PATRIOT NATIONAL BANCORP INC
Form 10-Q
November 09, 2007

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

FORM 10-Q

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

For the Quarter Ended September 30, 2007 Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.
(Exact name of registrant 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
(Registrant’s telephone number)

Check whether the registrant (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 ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer:

Large Accelerated Filer ____ Accelerated Filer ____ Non-Accelerated Filer _X_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes ____ No _X_

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

Common stock, $2.00 par value per share, 4,746,844 shares issued and outstanding as of the close of business October 31, 2007.

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements
PATRIOT NATIONAL BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Cash and due from banks	$ 7,019,079	$ 3,868,670
Federal funds sold	39,000,000	27,000,000
Short term investments	584,732	24,605,869
Cash and cash equivalents	**46,603,811**	**55,474,539**
Available for sale securities (at fair value)	60,695,770	67,093,135
Federal Reserve Bank stock	1,911,700	1,911,700
Federal Home Loan Bank stock	2,156,100	1,217,200
Loans receivable (net of allowance for loan losses: 2007 $5,597,620; 2006 $5,630,432)	641,426,903	506,884,155
Accrued interest receivable	4,530,248	3,542,173
Premises and equipment	6,965,507	3,690,861
Deferred tax asset, net	2,632,910	2,914,562
Goodwill and other intangible assets	1,473,719	1,487,651
Other assets	1,090,746	1,766,819
Total assets	**$ 769,487,414**	**$ 645,982,795**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest bearing deposits	$ 57,690,185	$ 56,679,836
Interest bearing deposits	598,812,160	504,771,828
Total deposits	**656,502,345**	**561,451,664**
Federal Home Loan Bank borrowings	35,000,000	8,000,000
Junior subordinated debt owed to unconsolidated trust	8,248,000	8,248,000
Accrued expenses and other liabilities	3,742,451	3,999,786
Total liabilities	**703,492,796**	**581,699,450**
Shareholders' equity		
Preferred stock: 1,000,000 shares authorized; no shares issued	-	-
Common stock, $2 par value: 60,000,000 shares authorized; shares issued and outstanding: 2007 - 4,746,844; 2006 - 4,739,494	9,493,688	9,478,988
Additional paid in capital	49,549,119	49,463,307
Retained earnings	7,173,235	6,022,012
Accumulated other comprehensive income - net unrealized loss on available for sale securities, net of taxes	(221,424)	(680,962)
Total shareholders' equity	**65,994,618**	**64,283,345**
Total liabilities and shareholders' equity	**$ 769,487,414**	**$ 645,982,795**

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Interest and Dividend Income				
Interest and fees on loans	$ 12,279,795	$ 8,962,195	$ 33,886,658	$ 24,472,546
Interest and dividends on investment securities	872,820	743,068	3,043,623	2,290,737
Interest on federal funds sold	145,539	151,591	926,497	286,255
Total interest and dividend income	**13,298,154**	**9,856,854**	**37,856,778**	**27,049,538**
Interest Expense				
Interest on deposits	6,843,693	4,152,620	19,434,408	10,834,245
Interest on Federal Home Loan Bank borrowings	45,735	491,319	166,783	1,099,124
Interest on subordinated debt	174,941	177,013	519,292	497,680
Interest on other borrowings	2,144	648	2,144	4,798
Total interest expense	**7,066,513**	**4,821,600**	**20,122,627**	**12,435,847**
Net interest income	**6,231,641**	**5,035,254**	**17,734,151**	**14,613,691**
Provision for Loan Losses	-	116,500	-	1,040,000
Net interest income after provision for loan losses	**6,231,641**	**4,918,754**	**17,734,151**	**13,573,691**
Noninterest Income				
Mortgage brokerage referral fees	133,449	373,299	638,160	1,052,937
Loan origination & processing fees	57,131	64,862	163,375	218,712
Fees and service charges	213,416	166,749	588,797	455,159
Gain on redemption of investment securities	-	-	5,000	-
Gain on sale of other real estate owned	86,473	-	86,473	-
Other income	61,063	27,653	181,118	117,349
Total noninterest income	**551,532**	**632,563**	**1,662,923**	**1,844,157**
Noninterest Expenses				
Salaries and benefits	3,005,582	2,795,341	9,181,398	7,709,120
Occupancy and equipment expense, net	1,148,430	694,925	3,108,686	2,030,499
Data processing and other outside services	458,378	293,358	1,358,612	1,100,622
Professional services	128,671	125,269	354,876	373,227
Advertising and promotional expenses	174,908	152,906	582,586	448,772
Loan administration and processing expenses	55,538	46,286	146,512	126,759
Other real estate operations	(30,687)	-	(48,243)	-
Other noninterest expenses	631,628	382,594	1,784,154	1,135,477
Total noninterest expenses	**5,572,448**	**4,490,679**	**16,468,581**	**12,924,476**

Income before income taxes		**1,210,725**		**1,060,638**		**2,928,493**		**2,493,372**
Provision for Income Taxes		470,000		390,000		1,137,000		916,000
Net income	**$**	**740,725**	**$**	**670,638**	**$**	**1,791,493**	**$**	**1,577,372**
Basic income Per Share	**$**	**0.16**	**$**	**0.20**	**$**	**0.38**	**$**	**0.49**
Diluted income Per Share	**$**	**0.16**	**$**	**0.20**	**$**	**0.38**	**$**	**0.48**
Dividends per share	**$**	**0.045**	**$**	**0.045**	**$**	**0.135**	**$**	**0.130**

See accompanying notes to consolidated financial statements.
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PATRIOT NATIONAL BANCORP, INC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	$ 740,725	$ 670,638	$ 1,791,493	$ 1,577,372
Unrealized holding gains on securities:				
Unrealized holding gains arising during the period, net of taxes	297,166	520,829	459,538	249,294
Comprehensive income	**$ 1,037,891**	**$ 1,191,467**	**$ 2,251,031**	**$ 1,826,666**

See accompanying notes to consolidated financial statements.

