PATRIOT NATIONAL BANCORP INC
Form 10-K
March 31, 2009

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10 – K

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

For the Fiscal Year Ended December 31, 2008

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

Commission file number 000-29599

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

Connecticut	06-1559137
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
900 Bedford Street	
Stamford, Connecticut	06901
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(203) 324-7500

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

Securities registered under Section 12(g) of the Exchange Act: Common Stock, par value $2.00 per share

Indicate by check mark if the registrant in a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yeso Noþ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of 15(d) of the Securities Exchange Act of 1934. Yeso Noþ

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 þ No o

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

Check whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer in Rule 12(b) of the Exchange Act.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12B-2 of the Act).
Yes o No þ

Aggregate market value of the voting stock held by nonaffiliates of the registrant as of June 30, 2008 based on the last sale price as reported on the NASDAQ Global Market: $ 56,098,269.

Number of shares of the registrant's Common Stock, par value $2.00 per share, outstanding as of February 28, 2009: 4,755,114.

Documents Incorporated by Reference

Proxy Statement for 2009 Annual Meeting of Shareholders. (A definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Form 10-K.)

Incorporated into Part III of this Form 10-K

Patriot National Bancorp, Inc.
2008 Form 10-K Annual Report

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"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 Operation," may be forward looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on Bancorp's interest earning assets and the interest paid on its interest bearing liabilities, (2) the timing of repricing of Bancorp's interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the effect of changes in regulations applicable to Bancorp and the Bank and the conduct of its business, (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks, (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 effect of Bancorp's opening of branches, (8) the effect of any decision by Bancorp to engage in any business not historically operated by it (9) the ability of Bancorp to raise additional capital in the future and successfully deploy the funds raised, (10) the state of the economy and real estate values in Bancorp's market areas, and the consequent affect on the quality of Bancorp's loans, and (11) the recently enacted Emergency Economic Stabilization Act of 2008 which is expected to have a profound effect on the financial services industry and could dramatically change the competitive environment of Bancorp. Other such factors may be described in Bancorp's other filings with the SEC.

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

PART I

Item 1. Business

General

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

The Bank was granted preliminary approval by the Comptroller of the Currency (the “OCC”) on March 5, 1993. It received its charter and com−menced operations as a national bank on August 31, 1994. Since then, the Bank has opened fifteen branch offices in Connecticut. The Bank also expanded into New York State through the purchase of a small branch office in New York City and the opening of branch offices in Bedford and Scarsdale, both located in Westchester County, New York.

On June 30, 1999, the Bank through its wholly-owned subsidiary, PinPat Acquisition Corporation, acquired all of the outstanding capital stock of Pinnacle Financial Corp., a Connecticut corporation, Pinnacle Financial Corp., a New Jersey corporation, and Pinnacle Financial Corp., a New York corporation (collectively, “Pinnacle”), a residential mortgage broker. Pinnacle surrendered its mortgage licenses and the mortgage brokerage business of Pinnacle is now conducted through the lending function of Patriot National Bank.

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

On November 17, 2006 the Bank acquired a small branch office and related deposits at 45 West End Avenue, New York, New York, from Millennium bcpbank, a national bank headquartered in Newark, New Jersey. The Bank assumed the existing lease and operates from the branch at 45 West End Avenue. The acquisition permitted the Bank to establish two additional branches in New York State.

On April 1, 2008, the Bank acquired a 20% interest in a de novo insurance agency. The 2008 impact on the Bank’s operations was minimal.

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

Commercial Banking

The Bank conducts business at its main office located at 900 Bedford Street in Stamford, Connecticut and at other Connecticut branch offices located at: 838 High Ridge Road in Stamford, 100 Mason Street in Greenwich, 184 Sound Beach Avenue in Old Greenwich, 16 River Street and 365 Westport Avenue in Norwalk, One Danbury Road and 5 River Road in Wilton, 800 Post Road in Darien, 3695 Post Road in Southport, 771 Boston Post Road in Milford, 1127 Post Road and 1755 Black Rock Turnpike in Fairfield, 945 White Plains Road in Trumbull, 370 Post Road East in Westport and 3552 Main Street in Stratford, and New York State branch offices located at: 45 West End Avenue in New York City, 432 Old Post Road in Bedford and 495 Central Park Avenue in Scarsdale. The Bank also operates a loan origination office at 1177 Summer Street in Stamford, Connecticut.

The Bank offers a broad range of consumer and commercial banking services with an emphasis on serving the needs of individuals, small and medium-sized businesses and professionals. The Bank offers consumer and commercial deposit accounts that include: checking accounts, interest-bearing "NOW" accounts, insured money market accounts, time certificates of deposit, savings accounts, IRA's (Individual Retirement Accounts) and HSA's (Health Savings Accounts). Other services include money orders, traveler's checks, ATM's (automated teller machines), internet banking, bill paying, remote deposit capture and debit cards. The Bank is a member of CDARS (Certificates of Deposit Account Registry) whereby individuals or organizations can place large deposits into smaller-denomination CD's in multiple institutions that can be insured for amounts larger than the FDIC limits. The single bank FDIC limits have temporarily been increased to $250,000 per eligible account through December 31, 2009. In addition, the Bank may in the future offer other financial services.

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

Competition

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

The customer base of the Bank generally is diversified so that there is not a concentration of either loans or deposits within a single industry, a group of industries, a single person or groups of people. The Bank in recent years has developed a concentration in construction lending, a portfolio the Bank is planning to reduce in relative size. The Bank is not dependent on one or a few major customers for either of its deposit or lending activities, the loss of any one of which would have a material adverse effect on the business of the Bank.

Residents and businesses in Stamford, Greenwich, Norwalk, Wilton, Darien, Southport, Fairfield, Trumbull, Westport, Milford and Stratford, Connecticut provide the majority of the Bank’s deposits. The Bank has expanded its footprint by establishing branch offices in the Westchester County, New York towns of Bedford and Scarsdale, as well as a branch in New York City. The Bank has focused its attention on serving the segments of its market area historically served by community banks. The Bank competes in its market by providing a high level of personalized and responsive banking service for which the Bank believes there is a need.

The Bank’s loan customers extend beyond the towns and cities in which the Bank has branch offices that include nearby towns in Fairfield and New Haven Counties in Connecticut, and Westchester County, New York City and Long Island, New York, although the Bank’s loan business is not necessarily limited to these areas. The concentration of the loan portfolio in construction lending is indicative of the specialty the Bank developed since its founding in 1994. The Bank’s plans for future lending contemplate the diversification of the portfolio away from its historical emphasis on construction lending. While the Bank does not currently hold or intend to attract significant deposit or loan business from major corporations with headquarters in the Fairfield County area, the Bank believes that the service, professional and related busi–nesses which have been attracted to this area, as well as the individuals that reside in this area, represent current and potential customers of the Bank.

In the normal course of business and subject to applicable government regulations, the Bank invests a portion of its assets in investment securities, which may include certain debt and equity securities, including government securities. An objective of the Bank’s investment policy is to seek to optimize its return on assets while limiting its exposure to interest rate movements and credit risk as well as maintaining adequate levels of liquidity. The Bank’s investment portfolio is comprised primarily of government sponsored agency and government agency issues.

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

The cities of Stamford and Norwalk and the towns of Greenwich, Wilton, Darien, Southport, Milford, Fairfield, Trumbull, Westport and Stratford are presently served by over 270 branches of commercial and savings banks along with 19 in the New York towns of Bedford and

Scarsdale. Most of these branches are offices of banks, which have headquarters outside of the states or areas or are subsidiaries of bank or financial holding companies whose headquarters are outside of the areas served by the Bank. In addition to banks with branches in the same areas as the Bank, there are numerous banks and financial institutions serving the communities surrounding these areas, which also draw customers from Stamford, Greenwich, Norwalk, Wilton, Darien, Southport, Milford, Fairfield, Trumbull, Westport and Stratford posing significant competition to the Bank for deposits and loans. Many of those banks and financial institutions are well established and well capitalized.

