,685,296 |
| Noninterest expense | 12,256,550 | 11,659,467 | 9,812,838 | 8,675,551 | 7,693,345 |
| Net income | 926,397 | 1,340,720 | 1,052,007 | 876,387 | 767,171 |
| Basic income per share | 0.38 | 0.56 | 0.44 | 0.37 | 0.34 |
| Diluted income per share | 0.37 | 0.55 | 0.43 | 0.36 | 0.33 |
| Dividends per share | 0.135 | 0.115 | 0.095 | 0.060 | - |
| **Balance Sheet Data** | | | | | |
| Cash and due from banks | 6,670,409 | 4,023,732 | 5,385,757 | 7,544,242 | 3,656,071 |
| Federal funds sold | 37,500,000 | 15,000,000 | 3,000,000 | 12,700,000 | 29,500,000 |
| Short term investments | 11,460,057 | 10,430,939 | 3,348,968 | 6,788,569 | - |
| Investment securities | 78,258,775 | 92,330,533 | 61,720,716 | 35,816,880 | 34,073,832 |
| Loans, net | 263,874,820 | 214,420,528 | 170,794,939 | 135,680,036 | 126,411,265 |
| Total assets | 405,046,955 | 342,469,049 | 248,496,753 | 202,569,457 | 197,628,127 |
| Total deposits | 367,005,325 | 289,992,182 | 217,911,260 | 183,263,939 | 179,666,098 |
| Total borrowings | 16,248,000 | 31,301,385 | 10,292,675 | 839,280 | 945,270 |
| Total shareholders' equity | 19,756,434 | 18,779,913 | 18,544,955 | 17,406,016 | 16,427,436 |

(a) Plan of Operation

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

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

**Summary**

Bancorp's subsidiary, Patriot National Bank, celebrated its ten year anniversary on August 31, 2004. In addition, the Bank established two new branch banking offices during 2004; the first located in Darien, Connecticut opened in July 2004 and the second located in Wilton, Connecticut opened in November 2004.

Bancorp reported earnings of $926,000 ($0.38 basic income per share and $0.37 diluted income per share) for 2004 compared to $1,341,000 ($0.56 basic income per share and $0.55 diluted income per share) for 2003. Total assets ended the year at a new record high of $405.0 million, an increase of $62.5 million from December 31, 2003.

Net interest income for the year ended December 31, 2004 increased $2.1 million or 21.2% to $11.7 million as compared to $9.6 million for the year ended December 31, 2003.

Total assets increased by 18.3% during the year as total loans increased from $214.4 million at December 31, 2003 to $263.9 million at December 31, 2004. The available for sale securities portfolio decreased $14.3 million or 15.8% to $76.3 million from $90.6 million at December 31, 2003. Loan growth was funded primarily through deposit growth. Deposits increased $77.0 million to $367.0 million at December 31, 2004; interest bearing deposits increased $64.9 million, or 25.0%, and non-interest bearing deposits increased $12.1 million or 39.7%. Borrowings decreased $15.1 million due mainly to the payoff of certain FHLB advances and a repurchase agreement. The exercise of stock warrants combined with the increase in retained earnings from net income, net of dividend payments, partially offset by the increase in other comprehensive loss from unrealized losses on the available for sale securities portfolio, resulted in an increase of $977 thousand in shareholders' equity.

**FINANCIAL CONDITION**

***Assets***

Bancorp's total assets increased $62.5 million or 18.3% from $342.5 million at December 31, 2003 to $405.0 million at December 31, 2004. The growth in total assets was funded primarily by deposit growth of $77.0 million partially offset by decreases in borrowings of $15.1 million. Federal funds sold increased $22.5 million; cash and due from banks and short term investments increased $2.6 million and $1.0 million, respectively.

***Investments***

The following table is a summary of Bancorp's investment portfolio at December 31 for the years shown.

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| U. S. Government Agency and Sponsored Agency Obligations | $ 14,823,295 | $ 11,865,618 | $ 9,129,414 |
| Mortgage-backed securities | 52,446,180 | 66,696,465 | 38,461,159 |
| Corporate bonds | - | - | 383,797 |
| Marketable equity securities | 9,000,000 | 12,000,000 | 12,643,996 |
| Federal Reserve Bank stock | 692,600 | 691,150 | 481,050 |
| Federal Home Loan Bank stock | 1,296,700 | 1,077,300 | 621,300 |
| Total Investments | $ 78,258,775 | $ 92,330,533 | $ 61,720,716 |

Total investments decreased $14.1 million to $78.3 million due primarily to principal payments on mortgage-backed securities and redeemed money market preferred equity instruments exceeding new investment purchases. During the fourth quarter of 2004, the Bank redeployed excess liquidity into the purchase of adjustable rate residential mortgage loans in place of additional investment purchases. The Bank is a member of the Federal Home Loan Bank of Boston which provides an additional source of liquidity.

The following table presents the maturity distribution of available for sale investment securities at December 31, 2004 and the weighted average yield of such securities. The weighted average yields were calculated on the amortized cost and effective yields to maturity of each security.

| | One year or less | Over one through five years | Over five through ten years | Over ten years | No maturity | Total | Weighted Average Yield |
|---|---|---|---|---|---|---|---|
| U.S. Government Agency and Sponsored Agency obligations | $ - | $ 14,000,000 | $ 1,000,000 | $ - | $ - | $ 15,000,000 | 3.47% |
| Mortgage-backed securities | - | - | - | - | 52,903,731 | 52,903,731 | 4.09% |
| Money market preferred equity securities | - | - | - | - | 9,000,000 | 9,000,000 | 2.34% |
| Total | $ - | $ 14,000,000 | $ 1,000,000 | $ - | $ 61,903,731 | $ 76,903,731 | 3.76% |
| Weighted average yield | -% | 3.40% | 4.38% | -% | 3.83% | 3.76% | |

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The following table presents a summary of investments for any issuer that exceeds 10% of shareholders' equity at December 31, 2004.

| | Amortized Cost | Fair Value |
|---|---|---|
| Available for sale securities: | | |
| U.S. Government Agency and Sponsored | | |
| Agency Obligations | $ 15,000,000 | $ 14,823,295 |
| U.S. Government Agency mortgage-backed securities | 52,903,731 | 52,446,180 |
| | | |
| Short term investments: | | |
| Merrill Lynch Premier Institutional Fund | 11,460,057 | 11,460,057 |

***Loans***

The following table is a summary of Bancorp's loan portfolio at December 31 for the years shown.