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

	Number of Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Nine months ended September 30, 2006						
Balance at December 31, 2005	3,230,649	$ 6,461,298	$ 21,709,224	$ 4,308,242	$ (1,104,149)	$ 31,374,615
Comprehensive income						
Net income				1,577,372		1,577,372
Unrealized holding gain on available for sale securities, net of taxes					249,294	249,294
Total comprehensive income						1,826,666
Dividends				(488,107)		(488,107)
Issuance of capital stock	1,508,845	3,017,690	27,598,725			30,616,415
Balance, September 30, 2006	4,739,494	$ 9,478,988	$ 49,307,949	$ 5,397,507	$ (854,855)	$ 63,329,589
Nine months ended September 30, 2007						
Balance at December 31, 2006	4,739,494	$ 9,478,988	$ 49,463,307	$ 6,022,012	$ (680,962)	$ 64,283,345
Comprehensive income						
Net income				1,791,493		1,791,493
Unrealized holding gain on available for sale securities, net of taxes					459,538	459,538
Total comprehensive income						2,251,031
Dividends				(640,270)		(640,270)
Issuance of capital stock	7,350	14,700	85,812			100,512

Balance, September 30, 2007	4,746,844	$	9,493,688	$	49,549,119	$	7,173,235	$	(221,424)	$ 65,994,618

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash Flows from Operating Activities		
Net income	$ 1,791,493	$ 1,577,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion of investment premiums and discounts, net	142,909	181,110
Provision for loan losses	-	1,040,000
Gain on sale of other real estate owned	(86,473)	
Gain on redemption of investment security	(5,000)	-
Amortization of core deposit intangible	13,932	-
Depreciation and amortization	867,438	461,119
Loss on disposal of bank premises and equipment	2,896	-
Payment of fees to directors in common stock	49,961	24,928
Changes in assets and liabilities:		
Increase in deferred loan fees	284,154	348,296
Increase in accrued interest receivable	(988,075)	(756,829)
Increase in other assets	(158,269)	(16,015)
(Decrease) increase in accrued expenses and other liabilities	(257,665)	716,689
Net cash provided by operating activities	**1,657,301**	**3,576,670**
Cash Flows from Investing Activities		
Purchase of available for sale securities	(4,985,925)	-
Principal repayments on available for sale securities	9,981,571	10,152,884
Proceeds from redemptions of available for sale securities	2,005,000	-
Purchase of Federal Reserve Bank Stock	-	(650)
Purchase of Federal Home Loan Bank Stock	(938,900)	(1,430,500)
Net increase in loans	(134,826,902)	(92,980,090)
Purchase of bank premises and equipment	(4,144,980)	(657,844)
Capital improvements to other real estate owned	(156,700)	-
Proceeds from sale of other real estate owned	1,077,515	-
Net cash used in investing activities	**(131,989,321)**	**(84,916,200)**
Cash Flows from Financing Activities		
Net decrease in demand, savings and money market deposits	(691,603)	(5,181,818)
Net increase in time certificates of deposits	95,742,284	90,610,348
Proceeds from FHLB borrowings	66,971,000	93,718,000
Principal repayments of FHLB borrowings	(39,971,000)	(68,718,000)
Proceeds from issuance of common stock	50,550	30,591,487
Dividends paid on common stock	(639,939)	(404,057)
Net cash provided by financing activities	**121,461,292**	**140,615,960**
Net (decrease) increase in cash and cash equivalents	**(8,870,728)**	**59,276,430**

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

	Nine Months Ended September 30, 2007	2006
Cash and cash equivalents		
Beginning	55,474,539	15,967,605
Ending	$ 46,603,811	$ 75,244,035
Supplemental Disclosures of Cash Flow Information		
Cash paid for:		
Interest	$ 20,088,558	$ 12,355,752
Income taxes	$ 1,151,728	$ 1,319,020
Supplemental disclosures of noncash investing and financing activities:		
Transfer of loans to other real estate owned	$ -	$ 834,341
Unrealized holding gain on available for sale securities arising during the period	$ 741,190	$ 402,088
Dividends declared on common stock	$ 213,608	$ 213,277

See accompanying notes to consolidated financial statements.

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PATRIOT NATIONAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Basis of Financial Statement Presentation

The Consolidated Balance Sheet at December 31, 2006 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.

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, 2006.

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, 2007 are not necessarily indicative of the results of operations that may be expected for the remainder of 2007.

Note 2. Investments

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

	September 30, 2007	December 31, 2006
U. S. Government sponsored agency obligations	$ 16,829,278	$ 16,566,822
U. S. Government Agency and sponsored agency mortgage-backed securities	33,828,461	43,476,313
Money market preferred equity securities	10,038,031	7,050,000
Total Available for Sale Securities	$ 60,695,770	$ 67,093,135

The amortized cost, gross unrealized gains, gross unrealized losses and fair values of available for sale securities at September 30, 2007 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. Government sponsored agency obligations	$ 17,000,000	$ -	$ (170,722)	$ 16,829,278
U. S. Government Agency and sponsored agency mortgage-backed securities	34,014,874	87,993	(274,406)	33,828,461
Money market preferred equity securities	10,038,031	-	-	10,038,031
Total Available For Sale Securities	$ 61,052,905	$ 87,993	$ (445,128)	$ 60,695,770

At September 30, 2007, gross unrealized holding gains and gross unrealized holding losses on available for sale securities totaled $87,993 and $445,128, respectively. Of the securities with unrealized losses, there are nine U. S. Government sponsored agency obligations and 21 U. S. Government Agency and sponsored agency mortgage-backed securities that have unrealized losses for a period in excess of twelve months, with a combined current unrealized loss of $425,725. Management does not believe that any of the unrealized losses are other than temporary since they are the result of changes in the interest rate environment and they relate to debt and mortgage-backed securities issued by U.S. Government Agencies and sponsored agencies. Bancorp has the ability to hold these securities to maturity, if necessary, and expects to receive all contractual principal and interest related to these investments. As a result, management believes that these unrealized losses will not have a negative impact on future earnings or a permanent negative effect on capital.