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

Supervision and Regulation

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

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

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

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

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

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

Bancorp is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance with the Exchange Act, files periodic reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). The Bank's operations are subject to regulation, supervision and examination by the OCC and the FDIC.

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

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

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

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

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

On July 20, 2002, the Sarbanes-Oxley Act of 2002 was enacted, the primary purpose of which is to protect investors through improved corporate governance and responsibilities of, and disclosures by, public companies. The Act contains provisions for the limitations of services that external auditors may provide as well as requirements for the credentials of Audit Committee members. In addition, the principal executive and principal financial officers are required to certify in quarterly and annual reports that they have reviewed the report; and based on the officers' knowledge, the reports accurately present the financial condition and results of operations of the company and contain no untrue statement or omission of material fact. The officers also certify their responsibility for establishing and maintaining a system of internal controls, which insure that all material information is made known to the officers; this certification also includes the evaluation of the effectiveness of disclosure controls and procedures and their impact upon financial reporting. Section 404 of the Act entitled Management Assessment of Internal Controls, requires that each annual report include an internal control report which states that it is the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting, as well as an assessment by management of the effectiveness of the internal control structure and procedures for financial reporting. This section further requires that the external auditors attest to, and report on, the assessment made by management.

Emergency Economic Stabilization Act of 2008

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act ("EESA"), which includes the Troubled Asset Relief Program ("TARP"). The legislation was in response to the financial crises affecting the banking system and financial markets. The TARP gave the United States Department of the Treasury (the "Treasury") authority to deploy up to $700 billion into the financial system with an objective of improving liquidity in the capital markets. On October 14, 2008, the Treasury announced plans to direct $250 billion of this authority into preferred stock investments in banks, the first $125 billion of which has been allocated to nine major financial institutions. Shortly thereafter, the initial $250 billion authorization was increased to $350.0 billion upon the President's certification to Congress that the increase was necessary. This additional $100 billion was used for the purchase of $40 billion in preferred shares of American International Group, a $20 billion commitment to the Federal Reserve Bank of New York for losses that may be incurred under the Term Asset-Backed Securities Loan Facility, an additional $25.0 billion commitment to Citigroup and an initial loan to U.S. automakers, GM and Chrysler, in the amount of $13 billion. In January 2009, Congress approved the release of the final $350 billion. The Bank is not participating in the TARP.

Temporary Liquidity Guarantee Program

On November 21, 2008, the FDIC adopted the Final Rule implementing the Temporary Liquidity Guarantee Program ("TLGP") inaugurated October 14, 2008. The TLGP consists of two basic components: (1) the Debt Guarantee Program which guarantees newly issued senior unsecured debt of banks, thrifts, and certain holding companies and (2) the Transaction Account Guarantee Program which guarantees certain non-interest bearing deposit transaction accounts, such as business payroll accounts, regardless of dollar amount. The purpose of the TLGP is to provide an initiative to counter the system wide crisis in the nation's financial sector by promoting financial stability by preserving confidence in the banking system and encourages liquidity in order to ease lending to creditworthy business and consumers. It is anticipated that the TLGP will favorably impact both the availability and the cost of credit.

The Bank is participating in the TLGP and as a result, its non-interest bearing transaction deposit accounts and interest bearing transaction accounts paying 50 basis points or less will be fully insured through December 31, 2009. Currently the Bancorp is not participating in the Debt Guarantee portion of the TLGP. However, if Bancorp decided to take advantage of this aspect of the program, then all newly-issued senior unsecured debt up to prescribed limits issued by June 30, 2009 would be temporarily guaranteed through June 30, 2012. Bancorp would be assessed a fee equal to a range of 50 to 100 basis points depending on the maturity date of the debt multiplied by the amount of the debt issued and calculated for the maturity period of that debt or June 30, 2012, whichever was earlier.

Bancorp does not anticipate that compliance with applicable federal and state banking laws will have a material adverse effect on its business or the business of the Bank. Neither Bancorp nor the Bank has any material patents, trademarks, licenses, franchises, concessions and royalty agreements or labor contracts, other than the charter granted to the Bank by the OCC.

Employees

As of December 31, 2008, Bancorp had 150 full-time employees and 10 part-time employees. None of the employees of Bancorp is covered by a collective bargaining agreement.

Item 1A. Risk Factors

The risks involved in Bancorp's construction and commercial real estate loan portfolios are material.

Commercial real estate and construction loans generally have more risk than residential mortgage loans. Both commercial real estate and construction loans often involve larger loan balances concentrated with single borrowers or groups of related borrowers as compared to single-family residential loans. Construction loans are secured by the property under construction, the value of which is uncertain prior to completion. Thus, it is more difficult to evaluate accurately the total loan funds required to complete a project and the related loan-to-value ratios. Speculative construction loans involve additional risk because the builder does not have a contract for the sale of the property at the time of construction.

Because the repayment of commercial real estate and construction loans depends on the successful management and operation of the borrower's properties or related businesses, repayments of such loans can be affected by adverse conditions in the real estate market or local economy as have been experienced in Bancorp's market area. The downturn in the real estate market within Bancorp's market area has and may continue to adversely impact the value of properties securing these loans. Bancorp's ability to recover on defaulted loans by selling the underlying real estate may be diminished, and Bancorp is more likely to suffer losses on defaulted loans. A significant portion of Bancorp's total loan portfolio is secured by real estate located in Fairfield County, Connecticut and Westchester County, New York, areas historically of high affluence that have been materially impacted by the financial troubles experienced by Wall Street.

Real estate lending in Bancorp's core Fairfield County, Connecticut market involves risks related to a decline in value of commercial and residential real estate.

The market value of real estate can fluctuate significantly in a relatively short period of time as a result of market conditions in the geographic area in which the real estate is located. The value of the real estate serving as collateral for the Bank's loan portfolio has and may continue to decline materially, and transactional liquidity has materially slowed putting additional pressure on pricing. Accordingly, a significant part of the Bank's loan portfolio could become under-collateralized and the Bank may not be able to realize the amount of security that the Bank anticipated at the time of originating the loan. Credit markets have become tight and underwriting standards more strict, and the inability of purchasers of real estate to obtain financing may further weaken the real estate market. Therefore, these loans may be subject to changes in grade, classification, accrual status, foreclosure, or loss which could have an effect on the adequacy of the allowance for loan losses.

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

Changes in economic conditions, particularly a continued economic slowdown in Fairfield County, Connecticut and the New York metropolitan area, could hurt Bancorp's financial performance. Bancorp's business is directly affected by political and market conditions, broad trends in industry and finance, legislative and regulatory changes and changes in governmental monetary and fiscal policies and inflation, all of which are beyond Bancorp's control. A further deterioration in economic conditions, in particular an economic slowdown within Fairfield County, Connecticut and/or the New York metropolitan area, could result in the following consequences, any of which may hurt the business of Bancorp materially: loan delinquencies may increase; problem assets and foreclosures may increase; demand for the Bank's products and services may decline; and assets and collateral associated with the Bank's loans, especially real estate, may decline in value, thereby reducing a customer's borrowing power. Beginning in 2007 and worsening through 2008 and into 2009, the general economic conditions and specific business conditions in the United States including Fairfield County, Connecticut have deteriorated resulting in increases in loan delinquencies, problem assets and foreclosures and declines in the value and collateral associated with the Bank's loans. A prolonged period of economic recession or worsening of these adverse economic conditions may have a materially adverse effect on our results of operations and financial condition.