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Real Estate | | | |
| Commercial | $ 106,771,441 | $ 96,339,220 | $ 65,967,205 |
| Residential | 36,965,661 | 21,772,759 | 27,012,024 |
| Construction | 74,598,919 | 57,122,445 | 39,208,651 |
| Commercial | 17,562,523 | 15,532,902 | 13,021,909 |
| Consumer installment | 1,386,709 | 1,861,924 | 1,757,321 |
| Consumer home equity | 30,874,894 | 25,607,775 | 26,812,092 |
| Total Loans | 268,160,147 | 218,237,025 | 173,779,202 |
| Premiums | 313,754 | - | - |
| Net deferred fees | (1,117,556) | (881,822) | (611,809) |
| Allowance for loan losses | (3,481,525) | (2,934,675) | (2,372,454) |
| Loans, net | $ 263,874,820 | $ 214,420,528 | $ 170,794,939 |

Bancorp's net loan portfolio increased $49.5 million or 23.1% from $214.4 million at December 31, 2003 to $263.9 million at December 31, 2004. Included in the growth of the loan portfolio for 2004 is the purchase during the fourth quarter of $13.1 million in residential mortgage loans. Loan growth was funded through an increase in total deposits. At December 31, 2004, the net loan to deposit ratio was 71.9% and the net loan to asset ratio was 65.2%. At December 31, 2003, the net loan to deposit ratio was 73.9%, and the net loan to asset ratio was 62.6%.

During an historic environment of lower interest rates, loan activity continued to remain strong and the volume of new loans far exceeded principal reductions and payoffs.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents the maturities of loans in Bancorp's portfolio at December 31, 2004, by type of loan:

| (thousands of dollars) | Due in one year or less | Due after one year through five years | Due after five years | Total |
|---|---|---|---|---|
| Commercial real estate | $ 10,797 | $ 38,263 | $ 57,712 | $ 106,772 |
| Residential real estate | 6,047 | 3,757 | 27,162 | 36,966 |
| Construction loans | 46,391 | 28,207 | - | 74,598 |
| Commercial loans | 7,209 | 9,695 | 659 | 17,563 |
| Consumer installment | 1,219 | 167 | - | 1,386 |
| Consumer home equity | 93 | 4,732 | 26,050 | 30,875 |
| Total | $ 71,756 | $ 84,821 | $ 111,583 | $ 268,160 |
| | | | | |
| Fixed rate loans | $ 5,242 | $ 21,454 | $ 10,796 | $ 37,492 |
| Variable rate loans | 66,514 | 63,367 | 100,787 | 230,668 |
| Total | $ 71,756 | $ 84,821 | $ 111,583 | $ 268,160 |

The following table presents loan concentrations at December 31, 2004:

| Category | Percentage | Dollars Outstanding (thousands of dollars) |
|---|---|---|
| Construction | 27.8% | $ 74,598 |
| Commercial Retail | 8.0 % | 21,420 |
| Commercial Residential Rental | 5.2 % | 13,987 |

Critical Accounting Policies

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

Allowance for Loan Losses

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are considered impaired. A risk rating system is utilized to measure the adequacy of the general component of the allowance for loan losses. Under this system, each loan is assigned a risk rating between one and nine, which has a corresponding loan loss factor assigned, with a rating of "one" being the least risk and a rating of "nine" reflecting the most risk or a complete loss. Risk ratings are assigned by the originating loan officer or loan committee at the initiation of the transactions and are reviewed and changed, when necessary during the life of the loan. Loan loss reserve factors are multiplied against the balances in each risk rating category to arrive at the appropriate level for the allowance for loan losses. Loans assigned a risk rating of "six" or above are monitored more closely by the credit administration officers. The unallocated portion of the allowance reflects management's estimate of probable but undetected losses inherent in the portfolio; such estimates are influenced by uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. Loan quality control is continually monitored by management subject to oversight by the board of directors through its members who serve on the loan committee and is also reviewed by the full board of directors on a monthly basis. The methodology for determining the adequacy of the allowance for loan losses is consistently applied; however, revisions may be made to the methodology and assumptions based on historical information related to charge-off and recovery experience and management's evaluation of the current loan portfolio.

Based upon this evaluation, management believes the allowance for loan losses of $3.5 million, at December 31, 2004, which represents 1.31% of gross loans outstanding, is adequate, under prevailing economic conditions, to absorb losses on existing loans. At December 31, 2003, the allowance for loan losses was $2.9 million or 1.35% of gross loans outstanding.

The accrual of interest income on loans is discontinued whenever reasonable doubt exists as to its collectibility and generally is discontinued when loans are past due 90 days, based on contractual terms, as to either principal or interest. When the accrual of interest income is discontinued, all previously accrued and uncollected interest is reversed against interest income.

The accrual of interest on loans past due 90 days or more, including impaired loans, may be continued if the loan is well secured, and it is believed all principal and accrued interest income due on the loan will be realized, and the loan is in the process of collection. A non-accrual loan is restored to an accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt.