Note 3. Loans

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

	September 30, 2007	December 31, 2006
Real Estate		
Commercial	$ 217,525,839	$ 166,799,341
Residential	99,280,420	91,077,687
Construction	277,857,142	203,828,453
Commercial	27,516,972	23,997,640
Consumer installment	1,144,568	1,251,300
Consumer home equity	25,430,500	26,933,277
Total Loans	648,755,441	513,887,698
Premiums on purchased loans	218,890	292,543
Net deferred fees	(1,949,808)	(1,665,654)
Allowance for loan losses	(5,597,620)	(5,630,432)
Loans receivable, net	$ 641,426,903	$ 506,884,155

Analysis of Allowance for Loan Losses

The changes in the allowance for loan losses for the periods shown are as follows:

	Three months ending September 30,		Nine months ending September 30,	
(Thousands of dollars)	2007	2006	2007	2006
Balance at beginning of period	$ 5,598	$ 5,510	$ 5,630	$ 4,588
Charge-offs	-	-	(32)	(1)
Recoveries	-	3	-	3
Net (charge-offs) recoveries	-	3	(32)	2
Provision charged to operations	-	117	-	1,040
Balance at end of period	$ 5,598	$ 5,630	$ 5,598	$ 5,630
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period.	0.00%	0.00%	-0.01%	0.00%

Note 4. Deposits

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

	September 30, 2007	December 31, 2006
Noninterest bearing	$ 57,690,185	$ 56,679,836
Interest bearing		
NOW	25,103,584	26,881,927
Savings	30,852,481	25,993,452
Money market	36,152,990	40,935,628
Time certificates, less than $100,000	301,359,220	248,414,014
Time certificates, $100,000 or more	205,343,885	162,546,807
Total interest bearing	598,812,160	504,771,828
Total Deposits	$ 656,502,345	$ 561,451,664

Note 5. Borrowings

In addition to the outstanding borrowings disclosed in the consolidated balance sheet, the Bank has the ability to borrow approximately $74.3 million in additional advances from the Federal Home Loan Bank of Boston which includes a $2.0 million overnight line of credit. The Bank also has arranged a $3.0 million overnight line of credit from a correspondent bank and $10.0 million under a repurchase agreement; no amounts were outstanding under these two arrangements at September 30, 2007.

Note 6. Income per share

Bancorp is required to present basic income per share and diluted income per share in its consolidated 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 reflects additional common shares that would have been outstanding if potentially dilutive common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by Bancorp relate to outstanding stock options and are determined using the treasury stock method. 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, 2007 and 2006:

Three months ended September 30, 2007

	Net Income	Shares	Amount
Basic Income Per Share			
Income available to common shareholders	$ 740,725	4,744,453	$ 0.16
Effect of Dilutive Securities			
Stock Options outstanding	-	30,353	-
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	$ 740,725	4,774,806	$ 0.16

Three months ended September 30, 2006

	Net Income	Shares	Amount
Basic Income Per Share			
Income available to common shareholders	$ 670,638	3,271,472	$ 0.20
Effect of Dilutive Securities			
Stock Options outstanding	-	25,188	-
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	$ 670,638	3,296,660	$ 0.20

Nine months ended September 30, 2007

	Net Income	Shares	Amount
Basic Income Per Share			
Income available to common shareholders	$ 1,791,493	4,741,182	$ 0.38
Effect of Dilutive Securities			
Stock Options outstanding	-	34,536	-
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	$ 1,791,493	4,775,718	$ 0.38

Nine months ended September 30, 2006

	Net Income	Shares	Amount
Basic Income Per Share			
Income available to common shareholders	$ 1,577,372	3,244,162	$ 0.49
Effect of Dilutive Securities			
Stock Options outstanding	-	39,294	(0.01)
Diluted Income Per Share			
Income available to common shareholders plus assumed conversions	$ 1,577,372	3,283,456	$ 0.48

Note 7. Other Comprehensive Income

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, 2007			Nine Months Ended September 30, 2007		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Unrealized holding gain arising during the period	$ 479,301	$ (182,135)	$ 297,166	$ 741,190	$ (281,652)	$ 459,538
Reclassification adjustment for gains recognized in income	-	-	-	-	-	-
Unrealized holding gain on available for sale securities, net of taxes	$ 479,301	$ (182,135)	$ 297,166	$ 741,190	$ (281,652)	$ 459,538

	Three Months Ended September 30, 2006			Nine Months Ended September 30, 2006		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Unrealized holding gain arising during the period	$ 840,046	$ (319,217)	$ 520,829	$ 402,088	$ (152,794)	$ 249,294
Reclassification adjustment for gains recognized in income	-	-	-	-	-	-
Unrealized holding gain on available for sale securities, net of taxes	$ 840,046	$ (319,217)	$ 520,829	$ 402,088	$ (152,794)	$ 249,294

Note 8. Financial Instruments with Off-Balance Sheet Risk

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

The contractual amounts of commitments to extend credit and standby letters of credit represent the amounts of potential accounting loss should the contracts be fully drawn upon, the customers default and the values of any existing collateral become worthless. Bancorp uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis. Management believes that Bancorp controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

Financial instruments whose contractual amounts represent credit risk are as follows at September 30, 2007:

Commitments to extend credit:		
Future loan commitments	$	73,442,968
Unused lines of credit		60,157,558
Undisbursed construction loans		124,215,962
Financial standby letters of credit		1,248,049
	$	259,064,537

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates, or other termination clauses, and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by Bancorp upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include residential and commercial property, deposits and securities.