The Bank may suffer losses in its loan portfolio despite its underwriting practices. The Bank seeks to mitigate the risks inherent in its loan portfolio by adhering to specific underwriting practices. These practices include analysis of a borrower's prior credit history, financial statements, tax returns and cash flow projections, valuation of collateral based on reports of independent appraisers and verification of liquid assets. Although the Bank believes that its underwriting criteria is appropriate for the various types of loans the Bank makes, the Bank may still incur losses on loans, and these losses may exceed the amounts set aside as reserves in the allowance for loan losses.

Bancorp is Subject to a Formal Agreement with the OCC

The Bank is subject to a formal agreement with the OCC entered into in February 2009. The agreement is based on the results of an annual examination by the OCC. The agreement provides for, among other things, the enhancement and implementation of certain programs to reduce the Bank's credit risk, commercial real estate loan concentration and level of criticized assets, along with the augmentation of a profit plan and three-year capital program. Additionally, the agreement provides for certain asset growth restrictions for a limited period of time. The Bank does not anticipate that these restrictions will impair its current business plan. However, failure to comply with the provisions of the Agreement could result in more severe enforcement actions and further restrictions.

Bancorp's allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, the Bank maintains an allowance for loan losses to provide for loan defaults and non-performance. Experience in the banking industry indicates that a portion of the Bank's loans in all categories of its lending business will become delinquent, and some may only be partially repaid or may never be repaid at all. The Bank's allowance in recent years has reflected the Bank's historically strong credit quality. If economic conditions further deteriorate, the allowance for loan losses may no longer be adequate to cover actual loan losses; future provisions for loan losses may become necessary which could materially and adversely affect Bancorp's operating results.

The allowance for loan losses is based on an evaluation of the risks associated with the Bank's loans receivable as well as the Bank's prior loss experience. A substantial portion of the Bank's loans are unseasoned and lack an established record of performance. Deterioration in general economic conditions and unforeseen risks affecting customers will have an adverse effect on borrowers' capacity to repay timely their obligations before risk grades could reflect those changing conditions.

The recent adverse changes in economic and market conditions in the Bank's market areas increase the risk that the allowance will become inadequate if borrowers continue to experience economic and other conditions adverse to their incomes and businesses. Maintaining the adequacy of the Bank's allowance for loan losses may require that the Bank make significant and unanticipated increases in our provisions for loan losses, which would materially affect our results of operations and capital adequacy. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond the Bank's control and these losses may exceed current estimates. The current recessionary economic environment creates additional risk of loan losses.

Federal regulatory agencies, as an integral part of their examination process, review the Bank's loans and assess the adequacy of the allowance for loan losses. The regulatory agencies may require us to change classifications or grades on loans, increase the allowance for loan losses with large provisions for loan losses and to recognize further loan charge-offs based upon their judgments, which may differ from ours. Any increase in the allowance for loan losses required by these regulatory agencies could have a negative effect on our results of operations and financial condition. During 2008, the Bank significantly increased its allowance for loan losses based on management's evaluation of the current economic crisis and its impact on the Bank's real estate market and its primary federal regulator's recommendations. While management believes that the allowance for loan losses is currently adequate to cover anticipated losses, management cannot assure shareholders that there will not be a need to increase the allowance for loan losses or that the regulators will not require management to increase this allowance. Either of these occurrences could materially and adversely affect Bancorp's earnings and profitability.

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

Bancorp is unable to predict fluctuations of market interest rates, which are affected by many factors including: inflation, recession, a rise in unemployment, a tightening money supply, domestic and international disorder and instability in domestic and foreign financial markets. Changes in the interest rate environment may reduce Bancorp's profits. Bancorp realizes income from the differential or "spread" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. Bancorp is vulnerable to a decrease in interest rates because its interest-earning assets generally have shorter durations than its interest-bearing liabilities. As a result, material and prolonged decreases in interest rates would decrease Bancorp's net interest income. In contrast, an increase in the general level of interest rates may adversely affect the ability of some borrowers to pay the interest on and principal of their obligations. Like most financial institutions, Bancorp is affected by changes in interest rates, which are currently at record low levels, and by other economic factors beyond Bancorp's control. Although Bancorp has implemented strategies which are designed to reduce the potential effects of changes in interest rates on operations, these strategies may not always be successful. Accordingly, changes in levels of market interest rates could materially and adversely affect Bancorp's net interest spread, asset quality, levels of prepayments and cash flow as well as the market value of its securities portfolio and overall profitability.

Mortgage brokerage activity is also affected by interest rate fluctuations. Generally, increases in interest rates often lead to decreases in home refinancing activity, thus reducing the number of mortgage loans that Bancorp originates.

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

Bancorp's securities portfolio is classified as available-for-sale, and is comprised of mortgage-backed securities, which are insured or guaranteed by U.S. government agencies or government-sponsored enterprises, U.S. government agency obligation and auction rate preferred equity securities. These securities are sensitive to interest rate fluctuations. Unrealized gains or losses in the available-for-sale portfolio for securities other than those for which other-than-temporary impairment charges have been recorded are reported as a separate component of shareholders' equity. As a result, future interest rate fluctuations may impact shareholders' equity, causing material fluctuations from quarter to quarter. Failure to hold its securities until payments are received on mortgage-backed securities, other investments mature or market conditions are favorable for a sale could adversely affect Bancorp's earnings and profitability.

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

Bancorp's success is dependent upon the continued services and skills of Angelo De Caro, Charles F. Howell, Robert F. O'Connell, Philip W. Wolford and other senior officers including Martin G. Noble, its chief lender, and John Kantzas, a founder and an executive vice president. While Bancorp has employment agreements containing non-competition provisions with Messrs. Howell and O'Connell, these agreements do not prevent them from terminating their employment with Bancorp. The unexpected loss of services of one or more of these key personnel could have an adverse impact on Bancorp's business because of their skills, knowledge of Bancorp's market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

Bancorp's success also depends, in part, on its continued ability to attract and retain experienced commercial lenders and residential mortgage originators, as well as other management personnel. The loss of the services of several of such key personnel could adversely affect Bancorp's growth and prospects to the extent it is unable to quickly replace such personnel. Competition for commercial lenders and residential mortgage originators is strong within the commercial banking and mortgage banking industries, and Bancorp may not be successful in retaining or attracting personnel.

Bancorp has expanded into a new geographic market in which current senior management has limited experience.

Bancorp has recently expanded into Westchester County and New York City, New York. The Bank currently has three branch offices in New York.

The vast majority of Bancorp's deposits and loans are derived from and made to customers who live and work in Fairfield County, Connecticut. Although management believes that the demographics for Westchester County, New York closely resemble those of Fairfield County Connecticut, the Bank has not previously conducted significant deposit generating activity in New York State. The senior management team includes several individuals with substantial banking experience in Connecticut, but with less experience in New York. Bancorp's ability to compete effectively in New York State will depend in part on management's ability to hire and retain key employees who have extensive banking experience in Westchester County.

A breach of information security could negatively affect Bancorp's earnings.

Bancorp increasingly depends upon data processing, communications and information exchange on a variety of computing platforms and networks, and over the internet to conduct its business. Bancorp cannot be certain that all of its systems are entirely free from vulnerability to attack, despite safeguards it has instituted. In addition, Bancorp relies on the services of a variety of vendors to meet its data processing and communication needs. If information security is breached, information can be lost or misappropriated; this could result in financial loss or costs to Bancorp or damages to others. These costs or losses could materially exceed the amount of insurance coverage, if any, which would have an adverse effect on Bancorp's results of operations and financial condition. In addition, the Bank's reputation could be harmed, which also could materially adversely affect Bancorp's financial condition and results of operation.