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

Analysis of Allowance for Loan Losses

| | | 2004 | | 2003 | | 2002 | | 2001 | | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | (thousands of dollars) | | | | | | |
| Balance at beginning of period | $ | 2,934 | $ | 2,372 | $ | 1,894 | $ | 1,645 | $ | 1,360 |
| Charge-offs | | (9) | | (1) | | - | | (2) | | (44) |
| Recoveries | | - | | - | | 10 | | 1 | | 3 |
| Net (charge-offs) recoveries | | (9) | | (1) | | 10 | | (1) | | (41) |
| Additions charged to operations | | 556 | | 563 | | 468 | | 250 | | 326 |
| Balance at end of period | $ | 3,481 | $ | 2,934 | $ | 2,372 | $ | 1,894 | $ | 1,645 |
| Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period | | (0.00%) | | (0.00%) | | 0.01% | | (0.00%) | | (0.03%) |

Allocation of the Allowance for Loan Losses

| | Amounts (thousands of dollars) | | | | | Percent of loans in each category to total loans | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at end of each period applicable to | 2004 | 2003 | 2002 | 2001 | 2000 | 2004 | 2003 | 2002 | 2001 | 2000 |
| Real Estate: | | | | | | | | | | |
| Commercial | $ 1,319 | $ 1,183 | $ 893 | $ 833 | $ 700 | 39.82% | 44.15% | 37.97% | 43.88% | 44.67% |
| Residential | 304 | 230 | 276 | 153 | 34 | 13.78% | 9.98% | 15.54% | 5.44% | 3.93% |
| Construction | 1,358 | 972 | 726 | 348 | 270 | 27.82% | 26.17% | 22.56% | 19.02% | 17.91% |
| Commercial | 185 | 155 | 129 | 142 | 185 | 6.55% | 7.12% | 7.49% | 10.63% | 10.01% |
| Consumer installment | 11 | 12 | 11 | 14 | 12 | 0.52% | 0.85% | 1.01% | 0.89% | 1.29% |
| Consumer home equity | 233 | 285 | 283 | 296 | 312 | 11.51% | 11.73% | 15.43% | 20.14% | 22.19% |
| Unallocated | 71 | 97 | 54 | 108 | 132 | N/A | N/A | N/A | N/A | N/A |
| Total | $ 3,481 | $ 2,934 | $ 2,372 | $ 1,894 | $ 1,645 | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Non-Accrual, Past Due and Restructured Loans

The following table is a summary of non-accrual and past due loans at the end of each of the last five years.

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| | | | (thousands of dollars) | | |
| Loans delinquent over 90 days still accruing | $ 373 | $ 165 | $ 1,172 | $ 1,300 | $ 507 |
| Non-accruing loans | 3,669 | 150 | 201 | 1,654 | 1,759 |
| | $ 4,042 | $ 315 | $ 1,373 | $ 2,954 | $ 2,266 |
| % of Total Loans | 1.51% | 0.14% | 0.79% | 2.14% | 1.77% |
| % of Total Assets | 1.00% | 0.09% | 0.56% | 1.46% | 1.15% |
| Additional income on non-accrual loans if recognized on an accrual basis | $ 18 | $ 18 | $ 67 | $ 159 | $ 115 |

There were no loans in either 2004 or 2003 considered as "troubled debt restructurings."

Potential Problem Loans

The $3.7 million of non-accruing loans at December 31, 2004 is comprised of three loans, all of which are well collateralized and in the process of collection. Two of the loans totaling $3.5 million are current as to principal and interest payments.

At December 31, 2004, Bancorp had no loans other than those described above, as to which management has significant doubts as to the ability of the borrower to comply with the present repayment terms.

***Deposits***

The following table is a summary of Bancorp's deposits at December 31 for each of the years shown.

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Non-interest bearing | $ 42,584,120 | $ 30,477,295 | $ 25,519,809 |
| Interest bearing | | | |
| Time certificates, less than $100,000 | 131,764,662 | 92,574,784 | 57,202,908 |
| Time certificates, $100,000 or more | 71,287,106 | 50,793,863 | 28,681,345 |
| Money market | 72,450,663 | 69,503,859 | 56,973,507 |
| Savings | 22,104,121 | 23,792,811 | 26,847,780 |
| NOW | 26,814,653 | 22,849,570 | 22,685,911 |
| Total interest bearing | 324,421,205 | 259,514,887 | 192,391,451 |
| Total deposits | $ 367,005,325 | $ 289,992,182 | $ 217,911,260 |

Total deposits increased $77.0 million or 26.6% to $367.0 million at December 31, 2004. Non-interest bearing deposits increased $12.1 million or 39.7% to $42.6 million at December 31, 2004. Based upon expansion and the increased penetration into the areas served by the Bank, commercial demand accounts increased $7.5 million and personal demand accounts increased $3.8 million, both of which represent increases of 39% as compared to December 31, 2003. Interest bearing deposits increased $64.9 million or 25.0% to $324.4 million at December 31, 2004. During 2004, the Bank established two new branch banking offices; these new offices attracted $19.1 million or 24.8% of the annual growth in deposits. The new branch offices' grand opening promotional campaigns were also a contributing factor to the growth of deposits in existing branches. Certificates of deposit and NOW account products increased $59.7 million and $4.0 million, respectively; money market fund accounts increased $2.9 million, while savings accounts decreased $1.7 million. Much of the growth in certificates of deposit is attributable to the promotional campaigns run in conjunction with the new branch openings and the ten year anniversary of the Bank; growth in certificates of deposit also resulted from the transfer of funds from money market fund accounts. The increase in certificates of deposit greater than $100 thousand of $20.5 million is the result of successful sales efforts and branch expansion; these balances do not include brokered deposits. The Bank continues to offer attractive interest rates in the very competitive Fairfield County marketplace in order to attract additional deposits to fund loan growth.

As of December 31, 2004, the Bank’s maturities of time deposits were:

| | $100,000 or greater | Less than $100,000 | Totals |
|---|---|---|---|
| (thousands of dollars) | | | |
| Three months or less | $ 5,858 | $ 11,502 | $ 17,360 |
| Three to six months | 13,249 | 23,430 | 36,679 |
| Six months to one year | 13,695 | 27,494 | 41,189 |
| Over one year | 38,485 | 69,339 | 107,824 |
| Total | $ 71,287 | $ 131,765 | $ 203,052 |

***Borrowings***

Borrowings decreased $15.1 million to $16.2 million at December 31, 2004.

