PATRIOT NATIONAL BANCORP INC
Form 10QSB
November 13, 2003

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

FORM 10-QSB

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

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

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

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

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

(203) 324-7500
(Issuer's telephone number)

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

Common stock, $2.00 par value per share, 2,401,125 shares issued and outstanding as of the close of business October 31, 2003.

Transitional Small Business Disclosure Format (check one): Yes _____ No X

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

PATRIOT NATIONAL BANCORP, INC
CONSOLIDATED BALANCE SHEETS

	September 30, 2003 (Unaudited)	Dece
ASSETS		
Cash and due from banks	$ 4,929,673	$
Federal funds sold	5,000,000	
Short term investments	1,838,648	
Cash and cash equivalents	11,768,321	1
Available for sale securities (at fair value)	91,478,828	6
Federal Reserve Bank stock	691,150	
Federal Home Loan Bank stock	1,077,300	
Loans receivable (net of allowance for loan losses: 2003 $2,837,675; 2002 $2,372,454)	207,559,155	17
Accrued interest receivable	1,510,740	
Premises and equipment, net	1,328,110	
Deferred tax asset, net	1,157,291	
Goodwill	930,091	
Other assets	716,907	
Total assets	$ 318,217,893	$ 24
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest bearing deposits	$ 27,302,298	$ 2
Interest bearing deposits	238,450,822	19
Total deposits	265,753,120	21
Securities sold under agreements to repurchase	5,700,000	
Federal Home Loan Bank borrowings	17,000,000	
Trust preferred securities	8,000,000	
Capital lease obligation	140,556	
Collateralized borrowings	274,444	
Accrued expenses and other liabilities	2,629,477	
Total liabilities	299,497,597	22
Shareholders' equity		
Common stock, $2 par value: 5,333,333 shares authorized; shares issued and outstanding: 2003 - 2,401,125; 2002 - 2,400,525	4,802,250	
Additional paid-in capital	11,489,109	1

Retained earnings	2,514,705	
Accumulated other comprehensive income - net unrealized (loss) gain on available for sale securities, net of tax	(85,768)	
Total shareholders' equity	18,720,296	1
Total liabilities and shareholders' equity	$ 318,217,893	$ 24

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30, 2003	2002	Nine Mon Septem 2003
Interest and Dividend Income			
Interest and fees on loans	$ 3,331,853	$ 2,602,775	$ 9,270,207
Interest and dividends on investment securities	620,077	693,260	1,628,323
Interest on federal funds sold	20,993	50,412	77,748
Total interest and dividend income	3,972,923	3,346,447	10,976,278
Interest Expense			
Interest on deposits	1,285,471	1,145,068	3,517,217
Interest on Federal Home Loan Bank borrowings	95,943	49,016	223,315
Interest on Trust Preferred Securities	86,115	--	181,906
Interest on other borrowings	26,932	48,874	103,857
Total interest expense	1,494,461	1,242,958	4,026,295
Net interest income	2,478,462	2,103,489	6,949,983
Provision for Loan Losses	211,000	84,000	466,000
Net interest income after provision for loan losses	2,267,462	2,019,489	6,483,983
Non-Interest Income			
Mortgage brokerage referral fees	831,581	846,231	2,725,854
Loan processing fees	149,362	148,415	552,764
Fees and service charges	106,026	84,697	263,693
Gains and origination fees from loans sold	--	--	--
Gain (loss) on sale of investment securities	--	5,542	307,739
Other income	24,041	16,323	81,381
Total non-interest income	1,111,010	1,101,208	3,931,431
Non-Interest Expenses			

Salaries and benefits	1,850,282	1,691,463	5,682,164
Occupancy and equipment expenses, net	351,185	245,589	949,893
Data processing and other outside services	176,904	156,499	535,409
Professional services	66,426	83,696	243,668
Advertising and promotional expenses	87,229	104,184	242,503
Other operating expenses	332,556	294,600	1,073,152
Total non-interest expenses	2,864,582	2,576,031	8,726,789
Income before income taxes	513,890	544,666	1,688,625
Provision for Income Taxes	198,000	207,000	658,000
Net income	$ 315,890	$ 337,666	$ 1,030,625
Basic income per share	$ 0.13	$ 0.14	$ 0.43
Diluted income per share	$ 0.13	$ 0.14	$ 0.42
Dividends per share	$ 0.030	$ 0.025	$ 0.085

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Mon Septem
	2003	2002	2003
Net income	$ 315,890	$ 337,666	$ 1,030,625
Unrealized holding (losses) gains on securities:			
Unrealized holding (losses) gains arising during the period, net of taxes	(341,639)	105,946	(656,866)
Comprehensive (loss) income	$ (25,749)	$ 443,612	$ 373,759

See accompanying notes to consolidated financial statements.