Risks Related to Bancorp's Industry

The enactment of recent legislation, including the Emergency Economic Stabilization Act of 2008 ("EESA") and the American Recovery and Reinvestment Act of 2009 ("ARRA") may significantly affect Bancorp's financial condition and results of operations.

EESA, which established the Troubled Assets Relief Program ("TARP"), was signed into law on October 3, 2008. As part of TARP, the Treasury established the Capital Purchase Program (the "CPP") to provide up to $700 billion of funding to eligible financial institutions through the purchase of capital stock and other financial instruments for the purpose of stabilizing and providing liquidity to the U.S. financial markets. On February 17, 2009, President Obama signed ARRA, a sweeping economic recovery package intended to stimulate the economy and provide for broad infrastructure needs. There can be no assurance as to the actual impact that EESA or its programs, including the CPP, and ARRA or its programs, will have on the national economy or financial markets or, specifically, on the operations and business of Bancorp and the Bank. The failure of these significant legislative measures to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect Bancorp's business, financial condition, and results of operations.

There have been numerous actions undertaken in connection with or following EESA and ARRA by the Federal Reserve Board, Congress, the Treasury, the FDIC, the SEC and others in efforts to address the current liquidity and credit crisis in the financial industry, including homeowner relief that encourages loan restructuring and modification and the lowering of the federal funds rate and other efforts to address illiquidity and other weaknesses in the banking sector. The purpose of these legislative and regulatory actions is to help stabilize the U.S. banking system. EESA, ARRA and the other regulatory initiatives described above may not have their desired effects. If the volatility in the markets continues and economic conditions fail to improve or worsen, Bancorp's business, financial condition and results of operations could be materially and adversely affected.

Difficult market conditions have adversely affected Bancorp's industry.

Bancorp is exposed to downturns in the U.S. economy, and particularly the local markets in which it operates in Connecticut and New York. Declines in the housing market over the past year, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors have reduced or ceased providing funding to borrowers, including other financial institutions. This market turmoil and the tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reductions in business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected Bancorp's business, financial condition and results of operations. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and other financial institutions. In particular:

- We expect to face increased regulation of our industry, including the provisions of the EESA and ARRA. Compliance with such regulations may increase our costs and limit our ability to pursue business opportunities. We cannot predict how large these costs will be or how expansive any such limitations will be.

- Economic conditions may continue to affect market confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies, which could affect our charge-offs and provision for loan losses.

- The ability to assess the creditworthiness of the Bank's customers or to estimate the values of collateral for loans may be impaired if the models and approaches we use become less predictive of future behaviors, valuations, assumptions or estimates due to the unpredictable economic climate.

- Increasing consolidation of financial services companies as a result of current market conditions could have unexpected adverse effects upon our ability to compete effectively.

- We will be required to pay significantly higher FDIC premiums. Market developments have significantly depleted the insurance fund of the FDIC and the FDIC has proposed a revised risk-based deposit insurance assessment schedule.

Strong competition within Bancorp's market area may limit the growth and profitability of the Company.

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

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

Bancorp is subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency as the Bank's chartering authority, by the FDIC, as insurer of the deposits, and by the Federal Reserve Board as regulator of Bancorp. Changes in state and federal banking laws and regulations or in federal monetary policies could adversely affect the Bank's ability to maintain profitability and continue to grow and, in light of recent economic conditions, such changes are expected but cannot be predicted. For example, new legislation or regulation could limit the manner in which Bancorp may conduct its business, including the Bank's ability to obtain financing, attract deposits, make loans and achieve satisfactory interest spreads. Many of these regulations are intended to protect depositors, the public and the FDIC, not shareholders. In addition, the burden imposed by federal and state regulations may place Bancorp at a competitive disadvantage compared to competitors who are less regulated. The laws, regulations, interpretations and enforcement policies that apply to Bancorp have been subject to significant, and sometimes retroactively applied, changes in recent years, and may change significantly in the future. Future legislation or government policy may also adversely affect the banking industry or Bancorp's operations.

Changing regulation of corporate governance and public disclosure.

Laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, SEC regulations and NASDAQ rules, have added to the responsibilities that companies, such as Bancorp, have. These laws, regulations and standards are subject to varying interpretations, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could make compliance more difficult and result in higher costs. Bancorp is committed to maintaining high standards of corporate governance and public disclosure. As a result, Bancorp's efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. Bancorp's reputation may be harmed if it does not continue to comply with these laws, regulations and standards.

The earnings of financial institutions are significantly affected by general business and economic conditions.

As a financial institution, Bancorp's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes and the strength of the U.S. economy and the local economies in which we operate, all of which are beyond Bancorp's control. In 2008 and continuing into 2009, the banking world has experienced unprecedented upheaval, including the failure of some of the leading financial institutions in the world. Further deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the Bank's products and services, among other things, any of which could have a material adverse impact on Bancorp's results of operations and financial condition and for which Bancorp cannot currently predict or implement plans to combat.

Item 1B. Unresolved Staff Comments

Bancorp has no unresolved comments from the SEC staff.

Item 2. Properties

Patriot National Bancorp Inc.'s corporate headquarters and main branch banking office is located at 900 Bedford Street in Stamford, Connecticut. The building is leased by the Bank, as are its eighteen other branch banking offices, one loan origination office and additional administrative and operational office space. The Bank also leases space at its main office for additional parking. Lease commencement dates for office locations range from April 2003 to May 2008 and lease expiration dates fall between April 2010 and January 2022. Most of the leases contain rent escalation provisions as well as renewal options for one or more periods.

The Bank has sublet and licensed excess space in three of its locations, two to an attorney and one to a small manufacturer. See also, "Item 12. Certain Relationships and Related Transactions". For additional information regarding the Bank's lease obligations, see Note 9 to the Consolidated Financial Statements.

All leased properties are in good condition.

Item 3. Legal Proceedings

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

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

During the fourth quarter of 2008, no matter was submitted to a vote of shareholders.

PART II

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

Market Information

Bancorp Common Stock is traded on the NASDAQ Global Market under the Symbol "PNBK." On December 31, 2008, the last sale price for Bancorp Common Stock on the NASDAQ Global Market was $6.85.

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

	2008			2007		
	Sales Price		Cash Dividends	Sales Price		Cash Dividends
Quarter Ended	High	Low	Declared	High	Low	Declared
March 31	$ 16.55	$ 14.01	$ 0.045	$ 26.52	$ 20.75	$ 0.045
June 30	16.16	13.75	0.045	23.50	20.50	0.045
September 30	15.50	11.50	0.045	22.73	18.97	0.045
December 31	13.50	6.80	0.045	20.93	15.25	0.045

Holders

There were approximately 615 shareholders of record of Bancorp Common Stock as of December 31, 2008. This number does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms or other nominees.

Dividends

Bancorp's ability to pay dividends is dependent on the Bank's ability to pay dividends to Bancorp. Pursuant to the February 9, 2009 Agreement between the Bank and the Office of the Comptroller of the Currency, the Bank can pay dividends to Bancorp only pursuant to a dividend policy requiring compliance with the Bank's OCC-approved capital program, in compliance with applicable law and with the prior written determination of no supervisory objection by the Assistant Deputy Comptroller. In addition to the Agreement, certain other restrictions exist regarding the ability of the Bank to transfer funds to Bancorp in the form of cash dividends, loans or advances. The approval of the Comptroller of the Currency is required to pay dividends in excess of the Bank's earnings retained in the current year plus retained net earnings for the preceding two years. As of December 31, 2008, the Bank had retained earnings of approximately $2,668,000, of which none is available for distribution to Bancorp as dividends without prior regulatory approval. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements. The Federal Reserve Bank may also impose further dividend restrictions on the Bancorp.