Borrowings include short term securities sold under agreements to repurchase, Federal Home Loan Bank Advances, junior subordinated debentures, a capital lease and a collateralized borrowing.

During 2004, certain FHLB advances and short term securities sold under agreements to repurchase matured and due to the liquidity position of the Bank were not extended. The final payment on the lease classified as a capital lease was made during 2004; in addition, the loan sold and classified as a collateralized borrowing was refinanced at the end of 2004.

The following table sets forth short term borrowing amounts along with the respective interest rates and maturities:

Federal Home Loan Bank advances:

| Amount | Maturity | Rate | Average amount outstanding |
|---|---|---|---|
| $ 2,000,000 | 04/29/2005 | 1.930% | $ 2,000,000 |
| 2,000,000 | 05/13/2005 | 4.480% | 2,000,000 |
| $ 4,000,000 | | 3.205% | $ 4,000,000 |

The maximum amount of short term borrowings outstanding under Federal Home Loan Bank advances during 2004 was $9,000,000.

At December 31, 2004 the Bank had no securities sold under repurchase agreements; the average amount outstanding during 2004 was $2,243,000 with a maximum outstanding of $5,700,000.

***Other***

The increase in premises and equipment is due primarily to the capitalized costs associated with leasehold improvements made to and providing equipment for two new branch offices and the relocation of one mortgage origination office from Greenwich to Stamford.

The increase in accrued interest receivable is due to higher outstanding balances in loans at December 31, 2004 as compared to those in effect at December 31, 2003.

The decrease in accrued expenses and other liabilities is due primarily to decreases in accruals for incentive compensation arrangements and lower balances at year end for other accrued expenses.

The following table presents average balance sheets (daily averages), interest income, interest expense and the corresponding yields earned and rates paid:

**Distribution of Assets, Liabilities and Shareholders' Equity**
**Interest Rates and Interest Differential and Rate Volume Variance Analysis**
**(thousands of dollars) [1]**

| | 2004 | | | 2003 | | | Fluctuations in Interest Income/Expense [3] Due to change in: | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest Income/ Expense | Average Rate | Average Balance | Interest Income/ Expense | Average Rate | Volume | Rate | Total |
| Interest earning assets: | | | | | | | | | |
| Loans [2] | $ 239,239 | $ 15,632 | 6.53% | $ 193,990 | $ 12,782 | 6.59% | $ 2,967 | $ (117) | $ 2,850 |
| Short term investments | 8,356 | 105 | 1.26% | 7,124 | 79 | 1.11% | 13 | 13 | 26 |
| Investments [4] | 87,631 | 2,752 | 3.14% | 72,250 | 2,256 | 3.12% | 477 | 19 | 496 |
| Federal funds sold | 12,733 | 189 | 1.48% | 9,147 | 97 | 1.06% | 31 | 61 | 92 |
| Total interest earning assets | 347,959 | 18,678 | 5.37% | 282,511 | 15,214 | 5.39% | 3,488 | (24) | 3,464 |
| | | | | | | | | | |
| Cash and due from banks | 4,159 | | | 4,001 | | | | | |
| Premises and equipment, net | 1,621 | | | 1,083 | | | | | |
| Allowance for loan losses | (3,190) | | | (2,652) | | | | | |
| Other | 6,396 | | | 5,798 | | | | | |
| Total Assets | $ 356,945 | | | $ 290,741 | | | | | |
| | | | | | | | | | |
| Interest bearing liabilities: | | | | | | | | | |
| Time certificates | $ 156,623 | $ 4,901 | 3.13% | $ 110,129 | $ 3,512 | 3.19% | $ 1,456 | $ (67) | $ 1,389 |
| Savings accounts | 23,666 | 294 | 1.24% | 24,824 | 337 | 1.36% | (15) | (28) | (43) |
| Money market accounts | 70,264 | 867 | 1.23% | 62,217 | 863 | 1.39% | 105 | (101) | 4 |
| NOW accounts | 23,107 | 152 | 0.66% | 22,627 | 149 | 0.66% | 3 | - | 3 |
| Repurchase agreements | 2,243 | 28 | 1.25% | 5,700 | 91 | 1.60% | (46) | (17) | (63) |
| FHLB advances | 14,197 | 372 | 2.62% | 11,671 | 327 | 2.80% | 67 | (22) | 45 |
| Subordinated debt | 8,248 | 380 | 4.61% | 6,159 | 271 | 4.40% | 88 | 21 | 109 |
| Other borrowings | 226 | 14 | 6.19% | 471 | 38 | 8.07% | (17) | (7) | (24) |
| Total interest bearing liabilities | 298,574 | 7,008 | 2.35% | 243,798 | 5,588 | 2.29% | 1,641 | (221) | 1,420 |
| | | | | | | | | | |
| Demand deposits | 36,456 | | | 25,892 | | | | | |
| Accrued expenses and | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| other liabilities | 2,362 | | | 2,140 | | | | | |
| Shareholders' equity | 19,553 | | | 18,911 | | | | | |
| Total liabilities and equity | $ 356,945 | | | $ 290,741 | | | | | |
| | | | | | | | | | |
| Net interest income | | $ 11,670 | | | $ 9,626 | | $ 1,847 | $ 197 | $ 2,044 |
| Interest margin | | | 3.35% | | | 3.41% | | | |
| Interest Spread | | | 3.02% | | | 3.10% | | | |

(1) The rate volume analysis reflects the changes in net interest income arising from changes in interest rates and from asset
and liability volume, including mix. The change in interest attributable to volume includes changes in interest attributable to mix.
(2) Includes non-accruing loans.
(3) Favorable/ (unfavorable) fluctuations.
(4) Yields are calculated at historical cost and excludes the effects of unrealized gain or loss on available for sale securities.