Standby letters of credit are written commitments issued by Bancorp to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Newly issued or modified guarantees that are not derivative contracts are recorded on Bancorp's consolidated balance sheet at the fair value at inception. No liability related to guarantees was required to be recorded at September 30, 2007.

Note 9. Income Taxes

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*. FIN 48 applies to all tax positions related to income taxes subject to SFAS No. 109, *Accounting for Income Taxes*. This includes tax positions considered to be "routine" as well as those with a high degree of uncertainty. FIN 48 utilizes a two-step approach for evaluating tax positions. Recognition of the benefit (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied (i.e., the position is more-likely-than-not to be sustained). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position must meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Effective January 1, 2007, Bancorp has adopted the provisions of FIN 48 and has analyzed its federal and significant state filing positions. The periods subject to examination for Bancorp's federal returns are the tax years 2004 through 2006. The periods subject to examination for Bancorp's significant state return, which is Connecticut, are the tax years 2004 through 2006. Bancorp believes that its income tax filing positions and deductions will be sustained upon examination and does not anticipate any adjustments that will result in a material change in its financial statements. As a result, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48, nor was there a cumulative effect related to adopting FIN 48 recorded.

Bancorp's policy for recording interest and penalties related to uncertain tax positions is to record such items as part of its provision for federal and state income taxes.

Note 10. Recent Accounting Pronouncements

In February 2007, FASB issued Statement of Financial Accounting Standards ("SFAS") No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB No. 155 ("SFAS 159")*. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159 is effective for Bancorp beginning January 1, 2008. Management is evaluating the impact of the adoption of SFAS 159 on Bancorp's financial position and results of operation.

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

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

Certain statements contained in Bancorp’s public reports, including this report, and in particular in "Management's Discussion and Analysis of Financial Condition and Results of Operations," 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 services companies, including possible further encroachment of non-banks on services traditionally provided by banks, (6) the ability of competitors that 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, (8) the effect of any decision by Bancorp to engage in any business not historically operated by it and (9) the ability of Bancorp to timely and successfully deploy the capital raised in its 2006 offering and any future offerings. Other such factors may be described in Bancorp's future 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.

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. The adequacy of the general component is measured using a risk rating system. Under this system, each loan is assigned a risk rating between one and nine; "one" being the least risk and "nine" reflecting the most risk or a complete loss. Risk ratings are assigned based upon the recommendations of the credit analyst and originating loan officer, and are confirmed by the loan committee at the initiation of the transactions. They are later reviewed and changed, when necessary, during the life of the loan. Each of these risk ratings has a corresponding loan loss factor which is based on historical loss experience adjusted for qualitative factors. These 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. Finally, 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 such as 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. Loan quality control 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.

SUMMARY

Bancorp's net income of $741,000 ($0.16 basic and diluted income per share) for the quarter ended September 30, 2007 represents an increase of $70,000, or 10%, as compared to net income of $671,000 ($0.20 basic and diluted income per share) for the quarter ended September 30, 2006. For the nine-month period ended September 30, 2007, net income of $1,791,000 ($0.38 basic and diluted income per share) represents an increase of $214,000, or 14%, as compared to net income of $1,577,000 ($0.49 basic income per share and $0.48 diluted income per share) for the nine months ended September 30, 2006.

Total assets increased $123.5 million from $646.0 million at December 31, 2006 to $769.5 million at September 30, 2007. Cash and cash equivalents decreased $8.9 million to $46.6 million at September 30, 2007 as compared to $55.5 million at December 31, 2006. The available for sale securities portfolio decreased $6.4 million to $60.7 million at September 30, 2007 from $67.1 million at December 31, 2006. The net loan portfolio increased $134.5 million from $506.9 million at December 31, 2006 to $641.4 million at September 30, 2007. Deposits increased $95.0 million to $656.5 million at September 30, 2007 from $561.5 million at December 31, 2006; borrowings increased $27.0 million during the same period. Total shareholders' equity increased $1.7 million from $64.3 million at December 31, 2006 to $66.0 million at September 30, 2007.

FINANCIAL CONDITION

Assets

Bancorp's total assets increased $123.5 million, or 19%, from $646.0 million at December 31, 2006 to $769.5 million at September 30, 2007. The growth in the balance sheet was funded by an increase in deposits which was largely attributable to promotions associated with the opening of three branches in the first quarter and one in the second quarter, as well as a $27 million increase in FHLB borrowings. Cash and cash equivalents decreased $8.9 million to $46.6 million at September 30, 2007 as compared to $55.5 million at December 31, 2006. Cash and due from banks and Federal funds sold increased $3.2 million and $12.0 million, respectively, while short term investments decreased $24.0 million.

Investments

Available for sale securities decreased $6.4 million, or 10%, from $67.1 million at December 31, 2006 to $60.7 million at September 30, 2007. The purchase of money market preferred equity securities was exceeded by principal repayments on mortgage backed securities and the redemption of two money market preferred securities, resulting in an overall decrease in the portfolio.