Recent Sales of Unregistered Securities

During the fourth quarter of 2008, Bancorp did not have any sales of unregistered securities.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the fourth quarter of 2008, 1,854 shares of Bancorp stock were repurchased through the Stock Repurchase Program at an average share price of $11.75 resulting in disbursements of $21,790. For additional information regarding the Company's stock repurchase program, see Note 13 to the Consolidated Financial Statements.

Securities Authorized for Issuance under Equity Compensation Plans

The following table presents information as of December 31, 2008 for equity compensation plans maintained by Bancorp.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	55,000	$10.13	-
Equity compensation plans not approved by security holders	-	-	-
Total	55,000	$10.13	-

Performance Graph

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

Item 6. Selected Financial Data

	At or for the year ended December 31,				
	2008	2007	2006	2005	2004
Operating Data:					
Interest and dividend income	$ 55,750,246	$ 51,862,157	$ 38,009,526	$ 25,148,701	$ 18,678,251
Interest expense	28,539,067	27,767,310	18,069,648	10,269,625	7,008,508
Net interest income	27,211,179	24,094,847	19,939,878	14,879,076	11,669,743
Provision for loan losses	11,289,772	75,000	1,040,000	1,110,000	556,000
Noninterest (loss) income	(149,108)	2,233,915	2,359,149	3,229,037	2,702,204
Noninterest expense	25,947,905	22,038,836	17,576,872	14,634,487	12,256,550
(Benefit) provision for income taxes	(3,064,000)	1,537,000	1,267,000	957,000	633,000
Net (loss) income	(7,111,606)	2,677,926	2,415,155	1,406,626	926,397
Per Share Data:					
Basic (loss) income per share	(1.50)	0.56	0.67	0.52	0.38
Diluted (loss) income per share	(1.50)	0.56	0.66	0.51	0.37
Dividends per share	0.180	0.180	0.175	0.155	0.135
Balance Sheet Data					
Cash and due from banks	4,286,233	2,760,246	3,868,670	7,220,577	6,670,409
Federal funds sold	20,000,000	11,000,000	27,000,000	6,500,000	37,500,000
Short term investments	316,518	251,668	24,605,869	2,247,028	11,460,057
Investment securities	58,401,177	71,857,840	70,222,035	80,991,068	78,258,775
Loans, net	788,568,687	685,885,990	506,884,155	364,243,777	263,874,820
Total assets	913,358,978	807,530,254	645,982,795	470,641,162	405,046,955
Total deposits	784,821,351	672,399,409	561,451,664	419,075,288	367,005,325
Total borrowings	65,248,000	62,748,000	16,248,000	17,248,000	16,248,000
Total shareholders' equity	58,774,144	66,835,367	64,283,345	31,374,615	19,756,434

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation

Critical Accounting Policies

Bancorp’s significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in this 2008 Annual Report on Form 10-K. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates. Management has identified accounting for the allowance for credit losses, evaluation and analysis for impairment of goodwill and other intangible assets, the analysis of other-than-temporary-impairment for its investment securities and valuation of deferred income tax assets and liabilities, as Bancorp’s most critical accounting policies and estimates in that they are important to the portrayal of Bancorp’s financial condition and results. They require management’s most subjective and complex judgment as a result of the need to make estimates about the effect of matters that are inherently uncertain. These accounting policies, including the nature of the estimates and types of assumptions used, are described throughout this Management’s Discussion and Analysis.

Recent Economic Developments

There have been significant and historical disruptions in the financial system during the past year and many lenders and financial institutions have reduced or ceased to provide funding to borrowers, including other lending institutions. The availability of credit, confidence in the entire financial sector, and volatility in financial markets has been adversely affected. The Federal Reserve Bank has been providing vast amounts of liquidity into the banking system to compensate for weaknesses in short-term borrowing markets and other capital markets.

In response to the financial crises affecting the overall banking system and financial markets, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA), was enacted. Under the EESA, the United States Treasury Department (the Treasury) has the authority to, among other things, purchase mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

The Federal Deposit Insurance Corporation (FDIC) insures deposits at FDIC-insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. Bancorp will be subject to an increased deposit premium assessment in 2009.

The EESA included a provision for an increase in the amount of deposits insured by the FDIC to $250,000 until December 2009. On October 14, 2008, the FDIC announced a new program, the Temporary Liquidity Guarantee Program, which provides unlimited deposit insurance on funds in non-interest-bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250,000. All eligible institutions were covered under the program for the first 30 days without incurring any costs. After the initial period, participating institutions are assessed a 10 basis point surcharge on the additional insured deposits. Bancorp has elected to participate in the Temporary Liquidity Guarantee Program and incur the surcharge as a cost of participation.

Summary

During an unprecedented year of financial disruption and market volatility, Bancorp reported a net loss of $7.1 million ($1.50 basic and diluted loss per share) for 2008 compared to net income of $2,678,000 ($0.56 basic and diluted income per share) for 2007. Total assets ended the year at a record high of $913.4 million, an increase of $105.8 million from December 31, 2007.

Net interest income for the year ended December 31, 2008 increased $3.1 million or 13% to $27.2 million as compared to $24.1 million for the year ended December 31, 2007.

Total assets increased by 13% during the year as total loans increased $102.7 million from $685.9 million at December 31, 2007 to $788.6 million at December 31, 2008. The available-for-sale securities portfolio decreased by $15.3 million, or 23%, to $52.0 million at December 31, 2008 as compared to $67.3 million at December 31, 2007. Loan growth during the year was primarily funded through deposit growth. Deposits increased $112.4 million to $784.8 million at December 31, 2008. FHLB advances increased $2.5 million from $47.5 million at December 31, 2007 to $50.0 million at December 31, 2008. Shareholders' equity decreased $8.0 million from $66.8 million at December 31, 2007 compared to $58.8 million at December 31, 2008. This decrease is primarily the result of the reduction in 2008 results of operations principally related to an $11.3 million provision for loan losses due to the significant increase in non-accrual loans, a $1.05 million write down of a FHLMC auction rate preferred security, a $2.1 million impairment charge on other auction rate preferred securities and the $1.4 million write off of impaired goodwill.

FINANCIAL CONDITION

Assets

Bancorp's total assets increased $105.9 million, or 13%, from $807.5 million at December 31, 2007 to $913.4 million at December 31, 2008. The growth in total assets was funded primarily by deposit growth of $112.4 million. Cash and due from banks and federal funds sold increased $1.5 million and $9.0 million, respectively, resulting in an increase in Bancorp's liquidity level at the end of the fourth quarter.

Investments

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

	2008	2007	2006
U. S. Government sponsored			
agency obligations	$ 10,102,248	$ 16,924,648	$ 16,566,822
U. S. Government Agency and sponsored			
agency mortgage-backed securities	37,998,569	41,325,870	43,476,313
Marketable equity securities	3,878,860	9,039,522	7,050,000
Federal Reserve Bank stock	1,913,200	1,911,700	1,911,700
Federal Home Loan Bank stock	4,508,300	2,656,100	1,217,200
Total Investments	$ 58,401,177	$ 71,857,840	$ 70,222,035

Total investments decreased $13.5 million, or 19%, primarily as a result of the $6.8 million in redemptions of government agency bonds and auction rate preferred equity securities, principal payments on mortgage-backed securities, the full write down of a $1.05 million FHLMC auction rate preferred equity security and $2.1 million in impairment charges on other auction rate preferred equity securities. The investment in FHLB stock increased due to the requirement to purchase stock to support the higher levels of FHLB borrowings during the year.