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

	Nine Month September 2003
Cash Flows from Operating Activities	
Net income	$ 1,030,625
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization and accretion of investment premiums and discounts, net	445,000
Originations of loans held for sale	--
Proceeds from sales of loans held for sale	--
Gain on sale of loans	--
Provision for loan losses	466,000
(Gain) loss on sale of investment securities	(307,739)
Depreciation and amortization	291,144
Loss on disposal of bank premises and equipment	2,037
Changes in assets and liabilities:	
Increase in deferred loan fees	197,518
Increase in accrued interest receivable	(199,287)
(Increase) decrease in other assets	(15,971)
Increases in accrued expenses and other liabilities	869,594
Net cash provided by operating activities	2,778,921
Cash Flows from Investing Activities	
Purchases of available for sale securities	(66,825,874)
Proceeds from sales of available for sale securities	7,094,321
Principal repayments on available for sale securities	19,474,368
Proceeds from maturities of available for sale securities	8,200,000
Purchase of Federal Home Loan Bank Stock	(456,000)
Purchase of Federal Reserve Bank Stock	(210,100)
Net increase in loans	(37,427,734)
Proceeds from sale of loan receivable	--
Purchases of bank premises and equipment	(838,992)
Proceeds from sale of bank premises and equipment	6,900
Net cash used in investing activities	(70,983,111)
Cash Flows from Financing Activities	
Net increase in demand, savings and money market deposits	13,130,440
Net increase in time certificates of deposits	34,711,420
Increase in FHLB borrowings	13,000,000
Proceeds from issuance of trust preferred securities	8,000,000
Debt issuance costs	(240,000)
Increase in securities sold under agreements to repurchase	--
Principal payments on capital lease obligation	(102,675)
Decrease in collateralized borrowings	(75,000)
Dividends paid on common stock	(192,059)

Proceeds from issuance of common stock	5,660
Net cash provided by financing activities	68,237,786
Net increase (decrease) in cash and cash equivalents	33,596

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

	Nine Months September 2003
Cash and cash equivalents	
Beginning	11,734,725
Ending	$ 11,768,321
Supplemental Disclosures of Cash Flow Information	
Cash paid for:	
Interest	$ 3,530,981
Income Taxes	$ 818,876
Supplemental disclosure of noncash investing and financing activities:	
Unrealized holding (loss) gain on available for sale securities arising during the period	$ (1,059,461)
Accrued dividends declared on common stock	$ 72,034

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) The Consolidated Balance Sheet at December 31, 2002 has been derived from the audited financial statements of Patriot National Bancorp, Inc. ("Bancorp") at that date, but does not include all of the information and

footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

(2) The accompanying unaudited financial statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements and related notes should be read in conjunction with the audited financial statements of Bancorp and notes thereto for the year ended December 31, 2002.

The information furnished reflects, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and nine months ended September 30, 2003 are not necessarily indicative of the results of operations that may be expected for all of 2003.

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

Quarter ended September 30, 2003

	Net Income	Shares	Amount
Basic Income Per Share			
Income available to common shareholders	$ 315,890	2,400,855	$ 0.13
Effect of Dilutive Securities			
Warrants/Stock Options outstanding	--	47,568	--
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	$ 315,890	2,448,423	$ 0.13

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Quarter ended September 30, 2002

	Net Income	Shares	Amount
Basic Income Per Share			
Income available to common shareholders	$ 337,666	2,400,525	$ 0.14
Effect of Dilutive Securities			

Warrants/Stock Options outstanding	--	25,152	--
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	$ 337,666	2,425,677	$ 0.14