Loans

Bancorp's net loan portfolio increased $134.5 million, or 27%, from $506.9 million at December 31, 2006 to $641.4 million at September 30, 2007. The significant increases include $74.0 million in construction loans and $50.7 million in commercial real estate loans.

The sustained growth in the loan portfolio reflects the continued demand for real estate based financing in the Fairfield County, Connecticut and Westchester County, New York areas where the Bank primarily conducts its lending business. The Bank offers a competitively priced and expanded product line and plans to further increase its lending sales force as it expands its franchise which should result in sustained strong loan growth, but from a wider market area.

At September 30, 2007, the net loan to deposit ratio was 98% and the net loan to total assets ratio was 83%. At December 31, 2006, these ratios were 90% and 78%, respectively.

Allowance for Loan Losses

Based on management's evaluation of the allowance for loan losses, management believes that the allowance of $5.6 million at September 30, 2007 and December 31, 2006 is adequate, but not excessive, under prevailing economic conditions, to absorb losses on existing loans.

Non-Accrual, Past Due and Restructured Loans

The following table presents non-accruing loans and loans past due 90 days or more and still accruing:

(Thousands of dollars)	September 30, 2007	December 31, 2006
Loans delinquent over 90 days still accruing	$ 1,495	$ 1,897
Non accruing loans	3,852	2,904
Total	$ 5,347	$ 4,801
% of Total Loans	0.83%	0.93%
% of Total Assets	0.69%	0.74%

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Potential Problem Loans

The $3.9 million in nonaccrual loans at September 30, 2007 represents exposure relating to two borrowers. The first relationship is comprised of one loan secured by real estate in the amount of $1.0 million which was placed on non-accrual status at the end of the third quarter. A foreclosure action has been initiated; however, no specific reserve is required at this time. Based on the value of the underlying collateral, management does not anticipate that the Bank will incur a loss on the settlement of this loan. The second relationship is comprised of three loans totaling $2.8 million, of which $999,000 is guaranteed by the U.S. Small Business Administration; additional assets consisting of commercial and residential real estate and business assets also serve as collateral for the entire balance. Based on Management's analysis of these loans for impairment, a specific reserve in the amount of $250,000 has been established for these loans. The Bank has commenced foreclosure proceedings; however, the Bank and Borrower are working on a possible debt restructure.

Loans delinquent over 90 days and still accruing were comprised of five loans totaling $1.5 million. Two of these loans which total $1.45 million are past maturity; one in the amount of $950,000 was subsequently paid in full. The Bank has approved an extension for the second loan in the amount of $500,000.

At September 30, 2007, Bancorp had no loans, other than those disclosed in the above, for which management has significant doubts as to the ability of the borrower to comply with the present repayment terms.

Deposits

Total deposits increased $95.0 million or 17% from $561.5 million at December 31, 2006 to $656.5 million at September 30, 2007. During the nine months ended September 30, 2007 the Bank opened four new branches which contributed significantly to the growth in deposits. The Bank continues to execute its strategic plan and intends to open additional branches in Fairfield and Westchester Counties as quality locations become available. Management anticipates deposit growth will fluctuate based on future branching activities. Non-interest bearing deposits increased $1.0 million, or 2%, since December 31, 2006 due to favorable fluctuations in commercial demand and cashier checks, partially offset by unfavorable fluctuations in personal demand accounts. Interest bearing deposits increased $94.0 million, or 19%, from $504.8 million at December 31, 2006 to $598.8 million at September 30, 2007. Certificates of deposit increased $95.7 million or 23% primarily due to attractive rates offered by the Bank in conjunction with the grand openings of the four new branches as well as to participation in the CDARS program. Savings accounts increased $4.9 million or 19% due primarily to increases in a competitively priced commercial statement saving product. NOW accounts and money market fund accounts decreased $1.8 million and $4.8 million, respectively, some of which were transferred to higher rate certificates of deposit.

Borrowings

At September 30, 2007, total borrowings were $43.2 million. This reflects an increase of $27.0 million since December 31, 2006; Federal Home Loan Bank advances maturing earlier in the year were repaid; however, during the third quarter the Bank took advantage of additional Federal Home Loan Bank borrowings as an attractive lower rate alternative funding source.

Capital

Capital increased $1.7 million as income for the nine months ended September 30, 2007 combined with an improvement in the market value of available for sale securities was partially offset by the declaration of quarterly dividends.

Off-Balance Sheet Arrangements

Bancorp's off-balance sheet arrangements, which primarily consist of commitments to lend, increased by $62.8 million from $196.3 million on December 31, 2006 to $259.1 million on September 30, 2007 due to increases in approved loan commitments, lines of credit, and undisbursed construction loans.

RESULTS OF OPERATIONS

Interest and dividend income and expense

The following tables present average balance sheets (daily averages), interest income, interest expense and the corresponding yields earned and rates paid for major balance sheet components:

	Three months ended September 30,					
	2007			2006		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
	(dollars in thousands)					
Interest earning assets:						
Loans	$ 619,672	$ 12,280	7.93%	$ 454,672	$ 8,962	7.88%
Federal funds sold and other cash equivalents	26,414	342	5.18%	12,516	166	5.31%
Investments	64,718	676	4.18%	74,646	729	3.91%
Total interest earning assets	710,804	13,298	7.48%	541,834	9,857	7.28%
Cash and due from banks	3,889			4,902		
Premises and equipment, net	6,515			2,371		
Allowance for loan losses	(5,598)			(5,513)		
Other assets	10,283			7,020		
Total Assets	$ 725,893			$ 550,614		
Interest bearing liabilities:						
Deposits	$ 586,834	$ 6,843	4.66%	$ 420,813	$ 4,153	3.95%
FHLB advances	3,706	46	4.96%	36,837	491	5.33%
Subordinated debt	8,248	175	8.49%	8,248	177	8.58%
Other borrowings	163	2	4.91%	46	1	8.70%
Total interest bearing liabilities	598,951	7,066	4.72%	465,944	4,822	4.14%
Demand deposits	55,060			47,063		
Accrued expenses and other liabilities	5,949			4,207		
Shareholders' equity	65,933			33,400		
Total liabilities and equity	$ 725,893			$ 550,614		
Net interest income		$ 6,232			$ 5,035	
Interest margin			3.51%			3.72%
Interest spread			2.76%			3.14%