Due to the instability in 2008 in the economy and the impact on the financial markets, in particular the auction rate preferred markets, management evaluated its holdings of these investments for other-than-temporary impairment and recorded appropriate impairment charges for the following securities:

- Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC") – $1.05 million. As a result of actions taken on September 7, 2008 by the United States Treasury Department and the Federal Housing Finance Agency with respect to placing Freddie Mac into receivership, the Company's investment in FHLMC preferred equity securities was deemed to be other-than-temporarily impaired and a write-down of $1.05 million was recorded during the third quarter of 2008.

- Other Auction Rate Preferred Securities – $2.1 million. The Company has investments in six other auction rate preferred securities of companies primarily in the financial services sector. The illiquidity in the auction rate market has resulted in significant declines in market value for these investments. As management is unable to predict near term prospects for recovery of these securities, impairment charges totaling $2.1 million were recorded during the fourth quarter.

The following table presents the maturity distribution of available-for-sale investment securities at December 31, 2008 and the weighted average yield of the amortized cost of such securities. The weighted average yields were calculated on the amortized cost and effective yields to maturity of each security.

	One year or less	Over one through five years	Over five through ten years	Over ten years	No maturity	Total	Weighted Average Yield
U. S. Government Sponsored agency obligations	$ -	$ 5,000,000	$ 5,000,000	$ -	$ -	$ 10,000,000	5.31%
U. S. Government Agency and sponsored agency mortgage-backed securities	-	-	-	-	38,246,799	38,246,799	5.14%
Money market preferred equity securities	-	-	-	-	3,878,860	3,878,860	4.22%
Total	$ -	$ 5,000,000	$ 5,000,000	$ -	$ 42,125,659	$ 52,125,659	5.10%
Weighted average yield	-	5.13%	5.50%	-	5.05%	5.10%	

The following table presents a summary of investments for any issuer that exceeds 10% of shareholders' equity at December 31, 2008:

	Amortized Cost	Fair Value
Available for sale securities:		
U. S. Government Sponsored Agency Obligations	$ 10,000,000	$ 10,102,248
U. S. Government Agency and sponsored agency mortgage-backed securities	38,246,799	37,998,569

Loans

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

	2008	2007	2006	2005	2004
Real Estate					
Commercial	$ 262,570,339	$ 233,121,685	$ 166,799,341	$ 129,178,889	$ 106,771,441
Residential	170,449,780	110,154,838	91,077,687	77,391,833	36,965,661
Construction	257,117,081	254,296,326	173,840,322	107,232,587	74,598,919
Construction to permanent	35,625,992	37,701,509	29,988,131	-	-
Commercial	33,860,527	27,494,531	23,997,640	15,591,818	17,562,523
Consumer installment	993,707	1,270,360	1,251,300	1,106,648	1,386,709
Consumer home equity	45,022,128	29,154,498	26,933,277	39,097,450	30,874,894
Total loans	805,639,554	693,193,747	513,887,698	369,599,225	268,160,147
Premiums on purchased loans	158,072	195,805	292,543	367,491	313,754
Net deferred fees	(981,869)	(1,830,942)	(1,665,654)	(1,134,604)	(1,117,556)
Allowance for loan losses	(16,247,070)	(5,672,620)	(5,630,432)	(4,588,335)	(3,481,525)
Loans, net	$ 788,568,687	$ 685,885,990	$ 506,884,155	$ 364,243,777	$ 263,874,820

Note: As financing for construction to permanent projects has become a more significant line of business for Bancorp, the presentation of loan information throughout this document reflects the breakout of construction to permanent loans from construction loans. Loan information prior to 2006 has not been reclassified as construction to permanent financing was not as significant in earlier periods.

Bancorp's net loan portfolio increased $102.7 million, or 15%, to $788.6 million at December 31, 2008 from $685.9 million at December 31, 2007. Loan growth was funded primarily as a result of an increase in total deposits. Significant increases in the portfolio include a $60.3 million increase in residential real estate loans, a $29.4 million increase in commercial real estate loans, a $15.9 million increase in consumer home equity loans and a $6.4 million increase in commercial loans. The growth in the loan portfolio in 2008 reflects the initial implementation of management's strategic decision to diversify the loan portfolio away from its concentration in speculative construction lending. A component of this diversification includes planned increases in owner-occupied residential real estate loans.

Although there was 16% growth in the loan portfolio from 2007 to 2008, due to the changing economic and market conditions, loan growth slowed as the year progressed. This is reflective of the weakened demand for real estate based financing in Fairfield and New Haven Counties in Connecticut and the metropolitan New York area where the Bank primarily conducts its lending business.

At December 31, 2008, the net loan to deposit ratio was 100% and the net loan to asset ratio was 86%. At December 31, 2007, the net loan to deposit ratio was 102%, and the net loan to asset ratio was 85%.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents the maturities of loans in Bancorp's portfolio at December 31, 2008, by type of loan:

(thousands of dollars)	Due in one year or less	Due after one year through five years	Due after five years	Total
Commercial real estate	$ 35,267	$ 54,093	$ 173,210	$ 262,570
Residential real estate	2,280	2,522	165,648	170,450
Construction loans	186,548	64,511	6,058	257,117
Construction to permanent loans	-	-	35,626	35,626
Commercial loans	18,897	9,111	5,853	33,861
Consumer installment	928	66	-	994
Consumer home equity	1,645	1,299	42,078	45,022
Total	$ 245,565	$ 131,602	$ 428,473	$ 805,640
Fixed rate loans	$ 44,379	$ 32,091	$ 11,498	$ 87,968
Variable rate loans	201,185	99,511	416,976	717,672
Total	$ 245,564	$ 131,602	$ 428,474	$ 805,640

Loan Concentrations

The Bank has no concentrations of loans other than those disclosed in the above summary loan portfolio table.

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 the Board 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 for loan losses increased significantly from December 31, 2007 to December 31, 2008 due to unprecedented economic conditions, weak national and local real estate markets and a significant increase in delinquent and nonaccrual loans in the Bank's portfolio.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are considered impaired and are measured accordingly. i.e. collateral dependent impairments are determined by recent appraisal reports and income properties are determined using a discounted cash flow method. Patriot obtains current appraisals on all real estate and construction loans maturing in the coming four months, as well as for loans added to special mention. When a loan is placed on non-accrual status the loan is considered impaired. For collateral dependent loans, the appraised value is then reduced by estimated liquidation expenses and the result is compared to the principal loan balance to determine the impairment amount, if any. For loans that are not collateral dependent and a restructure is in place, the impairment is determined by using the discounted cash flow method which takes into account the difference between the original interest rate and the restructured rate in accordance with Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan.

The general component is arrived at by considering previous loss experience, current economic conditions and their effect on borrowers and other pertinent factors. In arriving at previous loss experience, the Bank, given its lack of actual loss experience and the rapid turnover ratio of its portfolio looks to the charge off history and qualitative factors of other institutions adjusted based on Bank management's own experience and judgment. The other qualitative factors considered in the analysis include: the size and types of loan relationships, depth of lenders and credit administration staff and external reviews and examinations. A risk rating system is also utilized to measure the adequacy of the general component of the allowance for loan losses. Under this system, each loan is assigned a risk rating between one and nine, which has a corresponding loan loss factor assigned, with a rating of "one" being the least risk and a rating of "nine" reflecting the most risk or a complete loss. Risk ratings are assigned based upon the recommendations of the credit analyst and originating loan officer and confirmed by the 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, which are based on historical loss experience adjusted for qualitative factors are multiplied against the balances in each risk rating category to arrive at the appropriate level for the allowance for loan losses. Loans assigned a risk rating of "six" or above are monitored more closely by the credit administration officers.