Nine months ended September 30, 2003

	Net Income	Shares	Amount
Basic Income Per Share			
Income available to common shareholders	$1,030,625	2,400,769	$ 0.43
Effect of Dilutive Securities			
Warrants/Stock Options outstanding	--	39,846	(0.01)
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	$1,030,625	2,440,615	$ 0.42

Nine months ended September 30, 2002

	Net Income	Shares	Amount
Basic Income Per Share			
Income available to common shareholders	$ 824,166	2,400,525	$ 0.34
Effect of Dilutive Securities			
Warrants/Stock Options outstanding	--	25,127	--
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	$ 824,166	2,425,652	$ 0.34

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

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

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Information about reportable segments and a reconciliation of such information to the consolidated financial statements for the three and nine months ended September 30, 2003 and 2002 is as follows (in thousands):

Quarter ended September 30, 2003

	Bank	Mortgage Broker	Consolidated Totals
Net interest income	$ 2,478	$ --	$ 2,478
Non-interest income	149	962	1,111
Non-interest expense	2,125	740	2,865
Provision for loan losses	211	--	211
Income before taxes	292	222	514
Assets at period end	317,215	1,003	318,218

Quarter ended September 30, 2002

	Bank	Mortgage Broker	Consolidated Totals
Net interest income	$ 2,103	$ --	$ 2,103
Non-interest income	69	1,032	1,101
Non-interest expense	1,779	797	2,576
Provision for loan losses	84	--	84
Income before taxes	310	235	545
Assets at period end	236,423	1,076	237,499

Nine months ended September 30, 2003

	Bank	Mortgage Broker	Consolidated Totals
Net interest income	$ 6,950	$ --	$ 6,950
Non-interest income	695	3,236	3,931
Non-interest expense	6,167	2,560	8,727
Provision for loan losses	466	--	466
Income before taxes	1,013	676	1,689
Assets at period end	317,215	1,003	318,218

Nine months ended September 30, 2002

	Bank	Mortgage Broker	Consolidated Totals
Net interest income	$ 5,679	$ --	$ 5,679
Non-interest income	426	2,652	3,078
Non-interest expense	5,143	2,067	7,210
Provision for loan losses	242	--	242
Income before taxes	720	585	1,305
Assets at period end	236,423	1,076	237,499

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

(6) Other comprehensive income, which is comprised solely of the change in unrealized gains and losses on available for sale securities, is as follows:

	Three Months Ended September 30, 2003 Before Tax Amount	Tax Effect	Net of Tax Amount	Nine Septe Before Tax Amount
Unrealized holding loss arising during the period	$ (551,030)	$ 209,391	$ (341,639)	$ (751,722)
Reclassification adjustment for gains recognized in income	--	--	--	(307,739)
Unrealized holding loss on available for sale securities, net of taxes	$ (551,030)	$ 209,391	$ (341,639)	$(1,059,461)

	Three Months Ended September 30, 2003 Before Tax Amount	Tax Effect	Net of Tax Amount	Nine Septe Before Tax Amount
Unrealized holding gain arising during the period	$ 176,422	$ (67,040)	$ 109,382	$ 285,295
Reclassification adjustment for (gains) losses recognized in income	(5,542)	2,106	(3,436)	25,733
Unrealized holding gain on available for sale securities, net of taxes	$ 170,880	$ (64,934)	$ 105,946	$ 311,028

(7) At the end of the first quarter of 2003, Bancorp created a statutory trust of which Bancorp owns 100% of the capital stock. The trust issued $8.0 million in variable rate preferred securities to investors with a current rate of 4.29%; the rate may adjust quarterly based on changes to LIBOR. The duration of the trust is 35 years with early redemption at par at the Company's option after five years, or earlier in the event of certain regulatory or tax changes. The proceeds from the issuance of the preferred securities were used to purchase junior subordinated debt from Bancorp. Bancorp primarily invested the funds from the issuance of the debt in Patriot National Bank (the "Bank"), which in turn used the proceeds to fund general operations of the Bank. The securities qualify for up to 25% of Bancorp's Tier 1 Capital with the remainder qualifying as Tier 2

Capital.