**RESULTS OF OPERATIONS**

For the year ended December 31, 2004, Bancorp earned $926,000 ($0.38 basic income per share and $0.37 diluted income per share) a decrease of 30.9% as compared to 2003 when Bancorp earned $1,341,000 ($0.56 basic income per share and $0.55 diluted income per share). Noninterest income decreased $2.1 million or 43.9% to $2.7 million for 2004 from $4.8 million in 2003. An increase in long term interest rates during the year resulted in a decrease in the volume of residential mortgage refinance transactions; the interest rate increase along with the turnover of loan originators in the New York office which created a temporary staffing reduction, resulted in a decrease in mortgage brokerage and referral fees and loan processing fees of $1.9 million. The results for 2003 included a gain from the sale of investment securities of $308,000; there were no such sales of investment securities during 2004.

Interest income increased $3.5 million to $18.7 million in 2004 as compared to 2003 when interest income was $15.2 million. This increase is due mainly to the growth in the loan portfolio and higher average balances in the available for sales securities portfolio.

Interest expense increased $1.4 million or 25.4% to $7.0 million in 2004 compared to $5.6 million in 2003. The increase in interest expense is due to the increase in total deposits and higher average balances in Federal Home Loan Bank borrowings and subordinated debt.

Noninterest expenses for 2004 totaled $12.3 million which represents an increase of $597,000 or 5.1% over the prior year. The higher operating costs were primarily the result of the full year impact in 2004 of the three branch offices opened in 2003, the two new branch offices opened in 2004, and the relocation of a residential mortgage loan origination office from Greenwich to Stamford, all of which resulted in an increase in occupancy and equipment expenses of $397,000 over last year.

The following are measurements relating to Bancorp's earnings.

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Return on average assets | .26% | .46% | .47% |
| Return on average equity | 4.74% | 7.09% | 5.82% |
| Dividend payout ratio | 35.26% | 20.54% | 21.59% |
| Average equity to average assets | 5.48% | 6.50% | 8.13% |
| Basic income per share | $ 0.38 | $ 0.56 | $ 0.44 |
| Diluted income per share | $ 0.37 | $ 0.55 | $ 0.43 |

***Interest income and expense***

Bancorp's net interest income increased $2.1 million or 21.2%, to $11.7 million in 2004 from $9.6 million in 2003. An increase in average earning assets of $65.4 million, or 23.2%, increased Bancorp's interest income $3.5 million or 22.8% from $15.2 million in 2003 to $18.7 million in 2003. Average loans outstanding increased $45.2 million, or 23.3%, led by growth in construction and real estate loans, which reflects the continuing strength of the local real estate market. An increase in average investments and related yields resulted in an increase in interest income on available for sale securities of $496,000. Higher average balances in federal funds sold and short-term investments combined with interest rates which began increasing in the latter part of the year resulted in an increase of $118,000 in interest earned on Federal funds sold and short term investments. Total average interest bearing liabilities increased by $54.8 million or 22.5%; average certificates of deposits increased by $46.5 million; average money market deposits and NOW accounts increased $8.0 million and $0.5 million, respectively; average savings accounts decreased $1.2 million; average FHLB advances increased $2.5 million; average subordinated debt which was issued at the end of the first quarter of 2003 increased $2.1 million. Interest expense increased from $5.6 million in 2003 to $7.0 million in 2004. Interest expense on certificates of deposit increased $1.4 million as a result of higher average outstanding balances partially offset by a decrease in the cost of funds for that portfolio from 3.19% in 2003 to 3.13% in 2004.

***Noninterest income***

Noninterest income decreased $2.1 million from $4.8 million in 2003 to $2.7 million in 2004. The decrease is due primarily to an increase in long term interest rates which resulted in a decrease in the volume of residential mortgage refinance transactions; this increase in interest rates combined with the turnover of loan originators in the New York office, which created a temporary staffing reduction, resulted in a decrease in mortgage brokerage referral fees of $1.6 million and a reduction in loan origination and processing fees of $260,000. Included in the results for 2003 are gains from the sale of investment securities of $308,000; during 2004 there were no sales of investment securities. Increases in deposit accounts and transaction volumes resulted in an increase in fees and service charges of $87,000 or 22.9% from $378,000 for the year ended December 31, 2003 to $465,000 for the year ended December 31, 2004.

***Noninterest expenses***

Noninterest expenses increased $597,000 in 2004 from $11.7 million in 2003 to $12.3 million in 2004. Salaries and benefits decreased slightly in 2004 as compared to 2003; increases in salaries, due primarily to staff additions resulting from the full year impact in 2004 of three branches opened in 2003 and two in 2004, loan and deposit sales and incentive compensation and stock based compensation, were more than offset by lower levels of commissions and production and target related incentive compensation expense as a direct result of the decrease in the volume of residential mortgage refinance transactions. Higher staffing levels and incentive compensation also resulted in higher payroll taxes and employee benefit costs. Occupancy and equipment expenses increased $397,000 from $1.3 million 2003 to $1.7 million in 2004; this increase is due primarily to the full year impact in 2004 of opening three new branch offices in 2003 and of opening two branches in 2004, as well as the costs associated with the relocation of the Greenwich loan origination office to a new facility in Stamford. Loan administration and processing expenses decreased $195,000 or 48.2% from $404,000 for the year ended December 31, 2003 to $209,000 for the year ended December 31, 2004; this decrease is related to the decrease in the volume of residential mortgage loans and the resultant decreases in mortgage brokerage and loan processing fees. Other non-interest expenses increased $192,000 or 18.3% from $1.0 million for the year ended December 31, 2003 to $1.2 million for the year ended December 31, 2004; included in the results for 2004 are nonrecurring items for a payment made to the State of Connecticut for an amendment to Bancorp's Articles of Incorporation for the increase in the number of shares the Company is authorized to issue and the write off of an externally perpetuated fraud of a customer's checks for which the Bank has submitted an insurance claim. In addition, there were increases in regulatory assessments as a direct result of the growth of the Bank.