The unallocated portion of the allowance reflects management's estimate of probable but undetected losses inherent in the portfolio; such estimates are influenced by uncertainties in economic conditions, unfavorable information about a borrower's financial condition, delays in obtaining information, 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. In 2008, the Bank created an internal loan review position in addition to the loan reviews performed by an external independent firm.

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, and prevailing internal and external factors including but not limited to current economic conditions and local real estate markets.

Based on management's most recent evaluation of the adequacy of the allowance for loan losses, the provision for loan losses charged to operations for the year ended December 31, 2008 of $11.3 million represents an increase of $11.2 million when compared to the provision of $75,000 for the year ended December 31, 2007. The significant increase in the provision for loan losses is in response to the severe recession and its impact on the markets in which the Bank operates, which resulted in higher levels of non-accrual loans.

The accrual of interest income on loans is discontinued whenever reasonable doubt exists as to its collectibility and generally is discontinued when loans are past due 90 days, based on contractual terms, as to either principal or interest. When the accrual of interest income is discontinued, all previously accrued and uncollected interest is reversed against interest income. The accrual of interest on loans past due 90 days or more, including impaired loans, may be continued if the loan is well secured, and it is believed all principal and accrued interest income due on the loan will be realized, and the loan is in the process of collection; however, this is not the Bank's practice. A non-accrual loan is restored to accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt, and at least six months of satisfactory performance has taken place.

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

Analysis of Allowance for Loan Losses

	2008	2007	2006	2005	2004
	(thousands of dollars)				
Balance at beginning of period	$ 5,673	$ 5,630	$ 4,588	$ 3,481	$ 2,934
Charge-offs	(716)	(32)	(1)	(3)	(9)
Recoveries	1	-	3	-	-
Net recoveries (charge-offs)	(715)	(32)	2	(3)	(9)
Additions charged to operations	11,289	75	1,040	1,110	556
Balance at end of period	$ 16,247	$ 5,673	$ 5,630	$ 4,588	$ 3,481
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.09%)	(0.00%)	0.00%	(0.00%)	(0.01%)

Allocation of the Allowance for Loan Losses

Balance at end of each period applicable to:	Amounts (thousands of dollars) 2008	2007	2006	2005	2004	Percent of loans in each category to total loans 2008	2007	2006	2005	2004
Real Estate:										
Commercial	$ 4,843	$ 1,963	$ 1,943	$ 1,607	$ 1,319	32.59%	33.63%	32.46%	34.95%	39.82%
Residential	1,417	296	245	511	304	21.16%	15.89%	17.72%	20.94%	13.78%
Construction	8,654	2,644	2,557	1,963	1,358	31.91%	36.68%	33.83%	29.01%	27.82%
Construction to permanent	264	391	441	-	-	4.42%	5.44%	5.84%	0.00%	0.00%
Commercial	471	271	290	164	185	4.20%	3.97%	4.67%	4.22%	6.55%
Consumer installment	28	30	31	10	11	0.12%	0.18%	0.24%	0.30%	0.52%
Consumer home equity	336	77	72	260	233	5.59%	4.21%	5.24%	10.58%	11.51%
Unallocated	234	1	51	73	71	N/A	N/A	N/A	N/A	N/A
Total	$ 16,247	$ 5,673	$ 5,630	$ 4,588	$ 3,481	100.00%	100.00%	100.00%	100.00%	100.00%

Non-Accrual, Past Due and Restructured Loans

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

	2008	2007	2006	2005	2004
	(thousands of dollars)				
Loans delinquent over 90					
days still accruing	$ 337	$ 112	$ 1,897	$ 275	$ 373
Non-accrual loans	80,156	3,832	2,904	1,935	3,669
	$ 80,493	$ 3,944	$ 4,801	$ 2,210	$ 4,042
% of Total Loans	10.21%	0.57%	0.93%	0.60%	1.51%
% of Total Assets	8.81%	0.49%	0.74%	0.47%	1.00%
Additional income on non-accrual					
loans if recognized on an accrual					
basis	$ 2,854	$ 168	$ 141	$ 6	$ 18

During 2008, 2007 and 2006, interest income collected and recognized on impaired loans was $352,014, $30,179 and $149,313, respectively.

At December 31, 2008, there were 11 loans totaling $16.7 million that were considered as “troubled debt restructurings” of which $12.4 million are included in non-accrual loans, as compared to no loans at December 31, 2007.

Increases in non-accrual loans and troubled debt restructurings are attributable to the state of the economy, which has severely impacted the real estate market and placed unprecedented stress on credit markets. Residents of Fairfield County, many of whom are associated with the financial services industry, have been affected by the impact of the economy on employment and real estate values.

Potential Problem Loans

The $80.2 million of non-accrual loans at December 31, 2008 is comprised of exposure to thirty-three borrowers. Loans totaling $57.2 million that are collateral dependent are secured by residential or commercial real estate located within the Bank’s market area. In all cases, the Bank has obtained current appraisal reports from independent licensed appraisal firms and discounted those values for estimated liquidation expenses to determine estimated impairment. Based on the Bank’s analysis for loan impairment, specific reserves totaling $3.7 million have been established for collateral dependent loans. Impairment related to loans totaling $23.0 million has been measured based on discounted cash flow resulted in specific reserves of $475,000. Such loans are also secured by real estate. Of the $80.2 million of non-accrual loans at December 31, 1008, six borrowers with aggregate balances of $14.1 million continue to make loan payments and these loans are under 90 days past due as to payments. In addition, there are $27.9 million of loans for which management has a concern as to the ability of the borrower to comply with the present repayment terms. Borrowers continue to make payments and these loans are less than 90 days past due at year end. This exposure is comprised of thirteen borrowers.

Loans delinquent over 90 days and still accruing aggregating $337,000 is comprised of three loans which matured and are in the process of being renewed or awaiting payoff.

At December 31, 2008, Bancorp had no loans other than those described above as to which management had significant doubts as to the ability of the borrowers to comply with the present repayment terms. The Company's most recent impairment analysis resulted in identification of $42.5 million of impaired loans for which specific reserves of $4.2 million were required. All potential problem loans are reviewed weekly by a board-level committee.

Based upon this evaluation, management believes the allowance for loan losses of $16.2 million, at December 31, 2008, which represents 2.02% of gross loans outstanding, is adequate, under prevailing economic conditions, to absorb existing losses in the loan portfolio. At December 31, 2007, the allowance for loan losses was $5.7 million or 0.82% of gross loans outstanding. Although there were significant increases in the provision for loan losses and the level of the allowance for loan losses in 2008, actual charge-offs totaled only $716,000 in 2008.

Goodwill

Based on a decline in the price of the Company's stock, management completed an analysis of the Bank's market capitalization adjusted for a control premium. This market value was compared with estimated fair value of the Company's assets and liabilities, excluding intangibles, and resulted in an impairment of goodwill under SFAS No. 142. An impairment charge of $1.4 million was charged to operations in the fourth quarter of 2008.