(8) During the nine months ended September 30, 2003 the Bank entered into an additional $13 million in borrowing transactions with the Federal Home Loan Bank; $10 million of the borrowings was used as part of a leveraging strategy; the additional $3 million was used to fund loan demand. Outstanding borrowings at September 30, 2003 have original terms of six months to five years with interest rates ranging from 1.27% to 5.11%.

(9) Bancorp has executed a ten-year lease renewal for its main office location which lease currently expires August 2004, and a ten-year lease for a new branch location which opened November 2003. The future minimum rental commitments under these leases total $2.6 million.

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

(a) Plan of Operation

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

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

SUMMARY

Bancorp had net income of $316,000 ($0.13 basic income per share and $0.13 diluted income per share) for the quarter ended September 30, 2003, compared to net income of $338,000 ($0.14 basic income per share and $0.14 diluted income per share) for the quarter ended September 30, 2002. For the nine-month period ended September 30, 2003, net income was $1,031,000 ($0.43 basic income per share and $0.42 diluted income per share) as compared to net income of $824,000 ($0.34 basic income per share and $0.34 diluted income per share) for the nine months ended September 30, 2002.

Total assets increased $69.7 million from $248.5 million at December 31, 2002 to $318.2 million at September 30, 2003. Cash and cash equivalents remained largely unchanged at September 30, 2003 as compared to December 31, 2002. The available for sale securities portfolio increased $30.9 million to $91.5 million at September 30, 2003 from $60.6 million at December 31, 2002. The net loan portfolio increased $36.8 million from $170.8 million at December 31, 2002 to $207.6 million at September 30, 2003. Deposits increased $47.9 million to $265.8 million at September 30, 2003 from $217.9 million at December 31, 2002. Borrowings and other liabilities increased $21.7 million to $33.7 million at September 30, 2003 from $12.0 million at December 31, 2002. Total shareholders' equity increased $175,000 to $18.7 million at September 30, 2003 from $18.5 million at December 31, 2002.

FINANCIAL CONDITION

Assets

Bancorp's total assets increased $69.7 million from $248.5 million at December 31, 2002 to $318.2 million at September 30, 2003. Cash and cash equivalents remained largely unchanged at September 30, 2003 as compared to December 31, 2002. Cash and due from banks decreased $0.5 million; federal funds sold increased $2.0 million and short term investments decreased $1.5 million.

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Investments

The following table is a summary of Bancorp's available for sale securities portfolio, at fair value, at the dates shown:

	September 30, 2003	December 31 2002
U. S. Government Agency Obligations	$ 11,966,075	$ 9,129,414
Mortgage Backed Securities	67,512,753	38,461,159
Corporate Bonds	--	383,797
Marketable equity securities	12,000,000	12,643,996
Total Investments	$ 91,478,828	$ 60,618,366

Available for sale securities increased $30.9 million from $60.6 million at December 31, 2002 to $91.5 million at September 30, 2003. This increase represents the investment of funds from the closing of the trust preferred securities offering at the end of the first quarter of 2003, an interest rate leveraging strategy which was funded by Federal Home Loan Bank borrowings during the second quarter of 2003, and the reinvestment of funds from investment maturities, principal repayments and sales of investments in 2003.

During the three and nine months ended September 30, 2003 unrealized holding losses on the available for sale securities portfolio totaled $551,000 and $1,059,000, respectively. These unrealized losses were the result of volatility in market rates and yield curve changes that impacted the market prices of government agency bonds and mortgage backed securities. Management does not believe these unrealized losses are other than temporary, and Bancorp has the ability to hold these securities to maturity if necessary. As a result, management believes that these unrealized losses will not have a negative impact on future earnings and capital.