The provision for income taxes of $633,000 in 2004 and $877,000 for 2003 represents the tax expense recognized for both federal and state income tax. The effective tax rates for 2004 and 2003 are 40.6% and 39.5%, respectively. Fluctuations in effective tax rates are due to the change in pre-tax income as well as to the exclusion, for state tax purposes, of certain holding company expenses.

Management believes that additional branch offices will contribute to the future growth and earnings of Bancorp. While the opening of these new branches will result in increased operating expenses, the openings will be strategically planned to maintain profitable operations.

Management regularly reviews loan and deposit rates and attempts to price Bancorp's products competitively. With the assistance of its investment advisors, Bancorp tracks its mix of asset/liability maturities and strives to maintain a reasonable match. Performance ratios are reviewed monthly by management and the Board and are used to set strategies.

**LIQUIDITY**

Bancorp's liquidity position was 32.6% and 35.1% at December 31, 2004 and 2003, respectively. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets as described in the accompanying balance sheets are considered liquid assets: cash and due from banks, federal funds sold, short-term investments and available-for-sale securities. Liquidity is a measure of Bancorp's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover increases in its loan portfolio and downward fluctuations in deposit accounts. Management believes Bancorp's short-term assets have sufficient liquidity to satisfy loan demand, cover potential fluctuations in deposit accounts and to meet other anticipated cash requirements.

**CAPITAL**

The following table illustrates the Bank's regulatory capital ratios for each of the years shown:

| | December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Total Risk-Based Capital | 10.50% | 11.67% | 10.36% |
| Tier 1 Risk-Based Capital | 9.29% | 10.47% | 9.11% |
| Leverage Capital | 6.98% | 7.85% | 6.98% |

The following table illustrates Bancorp’s regulatory capital ratios for each of the years shown:

| | December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Total Risk-Based Capital | 10.70% | 11.87% | 10.39% |
| Tier 1 Risk-Based Capital | 9.04% | 10.00% | 9.13% |
| Leverage Capital | 6.79% | 7.51% | 6.99% |

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

The increase in capital ratios during 2003 was due primarily to the issuance of trust preferred securities through the formation of a statutory trust. The decrease in capital ratios during 2004 is due primarily to the growth of the bank.

Management continuously assesses the adequacy of the Bank’s capital to ensure that the Bank maintains its “well capitalized” classification. Management’s strategic and capital plans contemplate various alternatives to raise additional capital to support the planned growth of the Bank which plans include the opening of two new branches in 2005. The Board and management are in the planning stages of an offering of common stock scheduled for 2005 to support the growth plans of the Company.

**MARKET RISK**

Market risk is defined as the sensitivity of income to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices and other market-driven rates or prices. Based upon the nature of Bancorp’s business, market risk is primarily limited to interest rate risk, which is the impact that changing interest rates have on current and future earnings.

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

The exposure to interest rate risk is monitored by the Asset and Liability Management Committee (“*ALCO*”) consisting of senior management personnel. ALCO reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk. ALCO reports to the Board of Directors on a monthly basis regarding its activities.

**Impact of Inflation and Changing Prices**

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

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

Certain statements contained in Bancorp's public reports, including this report, and in particular in this "Management's Discussion and Analysis or Plan of Operation," may be forward looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on Bancorp's interest earning assets and the interest paid on its interest bearing liabilities, (2) the timing of repricing of Bancorp's interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the effect of changes in regulations applicable to Bancorp and the Bank and the conduct of its business, (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks and the impact of federal legislation, (6) the ability of competitors which are larger than Bancorp to provide products and services which it is impracticable for Bancorp to provide, (7) the effect of Bancorp's opening of branches, and (8) the effect of any decision by Bancorp to engage in any business not historically permitted to it. Other such factors may be described in Bancorp's other filings with the SEC.

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

Item 7. Financial Statements

The consolidated balance sheets of Bancorp as of December 31, 2004 and December 31, 2003 and the related consolidated statements of income, shareholders' equity and cash flows for the years ended December 31, 2004 and December 31, 2003, together with the report thereon of McGladrey & Pullen, LLP dated March 3, 2005, are included as part of this Form 10-KSB in the "Financial Report" following page 33 hereof.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 8A. Controls and Procedures

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

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

There were no changes in Bancorp's internal control over financial reporting identified in connection with the evaluation described in the preceding paragraph that occurred during Bancorp's fiscal year ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, Bancorp's internal control over financial reporting.

Item 8B. Other Information

Not applicable

**PART III**

Item 9. Directors and Executive Officers of the Registrant

The information required by Items 401 and 405 of Regulation S-B is incorporated into this Form 10-KSB by reference to Bancorp's definitive proxy statement (the "*Definitive Proxy Statement*") for its 2004 Annual Meeting of Shareholders, to be filed within 120 days following December 31, 2004.

Item 10. Executive Compensation

The information required by Item 402 of Regulation S-B is incorporated into this Form 10-KSB by reference to the Definitive Proxy Statement.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 201(d) and Item 403 of Regulation S-B is incorporated into this Form 10-KSB by reference to the Definitive Proxy Statement.

Item 12. Certain Relationships and Related Transactions

The information required by Item 404 of Regulation S-B is incorporated into this Form 10-KSB by reference to the Definitive Proxy Statement.