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	Nine months ended September 30,					
	2007			2006		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
	(dollars in thousands)					
Interest earning assets:						
Loans	$ 574,823	$ 33,887	7.86%	$ 428,211	$ 24,473	7.62%
Federal funds sold and other cash equivalents	48,603	1,890	5.18%	8,348	309	4.94%
Investments	67,391	2,080	4.12%	77,382	2,268	3.91%
Total interest earning assets	690,817	37,857	7.31%	513,941	27,050	7.02%
Cash and due from banks	4,206			5,729		
Premises and equipment, net	5,877			2,348		
Allowance for loan losses	(5,618)			(5,220)		
Other assets	9,922			6,695		
Total Assets	$ 705,204			$ 523,493		
Interest bearing liabilities:						
Deposits	$ 568,845	$ 19,435	4.56%	$ 401,707	$ 10,834	3.60%
FHLB advances	4,509	167	4.94%	29,045	1,100	5.05%
Subordinated debt	8,248	519	8.39%	8,248	497	8.03%
Other borrowings	55	2	4.85%	129	5	5.17%
Total interest bearing liabilities	581,657	20,123	4.61%	439,129	12,436	3.78%
Demand deposits	52,751			47,727		
Accrued expenses and other liabilities	5,403			4,176		
Shareholders' equity	65,393			32,461		
Total liabilities and equity	$ 705,204			$ 523,493		
Net interest income		$ 17,734			$ 14,614	
Interest margin			3.42%			3.79%
Interest spread			2.70%			3.24%

The following rate volume analysis reflects the impact that changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities had on net interest income during the periods indicated. Information is provided in each category with respect to changes attributable to changes in volume (changes in volume multiplied by prior rate), changes attributable to changes in rates (changes in rates multiplied by prior volume) and the total net change. The change resulting from the combined impact of volume and rate is allocated proportionately to the change due to volume and the change due to rate.

	Three months ended September 30, 2007 vs 2006 Fluctuations in Interest Income/Expense Due to change in:			Nine months ended September 30, 2007 vs 2006 Fluctuations in Interest Income/Expense Due to change in:		
	Volume	Rate	Total	Volume	Rate	Total
	(dollars in thousands)			(dollars in thousands)		
Interest earning assets:						
Loans	$ 3,261	$ 57	$ 3,318	$ 8,621	$ 793	$ 9,414
Federal funds sold and other cash equivalents	204	(28)	176	1,565	16	1,581
Investments	(301)	248	(53)	(363)	175	(188)
Total interest earning assets	3,164	277	3,441	9,823	984	10,807
Interest bearing liabilities:						
Deposits	$ 1,848	$ 842	$ 2,690	$ 5,242	$ 3,359	$ 8,601
FHLB advances	(413)	(32)	(445)	(910)	(23)	(933)
Subordinated debt	-	(2)	(2)	-	22	22
Other borrowings	4	(3)	1	(3)	-	(3)
Total interest bearing liabilities	1,439	805	2,244	4,329	3,358	7,687
Net interest income	$ 1,725	$ (528)	$ 1,197	$ 5,494	$ (2,374)	$ 3,120

An increase in average interest earning assets of $169.0 million, or 31%, combined with an increase in interest rates in the investment portfolio resulted in an increase in Bancorp’s interest income of $3.4 million or 35% for the quarter ended September 30, 2007 as compared to the same period in 2006. Interest and fees on loans increased $3.3 million, or 37%, from $9.0 million for the quarter ended September 30, 2006 to $12.3 million for the quarter ended September 30, 2007. This increase was primarily the result of the increase in the average outstanding balances of the loan portfolio followed by the impact of an increase in loan fee income. Interest income on investments decreased slightly due to a decrease in the size of the portfolio partially offset by increases in the rates of some investments. Interest income on federal funds sold and other cash equivalents increased as a result of an increase in average balances followed by a decrease in short term interest rates. For the nine months ended September 30, 2007, interest and dividend income was $37.9 million which represents an increase of $10.8 million, or 40%, as compared to interest and dividend income of $27.1 million for the same period last year. This increase was due primarily to an increase in average balances followed by an increase in the yield on earning assets.

Total interest expense for the quarter ended September 30, 2007 of $7.1 million represents an increase of $2.2 million, or 47%, as compared to the same period last year. This increase in interest expense is the result of higher average balances of interest bearing liabilities of $133.0 million or 29% combined with higher interest rates paid on deposits. Average balances of deposit accounts increased $166.0 million, or 39%; this increase combined with an increase in rates paid on deposits resulted in an increase in interest expense on deposits of $2.7 million, or 65%. Average FHLB advances decreased significantly, resulting in a corresponding decrease in FHLB interest expense; and the decrease in the index to which the junior subordinated debt is tied resulted in a slight decrease in interest expense. For the nine months ended September 30, 2007, total interest expense increased $7.7 million, or 62%, to $20.1 million from $12.4 million for the nine months ended September 30, 2007. This increase in interest expense was due to the reasons cited earlier.