Deposits

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

	2008	2007	2006
Non-interest bearing	$ 50,194,400	$ 51,925,991	$ 56,679,836
Interest bearing			
Time certificates, less than $100,000	405,298,436	300,502,281	248,414,014
Time certificates, $100,000 or more	195,502,087	231,366,788	162,546,807
Money markets	68,241,790	34,880,837	40,935,628
Savings	46,040,086	34,261,389	25,993,452
NOW	19,544,552	19,462,123	26,881,927
Total interest bearing	734,626,951	620,473,418	504,771,828
Total deposits	$ 784,821,351	$ 672,399,409	$ 561,451,664

Total deposits increased $112.4 million or 17% to $784.8 million at December 31, 2008. Interest bearing deposits increased $114.2 million or 18% to $734.6 million while non-interest bearing deposits decreased $1.7 million or 3% to $50.2 million at December 31, 2008.

Certificates of deposit grew by $68.9 million, which represents an increase of 13% when compared to last year. Much of the growth is attributable to the certificates of deposit less than $100,000, which increased $104.8 million, or 35%, as compared to last year. This increase is due largely to a growth of $24.2 million in consumer CD's and a $80 million escalation in the CDARS deposit program. The Bank had growth in the retail and wholesale CDARS deposits of $25.4 million and $55.0 million, respectively. Savings accounts increased $11.8 million, an increase of 34% as compared to last year, which is due to a more competitively priced commercial savings product. Demand deposits decreased $1.7 million while NOW accounts remained constant at $19.5 million. The decrease in demand deposits is due to normal fluctuations yet there was an increase in year-to-date average balances. Money market fund accounts increased $33.4 million or 96%, of which the consumer money markets accounted for the majority of the growth. The Bank continues to offer attractive interest rates in the very competitive Fairfield County marketplace in order to attract additional deposits to fund loan growth.

As of December 31, 2008, the Bank's maturities of time deposits were:

	Less than $100,000 (thousands of dollars)		$100,000 or greater		Totals	
Three months or less	$	151,990	$	43,945	$	195,935
Three to six months		54,380		22,850		77,230
Six months to one year		159,833		102,388		262,221
Over one year		39,095		26,319		65,414
Total	$	405,298	$	195,502	$	600,800

Borrowings

Borrowings increased $2.5 million to $65.2 million at December 31, 2008. Borrowings are comprised of Federal Home Loan Bank Advances, junior subordinated debentures and securities sold under agreements to repurchase. Federal Home Loan Bank advances increased from $47.5 million to $50.0 million at December 31, 2008. The Bank's borrowings also consist of a security sold under repurchase agreement in the amount of $7 million, which was utilized as an interest rate leveraging strategy.

The following table sets forth certain information concerning short-term borrowing amounts arising from Federal Home Loan Bank advances at December 31, 2007. The Bank had no short-term borrowings from the Federal Home Loan Bank outstanding at December 31, 2008.

December 31, 2007		
Amount	Maturity	Rate
$ 5,000,000	1/3/2008	4.520%
25,000,000	1/4/2008	4.380%
7,500,000	1/7/2008	4.400%
$ 37,500,000		4.403%

The maximum amount of short-term borrowings outstanding under Federal Home Loan Bank advances during 2008 and 2007 was $48.5 million and $37.5 million, respectively. The approximate average amounts outstanding during 2008 and 2007 were $21.9 million and $8.2 million respectively; the approximate weighted average interest rates thereon for 2008 and 2007 were 2.04% and 4.81%, respectively. In addition, at December 31, 2008, the Bank has advances of $50.0 million from the Federal Home Loan Bank with maturities greater than one year.

Other

During 2007, the Bank invested $18.0 million in single premium life insurance policies covering certain officers and directors, which helps defray the rising costs of employee benefit programs. The premium is invested in a separate account arrangement with a single insurance company, which consists primarily of government sponsored agency mortgage-backed securities. Increases in the cash surrender value of the life insurance are reflected as a component of non-interest income and is excluded from income for federal and state income tax purposes. The amount of income that was generated by this bank-owned life insurance policy was $941,000 and $194,000 for the years ending December 31, 2008 and 2007, respectively.

The increase in premises and equipment is mainly due to the capitalized costs associated with leasehold improvements and equipment for the new Stratford, CT branch office that was opened in May 2008 and expanded administrative and operational offices.

The increase of $5.9 million in the deferred tax asset is a result of temporary differences between reporting of an increase in allowance for loan losses, increases in non-accrual loan interest and impairment charges related to available-for-sale securities in different periods for financial reporting and tax reporting. The deferred tax asset is net of a valuation allowance of $824,000 arising from temporary differences from impairment charges on auction rate preferred equity securities.

The increase in other assets is a result of higher assessment rates for FDIC insurance and the costs for the Bank's corporate insurance premiums.

The decreases in accrued expenses and other liabilities are due primarily to lower levels of incentive compensation and performance bonuses in 2008 compared to 2007.

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

Distribution of Assets, Liabilities and Shareholder's Equity
Interest Rates and Interest Differential and Rate Volume Variance Analysis (1)
(thousands of dollars)

	2008			2007			2006			2008 vs. 2007 Fluctuations Interest Income/Expense (3) Due to Change in:			2007 vs. 2006 Fluctuations Interest Income/Expense (3) Due to Change in:		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Volume	Rate	Total	Volume	Rate	Total
Interest earning assets:															
Loans (2)	$ 771,174	$ 52,484	6.81%	$ 598,525	$ 46,949	7.84%	$ 442,612	$ 34,052	7.69%	$ 12,275	$ (6,740)	$ 5,535	$ 12,220	$ 677	$ 12,897
Federal funds sold and other cash equivalents	12,435	325	2.61%	40,000	2,058	5.15%	18,661	955	5.12%	(1,010)	(723)	(1,733)	1,097	6	1,103
Investments (4)	63,199	2,941	4.65%	67,420	2,855	4.23%	75,869	3,003	3.96%	(172)	258	86	(324)	176	(148)
Total interest earning assets	$ 846,808	$ 55,750	6.58%	$ 705,945	$ 51,862	7.35%	$ 537,142	$ 38,010	7.08%	11,093	(7,205)	3,888	12,993	859	13,852
Cash and due from banks	5,993			4,155			5,231								
Allowance for loan losses	(7,575)			(5,613)			(5,324)								
Other assets	37,209			19,813			9,671								
Total Assets	$ 882,435			$ 724,300			$ 546,720								
Interest bearing liabilities:															
Time certificates	$ 568,717	$ 23,561	4.14%	$ 483,918	$ 24,811	5.13%	$ 325,522	$ 14,687	4.51%	$ 3,965	$ (5,215)	$ (1,250)	$ 7,894	$ 2,230	$ 10,124
Savings accounts	40,252	992	2.46%	30,657	747	2.44%	23,291	435	1.87%	229	16	245	159	153	312
Money market accounts	54,321	1,229	2.26%	38,526	699	1.81%	44,876	646	1.44%	242	288	530	(83)	136	53
NOW accounts	21,044	186	0.88%	26,612	267	1.00%	26,838	383	1.43%	(52)	(29)	(81)	(3)	(113)	(116)
FHLB advances	57,716	1,726	2.99%	11,174	511	4.57%	24,496	1,241	5.07%	1,448	(233)	1,215	(618)	(112)	(730)
Subordinated debt	8,248	536	6.50%	8,248	691	8.38%	8,248	673	8.16%	-	(155)	(155)	-	18	18
Other borrowings	7,005	309	4.41%	927	41	4.42%	96	5	5.21%	268	-	268	37	(1)	36
Total interest bearing	$ 757,304	$ 28,539	3.77%	$ 600,062	$ 27,767	4.63%	$ 453,367	$ 18,070	3.99%	6,100	(5,328)	772	7,386	2,311	9,697

liabilities			
Demand deposits	53,380	52,992	48,455
Accrued expenses and and other liabilities	4,502	5,441	4,418
Shareholder's equity	67,250	65,805	40,480
Total liabilities and equity	$ 882,435	$ 724,300	$ 546,720