Item 13. Exhibits and Reports on Form 8-K

(a) Exhibits

| Exhibit No. | Description |
|---|---|
| 2 | Agreement and Plan of Reorganization dated as of June 28, 1999 between Bancorp and the Bank (incorporated by reference to Exhibit 2 to Bancorp’s Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)). |
| 3(i) | Certificate of Incorporation of Bancorp, (incorporated by reference to Exhibit 3(i) to Bancorp's Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)). |
| 3(i)(A) | Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated July 16, 2004. |
| 3(ii) | By-laws of Bancorp (incorporated by reference to Exhibit 3(ii) to Bancorp’s Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)). |
| 4 | Reference is made to the Rights Agreement dated April 19, 2004 by and between Patriot National Bancorp, Inc. and Registrar and Transfer Company filed as Exhibit 99.2 to Bancorp’s Report on Form 8-K filed on April 19, 2004, which is incorporated herein by reference. |
| 10(a)(1) | 2001 Stock Appreciation Rights Plan of Bancorp (incorporated by reference to Exhibit 10(a)(1) to Bancorp’s Annual Report on Form 10-KSB for the year ended December 31, 2001 (Commission File No. 000-29599)). |

| Exhibit No. | Description |
|---|---|
| 10(a)(3) | Employment Agreement, dated as of October 23, 2000, as amended by a First Amendment, dated as of March 21, 2001, among the Bank, Bancorp and Charles F. Howell (incorporated by reference to Exhibit 10(a)(4) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2000 (Commission File No. 000-29599)). |
| 10(a)(4) | Change of Control Agreement, dated as of May 1, 2001 between Martin G. Noble and Patriot National Bank. |
| 10(a)(5) | Employment Agreement dated as of November 3, 2003 among Patriot National Bank, Bancorp and Robert F. O'Connell. (incorporated by reference to Exhibit 10(a)(5) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2003 (Commission File No. 000-29599)). |
| 10(a)(6) | Change of Control Agreement, dated as of November 3, 2003 between Robert F. O'Connell and Patriot National Bank. (incorporated by reference to Exhibit 10(a)(6) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2003 (Commission File No. 000-29599)). |
| 10(a)(8) | Employment Agreement dated as of January 1, 2005 between Patriot National Bank and Marcus Zavattaro. |
| 10(c) | 1999 Stock Option Plan of the Bank (incorporated by reference to Exhibit 10(c) to Bancorp's Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)). |
| 10(a)(9) | License agreement dated July 1, 2003 between Patriot National Bank and L. Morris Glucksman. (incorporated by reference to Exhibit 10(a)(9) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2003 (Commission File No. 000-29599)). |
| 10(a)(10) | Employment Agreement dated as of October 23, 2003 among the Bank, Bancorp and Charles F. Howell. (incorporated by reference to Exhibit 10(a)(10) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2003 (Commission File No. 000-29599)). |
| 14 | Code of Conduct for Senior Financial Officers |
| 21 | Subsidiaries of Bancorp (Incorporated by reference to Exhibit 21 to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 1999 (Commission File No. 000-29599)). |
| 23 | Consent of McGladrey & Pullen, LLP. |
| 31(1) | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer |
| 31(2) | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer |
| 32 | Section 1350 Certification |

(b) Reports on Form 8-K

During the quarter ended December 31, 2004, Bancorp filed two current Reports of Form 8-K; the first was dated October 25, 2004 (filed October 25, 2004) responding to Item 2 and relating to a press release announcing certain information concerning Bancorp's results of operations for the quarter and nine months ended September 30, 2004 and its financial condition at September 30, 2004; the second report was dated December 21, 2004 (filed December 21, 2004) responding to Item 8 and related to a press release announcing Bancorp's quarterly dividend.

14. Principal Accountant Fees and Services

The information required by Item 9(e) of Schedule 14A of Regulation S-B is incorporated into this Form 10-KSB by reference to the Definitive Proxy Statement.

**SIGNATURES**

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

Patriot National Bancorp, Inc.
(Registrant)

By:/s/ Angelo De Caro
Name: Angelo De Caro
Title: Chairman & Chief Executive Officer

Date: March 16, 2005

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

| | |
|---|---|
| /s/ Angelo De Caro<br>Angelo De Caro, Chairman, Chief Executive<br>Officer and Director | March 16, 2005<br>Date |
| /s/ Robert F. O'Connell<br>Robert F. O'Connell<br>Senior Executive Vice President,<br>Chief Financial Officer and Director | March 16, 2005<br>Date |
| /s/ Michael A. Capodanno<br>Michael A. Capodanno<br>Senior Vice President & Controller | March 16, 2005<br>Date |
| /s/ John J. Ferguson<br>John J. Ferguson<br>Director | March 16, 2005<br>Date |
| /s/ Brian A. Fitzgerald<br>Brian A. Fitzgerald<br>Director | March 16, 2005<br>Date |

**Form 10 KSB - Signatures continued**

| | |
|---|---|
| /s/ John A. Geoghegan<br>John A. Geoghegan<br>Director | March 16, 2005<br>Date |
| /s/ L. Morris Glucksman<br>L. Morris Glucksman<br>Director | March 16, 2005<br>Date |
| /s/ Charles F. Howell<br>Charles F. Howell<br>Director | March 16, 2005<br>Date |
| /s/ Michael Intrieri<br>Michael Intrieri<br>Director | March 16, 2005<br>Date |
| /s/ Paul Settelmeyer<br>Paul Settelmeyer<br>Director | March 16, 2005<br>Date |
| /s/ Philip Wolford<br>Philip Wolford<br>Director | March 16, 2005<br>Date |

**Patriot National Bancorp, Inc.**
**Financial Report**
**December 31, 2004 and 2003**

## CONTENTS

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors

Patriot National Bancorp, Inc. and Subsidiary

Stamford, Connecticut

We have audited the accompanying consolidated balance sheets of Patriot National Bancorp, Inc. and Subsidiary (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Patriot National Bancorp, Inc. and Subsidiary as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ McGladrey & Pullen, LLP