As a result of the above, Bancorp's net interest income increased $1.2 million, or 24%, to $6.2 million for the three months ended September 30, 2007 as compared to $5.0 million for the same period last year; the net interest margin for the three months ended September 30, 2007 was 3.51% as compared to 3.72% for the three months ended September 30, 2006. For the nine months ended September 30, 2007, net interest income increased to $3.1 million, or 21%, to $17.7 million as compared to $14.6 million for the nine months ended September 30, 2006; the net interest margin for the nine months ended September 30, 2007 was 3.42% as compared to 3.79% for the nine months ended September 30, 2006. The decrease in the net interest margin for the three and nine months ended September 30, 2007 is the result of paying increasingly competitive rates on certificates of deposit; management expects an improvement in the net interest margin as maturing premium rate certificates of deposit renew at lower rates.

Provision for loan losses

Based on management's most recent evaluation of the adequacy of the allowance for loan losses, no provision for loan losses was charged to operations for the three and nine months ended September 30, 2007, as compared to $117,000 and $1,040,000, respectively, for the same periods last year.

An analysis of the changes in the allowance for loan losses is presented under "Allowance for Loan Losses."

Non-interest income

Non-interest income decreased $81,000, or 13%, from $633,000 for the quarter ended September 30, 2006 to $552,000 for the quarter ended September 30, 2007. Included in the results for the quarter ended September 30, 2007 is a gain of $86,000 on the sale of a property which the Bank acquired through foreclosure at the end of the third quarter of 2006. A decrease in the volume of loans placed with outside investors resulted in a decrease in mortgage brokerage and referral fee income of $240,000 and a decrease in loan origination and processing fee income of $8,000. Fees and service charges for the three months ended September 30, 2007 increased $47,000, or 28%, as compared to the same period last year. This increase was primarily due to an increase in service charges assessed on deposit accounts resulting from increases in insufficient and uncollected funds transaction volumes. Other income increased $33,000, or 121% as compared to the same period last year primarily as a result of significant increases in the volume of debit card transaction fees and ATM surcharges.

For the nine months ended September 30, 2007, non-interest income decreased $181,000, or 10%, to $1.7 million as compared to $1.8 million for the nine months ended September 30, 2006. This variance was due to similar reasons cited above.

Non-interest expenses

Non-interest expenses increased $1.1 million, or 24%, to $5.6 million for the quarter ended September 30, 2007 from $4.5 million for the quarter ended September 30, 2006. Salaries and benefits expense increased $210,000, or 8%, to $3.0 million for the three months ended September 30, 2007 from $2.8 million for the same period last year. This increase was due to staffing additions for two branches that were opened in the last quarter of 2006, four branches opened in the first half of 2007, additional loan officers and credit administration support personnel and the establishment of a formal marketing department. These increases were partially offset by decreases in bonuses and sales and incentive compensation. Occupancy and equipment expense, net, increased $454,000, or 65% to $1.1 million for the quarter ended September 30, 2007 from $695,000 for the same period in 2006 due to the leasing of additional space for the new branches mentioned above as well as depreciation expenses associated with outfitting the related branches. Data processing and other outside services increased $165,000, or 56%, from $293,000 for the quarter ended September 30, 2006, to $458,000 for the quarter ended September 30, 2007. This increase was primarily due to increases in data processing services, personnel placement fees and consulting expenses. Other noninterest expenses increased $249,000 or 65% from $383,000 for the three months ended September 30, 2006 to $632,000 for the three months ended September 30, 2007; included in this variance is an increase in FDIC deposit insurance assessments of $110,000.

For the nine months ended September 30, 2007, non-interest expenses increased $3.6 million, or 28%, to $16.5 million from $12.9 million for the same period in 2006. Salaries and benefits increased $1.5 million to $9.2 million; occupancy and equipment expense, net increased $1.1 million to $3.1 million; data processing and other outside services increased $258,000 to $1.4 million; and advertising and promotional expenses increased $134,000 to $583,000. Other noninterest expenses increased $649,000 or 57% from $1.1 million for the nine months ended September 30, 2006 to $1.8 million for the nine months ended September 30, 2007. The reasons for these increases are the same as those cited above in the discussion comparing the quarter ended September 2007 to the quarter ended September 30, 2006.

Income Taxes

Bancorp recorded income tax expense of $470,000 for the quarter ended September 30, 2007 as compared to $390,000 for the quarter ended September 30, 2006. For the nine months ended September 30, 2007 and September 30, 2006, income tax expenses were $1.1 million and $916,000, respectively. These changes were related primarily to the change in pre-tax income and the exclusion, for state tax purposes, of certain holding company expenses. The effective tax rate for both the quarter and nine months ended September 30, 2007 was 39%; the effective tax rate for both the quarter and nine months ended September 30, 2006 was 37%.

LIQUIDITY

Bancorp's liquidity ratio was 14% and 23% at September 30, 2007 and September 30, 2006, 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 provide sufficient liquidity to cover loan demand, potential fluctuations in deposit accounts and to meet other anticipated cash operating requirements.

CAPITAL

The following table illustrates Bancorp's regulatory capital ratios at September 30, 2007 and December 31, 2006 respectively:

	September 30, 2007	December 31, 2006
Total Risk-based Capital	12.72%	15.34%
Tier 1 Risk-based Capital	11.81%	14.22%
Leverage Capital	10.04%	11.63%

The following table illustrates the Bank's regulatory capital ratios at September 30, 2007 and December 31, 2006 respectively:

	September 30, 2007	December 31, 2006
Total Risk-based Capital	12.54%	15.02%
Tier 1 Risk-based Capital	11.63%	13.90%
Leverage Capital	9.88%	11.37%

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. 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%. Based on the above ratios, the Bank is considered to be "well capitalized" at September 30, 2007 under applicable regulations.

