PATRIOT NATIONAL BANCORP INC
Form 10-Q
November 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended September 30, 2015

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

900 Bedford Street, Stamford, Connecticut 06901

(Address of principal executive offices)

(203) 324-7500

(Registrant’s telephone number)

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes __X__ No_____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes __X__ No_____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer ____ Accelerated Filer ____ Non-Accelerated Filer ____ Smaller Reporting Company _X_

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

Yes _____ No _X_

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

Common stock, $0.01 par value per share, 3,962,170 shares outstanding as of the close of business October 31, 2015.

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PART I- FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30, 2015	December 31, 2014
	(in thousands, except shares and per share amounts)	
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	$2,429	$2,095
Interest bearing deposits	56,909	71,163
Total cash and cash equivalents	59,338	73,258
Securities:		
Available for sale securities, at fair value (Note 2)	30,719	33,682
Other investments	4,450	4,450
Federal Reserve Bank stock, at cost	2,048	2,058
Federal Home Loan Bank stock, at cost	6,628	6,628
Total securities	43,845	46,818
Loans receivable (net of allowance for loan losses: 2015: $5,240, 2014: $4,924) (Note 3)	491,074	471,984
Accrued interest and dividends receivable	2,107	1,918
Premises and equipment, net	29,193	22,357
Deferred tax asset (Note 6)	13,905	14,926
Other assets	1,263	1,363
Total assets	$640,725	$632,624
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Note 4):		
Noninterest bearing deposits	$75,011	$63,398
Interest bearing deposits	371,429	379,635
Total deposits	446,440	443,033
Federal Home Loan Bank borrowings (Note 8)	120,000	120,000
Junior subordinated debt owed to unconsolidated trust (Note 8)	8,248	8,248
Note Payable (Note 8)	1,985	-
Accrued expenses and other liabilities	3,156	2,608
Total liabilities	579,829	573,889

Commitments and Contingencies (Note 10)		
Shareholders' equity (1) (Note 7)		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $.01 par value, 100,000,000 shares authorized; 2015 : 3,963,340 shares issued; 3,962,170 shares outstanding. 2014 : 3,952,177 shares issued; 3,951,007 shares outstanding	396	395
Additional paid-in capital (Note 5)	106,091	105,752
Accumulated deficit	(45,364)	(46,975)
Less: Treasury stock, at cost: 2015 and 2014, 1,170 shares	(160)	(160)
Accumulated other comprehensive loss (Note 9)	(67)	(277)
Total shareholders' equity	60,896	58,735
Total liabilities and shareholders' equity	$640,725	$632,624

(1) All common stock data has been restated for a 1-for-10 reverse stock split which took effect on March 4, 2015.

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands, except per share amounts)			
Interest and Dividend Income				
Interest and fees on loans	$5,879	$4,792	$17,349	$14,150
Interest on investment securities	115	130	350	398
Dividends on investment securities	85	39	202	122
Other interest income	30	16	76	42
Total interest and dividend income	**6,109**	**4,977**	**17,977**	**14,712**
Interest Expense				
Interest on deposits	498	579	1,540	1,823
Interest on Federal Home Loan Bank borrowings	90	41	246	107
Interest on subordinated debt	74	71	218	353
Interest on other borrowings	3	-	3	-
Total interest expense	**665**	**691**	**2,007**	**2,283**
Net interest income	**5,444**	**4,286**	**15,970**	**12,429**
Provision for Loan Losses	-	-	250	-
Net interest income after provision for loan losses	**5,444**	**4,286**	**15,720**	**12,429**
Non-Interest Income				
Loan application, inspection & processing fees	16	44	171	210
Deposit fees and service charges	148	250	469	702
Earnings on cash surrender value of life insurance	-	116	-	353
Rental Income	107	88	305	267
Other income	91	89	262	271
Total non-interest income	**362**	**587**	**1,207**	**1,803**
Non-Interest Expense				
Salaries and benefits	2,245	2,090	6,984	6,037
Occupancy and equipment expense	814	840	2,678	2,627
Data processing expense	298	312	803	841
Professional and other outside services	322	422	1,282	1,350
Advertising and promotional expenses	329	61	516	185
Loan administration and processing expenses	8	29	37	65
Regulatory assessments	140	233	451	700
Insurance expense	79	88	243	263
Other real estate operations, net	-	-	-	12
Material and communications	95	97	282	274

Other operating expenses	423	252	967	585
Total non-interest expense	**4,753**	**4,424**	**14,243**	**12,939**
Income before income taxes	1,053	**449**	**2,684**	**1,293**
Provision for income taxes	420	(16,812)	1,073	(16,812)
Net income	**$633**	**$17,261**	**$1,611**	**$18,105**
Basic income per share (1)	$0.16	$4.48	$0.42	$4.70
Diluted income per share (1)	$0.16	$4.45	$0.41	$4.66

(1) All common stock data has been restated for a 1-for-10 reverse stock split which took effect on March 4, 2015.