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Loans

The following table is a summary of Bancorp's loan portfolio at the dates shown:

	September 30, 2003	December 31 2002
Real Estate		
Commercial	$ 91,122,891	$ 65,967,205
Residential	17,629,187	27,012,024
Construction	59,607,199	39,208,651
Commercial	15,326,391	13,021,909
Consumer installment	1,985,919	1,757,321
Consumer home equity	25,534,570	26,812,092

Total Loans	211,206,157	173,779,202
Net deferred fees	(809,327)	(611,809)
Allowance for loan losses	(2,837,675)	(2,372,454)
Total Loans	$ 207,559,155	$ 170,794,939

Bancorp's net loan portfolio increased $36.8 million from $170.8 million at December 31, 2002 to $207.6 million at September 30, 2003. Increases in commercial real estate loans of $25.1 million, construction loans of $20.4 million and commercial loans of $2.3 million were partially offset by decreases in residential real estate and home equity loans of $9.4 million and $1.3 million, respectively. Refinance transactions have resulted in a decrease in the residential real estate loan portfolio of $9.4 million. A favorable interest rate environment for borrowers combined with a strong real estate market continues to contribute to the overall growth in the loan portfolio.

At September 30, 2003, the net loan to deposit ratio was 78.1% and the net loan to total assets ratio was 65.2%. At December 31, 2002, the net loan to deposit ratio was 78.4% and the net loan to total assets ratio was 68.7%. Based on loan applications in process and anticipated repayments, management anticipates maintaining the current level of the loan portfolio through the end of 2003.

Critical Accounting Policies

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

Allowance for Loan Losses

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

The allowance for loan losses is maintained at a level that management believes is adequate to absorb probable losses on existing loans based on an evaluation of the collectibility of loans and prior loan loss experience. A risk rating system is utilized to measure the adequacy of the allowance for loan losses. Under this system, each loan is assigned a risk rating between one and nine, which has a corresponding loan loss factor assigned, with one being the least risk and nine reflecting the most risk or a complete loss. Risk ratings are assigned by the originating loan officer or loan committee at the initiation of the transactions and are reviewed and changed, when necessary, during the life of the loan. Loan loss reserve factors are multiplied against the balances in each risk rating category to arrive at the appropriate level for the allowance for loan losses. Loans assigned a risk rating of six or above are monitored more closely by the credit administration officers. Loan quality control is continually monitored by management subject to oversight by the board of directors through its members who serve on the loan committee, and the adequacy of the allowance for loan losses is presented to and reviewed by the board of directors on a quarterly basis. The methodology for determining the adequacy of the allowance for loan losses is consistently applied; however, revisions may be made to the methodology and assumptions based on historical information related to charge-off and recovery experience and management's evaluation of the current loan portfolio.

Based upon this evaluation, management believes the allowance for loan losses of $2.8 million at September 30, 2003, which represents 1.35% of gross loans outstanding, is adequate, under prevailing economic conditions, to absorb losses on existing loans which may become uncollectible. At December 31, 2002, the allowance for loan losses was $2.4 million or 1.37% of gross loans outstanding.

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Analysis of Allowance for Loan Losses

(Thousands of dollars)	September 30, 2003	September 30, 2002
Balance at beginning of period	$ 2,373	$ 1,894
Charge-offs	(1)	--
Recoveries	--	10
Net (charge-offs) recoveries	(1)	10
Provision charged to operations	466	242
Balance at end of period	$ 2,838	$ 2,146
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.00%)	0.01%

Non-Accrual, Past Due and Restructured Loans

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

(Thousands of dollars)	September 30, 2003	December 31, 2002
Loans delinquent over 90 days still accruing	$ 315	$1,172
Non-accruing loans	150	201
Total	$ 465	$1,373

% of Total Loans	0.22%	0.79%
% of Total Assets	0.15%	0.56%

Potential Problem Loans

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

Premises and Equipment

The opening of two new branches combined with the renovation of a third new branch, which opened in November, has resulted in an increase of $539,000 in premises and equipment, net from $789,000 at December 31, 2002 to $1.3 million at September 30, 2003.

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Deposits

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

	September 30, 2003	December 31 2002
Non-interest bearing	$ 27,302,298	$ 25,519,809
Interest bearing		
Time certificates, less than $100,000	79,304,242	57,202,908
Time certificates, $100,000 or more .	41,291,431	28,681,345
Money market	67,560,241	56,973,507
Savings	23,764,157	26,847,780
NOW	26,530,751	22,685,911
Total interest bearing	238,450,822	192,391,451
Total Deposits	$265,753,120	$217,911,260

Total deposits increased $47.9 million from $217.9 million at December 31, 2002 to $265.8 million at September 30, 2003. Noninterest bearing deposits increased $1.8 million due primarily to increases in commercial demand deposit accounts. Interest bearing deposits increased $46.0 million. Certificates of deposit increased $34.7 million; money market fund accounts and NOW accounts increased $10.6 million and $3.8 million, respectively; savings accounts decreased $3.1 million. Increases in certificates of deposit are due primarily to bank wide promotional campaigns associated with two new branch openings. Due to the uncertainty in short term interest rates, many depositors have been keeping funds liquid which has resulted in an increase in money market fund accounts.