New Haven, Connecticut

March 3, 2005

**PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**
**December 31, 2004 and 2003**

| | | 2004 | | 2003 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and due from banks (Note 2) | $ | 6,670,409 | $ | 4,023,732 |
| Federal funds sold | | 37,500,000 | | 15,000,000 |
| Short-term investments | | 11,460,057 | | 10,430,939 |
| **Cash and cash equivalents** | | 55,630,466 | | 29,454,671 |
| | | | | |
| Available for sale securities (at fair value) (Note 3) | | 76,269,475 | | 90,562,083 |
| Federal Reserve Bank stock | | 692,600 | | 691,150 |
| Federal Home Loan Bank stock (Note 7) | | 1,296,700 | | 1,077,300 |
| Loans receivable (net of allowance for loan losses: 2004 $3,481,525; 2003 $2,934,675) (Note 4) | | 263,874,820 | | 214,420,528 |
| Accrued interest receivable | | 1,758,339 | | 1,470,622 |
| Premises and equipment, net (Notes 5 and 8) | | 2,132,633 | | 1,421,098 |
| Deferred tax asset (Note 9) | | 1,677,042 | | 1,524,125 |
| Goodwill (Note 10) | | 930,091 | | 930,091 |
| Other assets (Note 7) | | 784,789 | | 917,381 |
| **Total assets** | $ | 405,046,955 | $ | 342,469,049 |
| | | | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| Liabilities | | | | |
| Deposits (Note 6): | | | | |
| Noninterest bearing deposits | $ | 42,584,120 | $ | 30,477,295 |
| Interest bearing deposits | | 324,421,205 | | 259,514,887 |
| **Total deposits** | | 367,005,325 | | 289,992,182 |
| | | | | |
| Repurchase agreements (Note 7) | | - | | 5,700,000 |
| Federal Home Loan Bank borrowings (Note 7) | | 8,000,000 | | 17,000,000 |
| Subordinated debt (Note 7) | | 8,248,000 | | 8,248,000 |
| Capital lease obligation (Note 8) | | - | | 103,941 |
| Collateralized borrowings | | - | | 249,444 |
| Accrued expenses and other liabilities | | 2,037,196 | | 2,395,569 |
| **Total liabilities** | | 385,290,521 | | 323,689,136 |
| | | | | |
| Commitments and Contingencies (Notes 7, 8, 11 and 13) | | | | |
| | | | | |
| Shareholders' equity (Notes 11 and 14) | | | | |
| Preferred stock, no par value; 1,000,000 shares authorized, no shares issued | | - | | - |
| Common stock, $2 par value: 30,000,000 shares authorized; shares issued and outstanding: 2004 2,486,391; 2003 2,408,607 | | 4,972,782 | | 4,817,214 |
| Additional paid-in capital | | 11,830,173 | | 11,519,037 |
| Retained earnings | | 3,346,718 | | 2,752,541 |
| Accumulated other comprehensive loss - net unrealized loss | | | | |

| | | | | |
|---|---|---|---|---|
| on available for sale securities, net of taxes | | **(393,239)** | | (308,879) |
| **Total shareholders' equity** | | **19,756,434** | | 18,779,913 |
| | | | | |
| **Total liabilities and shareholders' equity** | **$** | **405,046,955** | $ | 342,469,049 |

See Notes to Consolidated Financial Statements.

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**CONSOLIDATED STATEMENTS OF INCOME**
**Years Ended December 31, 2004 and 2003**

| | | 2004 | | 2003 |
|---|---|---|---|---|
| Interest and Dividend Income | | | | |
| Interest and fees on loans | $ | **15,631,838** | $ | 12,782,457 |
| Interest and dividends on investment securities | | **2,856,928** | | 2,335,552 |
| Interest on Federal funds sold | | **189,485** | | 96,693 |
| **Total interest and dividend income** | | **18,678,251** | | 15,214,702 |
| | | | | |
| Interest Expense | | | | |
| Interest on deposits (Note 6) | | **6,213,732** | | 4,861,152 |
| Interest on Federal Home Loan Bank borrowings | | **371,699** | | 327,020 |
| Interest on subordinated debt | | **380,194** | | 270,610 |
| Interest on other borrowings | | **42,883** | | 129,473 |
| **Total interest expense** | | **7,008,508** | | 5,588,255 |
| | | | | |
| **Net interest income** | | **11,669,743** | | 9,626,447 |
| | | | | |
| Provision for Loan Losses (Note 4) | | **556,000** | | 563,000 |
| | | | | |
| **Net interest income after provision for loan losses** | | **11,113,743** | | 9,063,447 |
| | | | | |
| Noninterest Income | | | | |
| Mortgage brokerage referral fees | | **1,717,756** | | 3,356,470 |
| Loan origination and processing fees | | **408,152** | | 668,410 |
| Fees and service charges | | **465,018** | | 378,415 |
| Gain on sale of investment securities | | **-** | | 307,739 |
| Other income | | **111,278** | | 102,706 |
| **Total noninterest income** | | **2,702,204** | | 4,813,740 |
| | | | | |
| Noninterest Expenses | | | | |
| Salaries and benefits (Note 12) | | **7,544,055** | | 7,574,532 |
| Occupancy and equipment expense, net | | **1,707,769** | | 1,311,038 |
| Data processing and other outside services | | **802,536** | | 690,168 |
| Professional services | | **386,110** | | 301,016 |
| Advertising and promotional expenses | | **369,638** | | 332,852 |
| Loan administration and processing expenses | | **209,283** | | 404,231 |
| Other operating expenses | | **1,237,159** | | 1,045,630 |
| **Total noninterest expenses** | | **12,256,550** | | 11,659,467 |
| | | | | |
| **Income before income taxes** | | **1,559,397** | | 2,217,720 |
| | | | | |
| Provision for Income Taxes (Note 9) | | **633,000** | | 877,000 |
| | | | | |
| **Net income** | **$** | **926,397** | $ | 1,340,720 |
| | | | | |
| **Basic income per share (Note 11)** | **$** | **0.38** | $ | 0.56 |

| | | | | |
|---|---|---|---|---|
| **Diluted income per share (Note 11)** | **$** | **0.37** | $ | 0.55 |
| **Dividends per share** | **$** | **0.135** | $ | 0.115 |

See Notes to Consolidated Financial Statements.

**PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**Years Ended December 31, 2004 and 2003**

| | | | | | Accumulated |
|---|---|---|---|---|---|
| | | | Additional | | Other |
| | Number of | Common | Paid-in | Retained | |