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Net income	$633	$17,261	$1,611	$18,105
Other comprehensive income:				
Unrealized holding gains on available for sale securities arising during the period, net of taxes	74	51	210	552
Total comprehensive income	**$707**	**$17,312**	**$1,821**	**$18,657**

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

(in thousands)	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Nine months ended September 30, 2015						
Balance at December 31, 2014	$ 395	$ 105,752	$ (46,975)	$ (160)	$ (277)	$ 58,735
Net income	-	-	1,611	-	-	1,611
Other comprehensive income	-	-	-	-	210	210
Share-based compensation expense	-	340	-	-	-	340
Issuance of restricted stock	1	(1)	-	-	-	-
Balance, at September 30, 2015	$ 396	$ 106,091	$ (45,364)	$ (160)	$ (67)	$ 60,896
Nine months ended September 30, 2014						
Balance at December 31, 2013	$ 388	$ 105,484	$ (62,684)	$ (160)	$ (1,187)	$ 41,841
Net Income	-	-	18,105	-	-	18,105
Other comprehensive income	-	-	-	-	552	552
Share-based compensation expense	-	203	-	-	-	203
Issuance of restricted stock	4	(4)	-	-	-	-
Balance, at September 30, 2014	$ 392	$ 105,683	$ (44,579)	$ (160)	$ (635)	$ 60,701

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30, 2015 *(in thousands)*			2014		
Cash Flows from Operating Activities:						
Net income	$	1,611		$	18,105	
Adjustments to reconcile net income to net cash provided by operating activities:						
Amortization of investment premiums		155			186	
Amortization and accretion of purchase loan premiums and discounts, net		190			16	
Provision for loan losses		250			-	
Earnings on cash surrender value of life insurance		-			(353	)
Depreciation and amortization		776			835	
Loss on disposal of fixed assets		133			-	
Loss on sale of other real estate owned		-			4	
Share-based compensation		340			203	
Deferred income taxes		888			(16,812	)
Changes in assets and liabilities:						
Decrease (increase) in net deferred loan costs		216			(36	)
Increase in accrued interest and dividends receivable		(189	)		(83	)
		100			552	

Decrease in other assets		
Increase (decrease) in accrued expenses and other liabilities	548	(1,764)
Net cash provided by operating activities	**5,018**	**853**
Cash Flows from Investing Activities:		
Principal repayments on available for sale securities	3,151	3,496
Redemptions (purchases) of Federal Reserve Bank stock	10	(97)
Purchases of Federal Home Loan Bank stock	-	(2,285)
Increase in loans	(19,746)	(40,725)
Purchase of other real estate owned	-	(264)
Proceeds from sale of other real estate owned	-	260
Purchase of bank premises and equipment, net	(7,745)	(4,425)
Net cash used in investing activities	**(24,330)**	**(44,040)**
Cash Flows from Financing Activities:		
Net increase (decrease) in deposits	3,407	(9,089)
Increase in FHLB borrowings	-	75,000
Note payable	2,000	-
Repayment of Note payable	(15)	-
Net cash provided by financing activities	**5,392**	**65,911**
Net (decrease) increase in cash and cash equivalents	**(13,920)**	**22,724**
Cash and Cash Equivalents:		
Beginning	73,258	34,866

Ending	$	59,338	$	57,590

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued (Unaudited)

	Nine Months Ended Sept 30,	
	2015	2014
	(in thousands)	
Supplemental Disclosures of Cash Flow Information		
Interest paid	$1,717	$3,580
Income taxes paid	$3	$3

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 1: Basis of Financial Statement Presentation

The Consolidated Balance Sheet at December 31, 2014 has been derived from the audited financial statements of Patriot National Bancorp, Inc. (the “Company”) at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The accompanying unaudited financial statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements and related notes should be read in conjunction with the previously filed audited financial statements of the Company and notes thereto for the year ended December 31, 2014.