Trust Preferred Securities

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

Borrowings

During the second quarter Bancorp executed a leveraging strategy by purchasing $10 million in mortgage backed securities which was funded by $10 million in Federal Home Loan Bank borrowings. During the third quarter, the Bank borrowed an additional $3 million from the Federal Home Loan Bank to fund loan demand.

RESULTS OF OPERATIONS

Interest and dividend income and expense

Bancorp's interest and dividend income increased $626,000 or 18.7% for the quarter ended September 30, 2003 as compared to the same period in 2002. Interest and fees on loans increased 28.0% or $729,000 from $2.6 million for the quarter ended September 30, 2002 to $3.3 million for the quarter ended September 30, 2003. For the nine months ended September 30, 2003, interest and dividend income was $11.0 million which represents an increase of $1.8 million or 19.0% compared to interest and dividend income of $9.2 million for the same period last year. These increases are the result of the increase in the investment and loan portfolios, net of decreases in the yields on interest earning assets.

Bancorp's interest expense increased 20.2% or $252,000 for the quarter ended September 30, 2003 as compared to the same period in 2002. Increases in interest bearing deposits accounts resulted in an increase of 12.3% or $140,000 in interest expense for the quarter ended September 30, 2003 compared to the same period last year. Increases in outstanding borrowings resulted in an increase of $111,000 in interest expense for the quarter ended September 30, 2003 as compared to the same period in 2002. For the nine months ended September 30, 2003, total interest expense increased $480,000 or 13.5% to $4.0 million as compared to $3.5 million for the nine months ended September 30, 2002. These increases in interest expenses are due to higher levels of interest bearing liabilities partially offset by lower interest rates on interest bearing liabilities. Included in interest expense for the three and nine months ended September 30, 2003 is $86,000 and $182,000, respectively from trust preferred securities obligations incurred at the end of the first quarter of 2003.

Non-interest income

Non-interest income increased $10,000 or 0.9% to $1.1 million for the quarter ended September 30, 2003 as compared to the comparable period last year. The continued favorable interest rate environment for borrowers has resulted in the maintenance of an historical high level of mortgage brokerage and referral fee income. Mortgage brokerage and referral fees decreased slightly by 1.7% or $15,000 to $831,000 for the quarter ended September 30, 2003 as compared to

$846,000 for the same period last year. This decrease was due primarily to an increase in long term interest rates during the third quarter.

For the nine months ended September 30, 2003, non-interest income increased $854,000 or 27.7% to $3.9 million as compared to $3.1 million for the same period in 2002. Mortgage brokerage and referral fees increased $552,000 or 25.4% to $2.7 million for the nine months ended September 30, 2003 from $2.2 million for the nine months ended September 30, 2002. Loan processing fees increased 39.8% or $157,000 from $395,000 for the nine months ended September 30, 2002 to $553,000 for the nine months ended September 30, 2003. The favorable interest rate environment for borrowers cited earlier resulted in the increases in

mortgage brokerage and referral fees and loan processing fees. Included in the results for the nine months ended September 30, 2003 are gains on sales of investment securities of $308,000. A portion of the gains is attributable to a gain of $117,000 on an investment security for which Bancorp recorded a write-down in 2001 made for the impairment of a debt security due to the deterioration in the financial condition of the issuer; in March 2003 Bancorp received the proceeds from a tender offer made by the issuer at a price of 100% of par for the above security under a comprehensive refinancing plan. Included in the results for the nine months ended September 30, 2002 is a gain of $249,000 from the sale of a nonperforming loan.