Management continuously assesses the adequacy of the Bank's capital to ensure that the Bank remains a "well capitalized" institution. Management's strategic and capital plans contemplate various options to maintain the "well capitalized" classification.

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 with the same magnitude as the prices of goods and services. Notwithstanding this, inflation can directly affect the value of loan collateral, in particular, real estate. Inflation, or disinflation, could significantly affect Bancorp's earnings in future periods.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is defined as the sensitivity of income to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices and other market-driven rates or prices. 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.

Qualitative Aspects of Market Risk

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. Therefore, deposit balances may 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 Management Asset and Liability Committee consisting of senior management personnel. The committee meets on a monthly basis, but may convene more frequently as conditions dictate. The committee reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk. This committee reports to the Board of Directors on a monthly basis regarding its activities. In addition to the Management Asset and Liability Committee, there is a Board Asset and Liability Committee ("ALCO") which meets quarterly. ALCO monitors the interest rate risk analyses, reviews investment transactions during the period and determines compliance with Bank policies.

Quantitative Aspects of Market Risk

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

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

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

Management has established interest rate risk guidelines measured by behavioral GAP analysis calculated at the one year cumulative GAP level and a net interest income and economic value of portfolio equity simulation model measured by a 200 basis point interest rate shock.

The table below sets forth an approximation of Bancorp's exposure to changing interest rates using management's behavioral GAP analysis and as a percentage of estimated net interest income and estimated net portfolio value using interest income simulation. The calculations use projected repricings of assets and liabilities at September 30, 2007 and December 31, 2006 on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments.

	Basis Points	Interest Rate Risk Guidelines	September 30, 2007	December 31, 2006
Gap percentage total		+/- 15%	-6.04%	1.53%
Net interest income	200	+/- 15%	3.43%	11.22%
	-200	+/- 15%	-3.98%	-12.04%
Net portfolio value	200	+/- 25%	-9.29%	-3.25%
	-200	+/- 25%	5.89%	1.19%

Bancorp's net interest income benefited from the growth in the balance sheet during 2007; the increase in net interest income was partially offset by a compressed interest margin due to more competitive pricing on loans and higher rates on deposit accounts. All of these factors contributed to higher levels of net interest income and net portfolio value in the base case scenario at September 30, 2007 as compared to December 31, 2006 using Bancorp's interest income simulation model. Bancorp's interest rate risk position was within all of its interest rate risk guidelines at September 30, 2007. The interest rate risk position is monitored on an ongoing basis and management reviews strategies designed to maintain all categories within guidelines.

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

Net Interest Income and Economic Value
Summary Performance

September 30, 2007

	Net Interest Income			Net Portfolio Value		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+ 200	25,907	861	3.44%	72,716	(7,448)	-9.29%
+ 100	25,486	440	1.76%	76,397	(3,767)	-4.70%
BASE	25,046			80,164		
- 100	24,640	(406)	-1.62%	83,366	3,202	3.99%
- 200	24,051	(995)	-3.97%	84,886	4,722	5.89%

December 31, 2006

	Net Interest Income			Net Portfolio Value		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+ 200	23,940	2,415	11.22%	68,230	(2,290)	-3.25%
+ 100	22,750	1,225	5.69%	69,491	(1,029)	-1.46%
BASE	21,525			70,520		
- 100	20,307	(1,218)	-5.66%	71,533	1,013	1.44%
- 200	18,934	(2,591)	-12.04%	71,359	839	1.19%

Item 4. 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, 2007 that has materially affected, or is reasonably likely to materially affect, Bancorp's internal control over financial reporting.

PART II - OTHER INFORMATION.

Item 1A. Risk Factors

During the three and nine months ended September 30, 2007, there were no material changes to the risk factors relevant to Bancorp's operations, which are described in the Annual Report on Form 10-K for the year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 6. Exhibits

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 (incorporated by reference to Exhibit 3(i)(A) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2004 (Commission File No. 000-29599)).
3(i)(B)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated June 15, 2006 (incorporated by reference to Exhibit 3(i)(B) to Bancorp's Quarterly Report of Form 10-Q for the quarter ended September 30, 2006 (commission File No. 000-29599)).
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)).

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 January 1, 2007 among Angelo De Caro and Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(4) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
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 January 1, 2007 among Robert F. O'Connell and Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(6) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(8)	Employment Agreement dated as of January 1, 2007 between Patriot National Bank and Marcus Zavattaro (incorporated by reference to Exhibit 10(a)(8) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (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 January 1, 2007 among the Bank, Bancorp and Charles F. Howell (incorporated by reference to Exhibit 10(a)(10) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).

No.	Description
10(a)(11)	Change of Control Agreement, dated as of January 1, 2007 among Charles F. Howell, Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(11) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(12)	2005 Director Stock Award Plan (incorporated by reference to Exhibit 10(a)(12) to Bancorp's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (Commission File No. 000-295999)).
10(a)(13)	Change of Control Agreement, dated as of January 1, 2007 between Martin G. Noble and Patriot National Bank(incorporated by reference to Exhibit 10(a)(13) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(14)	Change of Control Agreement, dated as of January 1, 2007 among Philip W. Wolford, Patriot National Bank and Bancorp(incorporated by reference to Exhibit 10(a)(14) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
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)).
14	Code of Conduct for Senior Financial Officers (incorporated by reference to Exhibit 14 to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2004 (Commission File No. 000-29599).
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)).
31(1)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31(2)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications

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 09, 2007