The information furnished reflects, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of the results for the interim periods presented. The results of operations for the nine months ended September 30, 2015 are not necessarily indicative of the results of operations that may be expected for the remainder of 2015.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 2: Investment Securities

The amortized cost, gross unrealized gains and losses and approximate fair values of available-for-sale securities at September 30, 2015 and December 31, 2014 are as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015:				
U.S. Government agency bonds	$ 7,500	$ 1	$ -	$ 7,501
U. S. Government agency mortgage-backed securities	14,329	-	(127)	14,202
Corporate bonds	9,000	77	(61)	9,016
	$ 30,829	$ 78	$ (188)	$ 30,719
December 31, 2014:				
U. S. Government agency bonds	$ 7,500	$ -	$ (91)	$ 7,409
U. S. Government agency mortgage-backed securities	17,635	-	(298)	17,337
Corporate bonds	9,000	-	(64)	8,936
	$ 34,135	$ -	$ (453)	$ 33,682

There were no purchases or sales of available-for-sale securities in 2015 and 2014.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table presents the gross unrealized loss and fair value of the Company's available-for-sale securities, aggregated by the length of time the individual securities have been in a continuous loss position, at September 30, 2015 and December 31, 2014:

	Less Than 12 Months		**12 Months or More**		**Total**	
(in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
September 30, 2015:						
U.S. Government agency bonds	$-	$ -	$-	$ -	$-	$ -
U. S. Government agency mortgage - backed securities	3,070	(16)	11,132	(111)	14,202	(127)
Corporate bonds	-	-	5,939	(61)	5,939	(61)
Totals	$3,070	$ (16)	$17,071	$ (172)	$20,141	$ (188)
December 31, 2014:						
U. S. Government agency bonds	$-	$ -	$7,409	$ (91)	$7,409	$ (91)
U. S. Government agency mortgage - backed securities	-	-	17,337	(298)	17,337	(298)
Corporate bonds	-	-	8,936	(64)	8,936	(64)
Totals	$-	$ -	$33,682	$ (453)	$33,682	$ (453)

At September 30, 2015, eight of eleven available-for-sale securities had unrealized holding losses with aggregate depreciation of 0.9% from the amortized cost. At December 31, 2014, all eleven securities had unrealized losses with aggregate depreciation of 1.3% from the amortized cost.

The Company performs a quarterly analysis of those securities that are in an unrealized loss position to determine if those losses qualify as other-than-temporary impairments. This analysis considers the following criteria in its determination: the ability of the issuer to meet its obligations, management's plans and ability to maintain its investment in the security, the length of time and the amount by which the security has been in a loss position, the interest rate environment, the general economic environment and prospects or projections for improvement or deterioration.

Management believes that none of the unrealized losses on available-for-sale securities noted above are other than temporary due to the fact that they relate to market interest rate changes on U.S. Government agency debt, corporate debt and mortgage-backed securities issued by U.S. Government agencies. Management considers the issuers of the securities to be financially sound, the corporate bonds are investment grade and the Company expects to receive all contractual principal and interest related to these investments. Because the Company does not intend to sell the investments, and it will not be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2015.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The amortized cost and fair value of available-for-sale debt securities at September 30, 2015 by contractual maturity are presented below. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be prepaid without any penalties. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following summary:

(in thousands)	Amortized Cost	Fair Value	Unrealized Gain/ (Losses)
Maturity:			
Corporate bonds 5 to 10 years	$ 9,000	$ 9,016	$ 16
U.S. Government agency bonds < 5 years	2,500	2,500	-
U.S. Government agency bonds 5 to 10 years	5,000	5,001	1
U.S. Government agency mortgage-backed securities	14,329	14,202	(127)
Total	$ 30,829	$ 30,719	$ (110)

At September 30, 2015 and December 31, 2014, securities of $5.8 million and $7.4 million respectively, were pledged with the Federal Reserve Bank of New York primarily to secure municipal deposits.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 3: Loans Receivable and Allowance for Loan Losses

A summary of the Company’s loan portfolio at September 30, 2015 and December 31, 2014 is as follows:

(in thousands)	September 30, 2015	December 31, 2014
Commercial	$ 61,184	$ 53,973
Commercial Real Estate	273,715	254,505
Construction	12,386	3,096
Construction to permanent	10,669	10,627
Residential	91,378	108,543
Consumer	46,982	46,164
Total Loans	496,314	476,908
Allowance for loan losses	(5,240)	(4,924)
Loans receivable, net	$ 491,074	$ 471,984

The Company's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut, Westchester County in New York, and the five Boroughs of New York City. The Company originates commercial real estate loans, commercial business loans, construction loans and a variety of consumer loans. In addition, the Company previously had originated loans on residential real estate. All residential and commercial mortgage loans are collateralized primarily by first or second mortgages on real estate. The ability and willingness of borrowers to satisfy their loan obligations is dependent to some degree on the status of the regional economy as well as upon the regional real estate market. Accordingly, the ultimate collectability of a substantial portion of the loan portfolio and the recovery of a substantial portion of any resulting real estate acquired is susceptible to changes in market conditions.