Non-interest expenses

Non-interest expenses increased 11.2% or $289,000 to $2.9 million for the quarter ended September 30, 2003 from $2.6 million for the quarter ended September 30, 2002. Salaries and benefits expense increased 9.4%, or $159,000, to $1.9 million for the quarter ended September 30, 2003 from $1.7 million for the quarter ended September 30, 2002, due primarily to higher levels of commissions and production related incentive compensation accruals, as well as to staffing additions made for the opening of two new branch offices. Occupancy and equipment expense, net increased $106,000 or 43% to $351,000 for the quarter ended September 30, 2003 from $246,000 for the quarter ended September 30, 2002 due primarily to the establishment of additional branch locations. Other non-interest expenses increased $38,000 or 12.9% to $333,000 for the quarter ended September 30, 2003 from $295,000 for the quarter ended September 30, 2002.

For the nine months ended September 30, 2003, non-interest expenses increased $1.5 million or 21.0% to $8.7 million from $7.2 million for the same period last year for similar reasons cited above. Salary and benefits expense increased $1.1 million; occupancy and equipment expense, net increased $199,000. Other non-interest expenses increased $206,000; $122,000 of this increase is due to increases in loan processing expenses.

Bancorp has received regulatory approval to establish an additional branch location which will result in additional capital expenditures as well as increases in salaries and benefits and occupancy and equipment expenses. This new branch office opened November 4, 2003.

Income Taxes

Bancorp recorded income tax expense of $198,000 for the quarter ended September 30, 2003 as compared to $207,000 for the quarter ended September 30, 2002. For the nine months ended September 30, 2003, income tax expense was $658,000 as compared to $481,000 for the same period last year. These changes are related primarily to the change in pre-tax income as well as to an increase in the Connecticut tax rate. The effective tax rates for the quarters ended September 30, 2003 and September 30, 2002 were 38.5% and 38.0%, respectively; the effective tax rates for the nine months ended September 30, 2003 and September 30, 2002 were 39.0% and 36.8%, respectively.

LIQUIDITY

Bancorp's liquidity ratio was 32.5% and 34.7% at September 30, 2003 and 2002, respectively. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets as described in the accompanying consolidated balance sheets are considered liquid assets: cash and due from banks, federal funds sold, short term investments and available for sale securities. Liquidity is a measure of Bancorp's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposit accounts and increases in its loan portfolio. Management believes Bancorp's short-term assets have sufficient liquidity to cover loan demand, potential fluctuations in deposit accounts, the costs related to opening new branch offices and to meet other anticipated cash requirements.

CAPITAL

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

	September 30, 2003	December 31, 2002
Leverage Capital	7.84%	6.99%
Tier 1 Risk-based Capital..........	10.43%	9.13%
Total Risk-based Capital	12.40%	10.39%

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

	September 30, 2003	December 31, 2002
Leverage Capital	8.19%	6.98%
Tier 1 Risk-based Capital..........	10.89%	9.11%
Total Risk-based Capital	12.11%	10.36%

Capital adequacy is one of the most important factors used to determine the safety and

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

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

IMPACT OF INFLATION AND CHANGING PRICES

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

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

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

ITEM 3. CONTROLS AND PROCEDURES

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

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

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

PART II - OTHER INFORMATION.

ITEM 2. CHANGES IN SECURITIES

(a) Not applicable

(b) Not applicable

(c) On September 9, 2003, Bancorp issued 400 shares of its Common Stock to a former director as part of a consulting arrangement with Patriot National Bank. The obligation under this agreement was assumed by Bancorp at the time the Bank became a wholly owned subsidiary of Bancorp.

Bancorp claims an exemption from registration for the issuance of these shares under Rule 504 under the Securities Act of 1933, on the basis that the aggregate price for these shares is less than $1,000,000.

(d) Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) No. Description

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) During the quarter ended September 30, 2003, Bancorp filed one Current Report on Form 8-K dated July 17, 2003 (filed July 17, 2003) responding to Items 7 and 12 and relating to a press release announcing certain information concerning Bancorp's results of operations for the quarter ended June 30, 2003 and its financial condition at June 30, 2003.

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.

PATRIOT NATIONAL BANCORP, INC.
(Registrant)

By: /s/ ROBERT F. O'CONNELL

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

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

November 13, 2003

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EXHIBIT INDEX

No.	Description
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