The Company has established credit policies applicable to each type of lending activity in which it engages, evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 75% of the market value of the collateral for commercial real estate at the date of the credit extension depending on the Company's evaluation of the borrowers' creditworthiness and type of collateral and up to 80% for multi–family real estate. In the case of construction loans, the maximum loan-to-value is 75% of the “as completed” appraised value. The appraised value of collateral is monitored on an ongoing basis and additional collateral is requested when warranted. Real estate is the primary form of collateral. Other important forms of collateral are accounts receivable, inventory, other business assets, marketable securities and time deposits.

Risk characteristics of the Company's portfolio classes include the following:

Commercial Real Estate Loans – In underwriting commercial real estate loans, the Company evaluates both the prospective borrower's ability to make timely payments on the loan and the value of the property securing the loans. Repayment of such loans may be negatively impacted should there be a substantial decline in the value of the property securing the loan or a decline in general economic conditions. Where the owner occupies the property, the Company also evaluates the businesses ability to repay the loan on a timely basis. In addition, the Company may require personal guarantees, lease assignments and/or the guarantee of the operating company when the property is owner occupied.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Commercial and Industrial Loans – The Company's commercial and industrial loan portfolio consists primarily of commercial business loans and lines of credit to businesses and professionals. These loans are usually made to finance accounts receivable, the purchase of inventory or new or used equipment and for other short or long-term working capital purposes. These loans are generally secured by business assets, but are also occasionally offered on an unsecured basis. In granting this type of loan, the Company primarily looks to the borrower's cash flow as the source of repayment with collateral and personal guarantees, when obtained, as a secondary source. Payments on such loans are often dependent upon the successful operation of the underlying business. Repayment of such loans may therefore be negatively impacted by adverse changes in economic conditions, management's inability to effectively manage the business, claims of others against the borrower's assets which may take priority over the Company's claims against assets, death or disability of the borrower or loss of market share for the borrower's products or services.

Residential Real Estate Loans – Home equity loans secured by real estate properties are offered by the Company. The Company no longer offers residential mortgages, having exited this business in 2013. Repayment of residential real estate loans may be negatively impacted should the borrower have financial difficulties, should there be a significant decline in the value of the property securing the loan or should there be a decline in general economic conditions.

Construction Loans – Construction loans are short-term loans (generally up to 18 months) secured by land for either residential or commercial development. The loans are generally made for acquisition and development. Funds are disbursed as phases of construction are completed. Construction loans are generally personally guaranteed by the principal(s). Repayment of such loans may be negatively impacted by the builders' inability to complete construction, by a downturn in the new construction market, by a significant increase in interest rates or by a decline in general economic conditions.

Other/Consumer Loans – The Company also offers installment loans, credit cards, consumer overdraft and home equity lines of credit to individuals. Repayments of such loans are often dependent on the personal income of the borrower which may be negatively impacted by adverse changes in economic conditions. The Company does not place a high emphasis on originating these types of loans.

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table sets forth activity in our allowance for loan losses, by loan type, for the three months and nine months ended September 30, 2015. The following table also details the amount of loans receivable that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment.

(in thousands)

Three months ended September 30, 2015	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential**	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses:								
Beginning Balance	$ 982	$ 2,317	$ 275	$ 150	$ 660	$ 726	$ 98	$ 5,208
Charge-offs	-	-	-	-	(7)	(4)	-	(11)
Recoveries	7	35	-	-	-	1	-	43
Provision	(219)	32	119	38	(26)	(25)	81	-
Ending Balance	$ 770	$ 2,384	$ 394	$ 188	$ 627	$ 698	$ 179	$ 5,240

Nine months ended September 30, 2015	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential**	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses:								
Beginning Balance	$ 1,918	$ 1,419	$ 63	$ 215	$ 831	$ 478	$ -	$ 4,924
Charge-offs	-	-	-	-	(10)	(11)	-	(21)
Recoveries	37	35	-	5	-	10	-	87
Provision	(1,185)	930	331	(32)	(194)	221	179	250
Ending Balance	$ 770	$ 2,384	$ 394	$ 188	$ 627	$ 698	$ 179	$ 5,240

September 30, 2015	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential**	**Consumer**	**Unallocated**	**Total**
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 3	$ -	$ 3
Ending balance: collectively evaluated for impairment	770	2,384	394	188	627	695	179	5,237
	$ 770	$ 2,384	$ 394	$ 188	$ 627	$ 698	$ 179	$ 5,240

Total Allowance for Loan Losses								
Total Loans ending balance	$ 61,184	$ 273,715	$ 12,386	$ 10,669	$ 91,378	$ 46,982	$ -	$ 496,314
Ending balance: individually evaluated for impairment	$ -	$ 7,809	$ -	$ -	$ 3,366	$ 552	$ -	$ 11,727
Ending balance: collectively evaluated for impairment	$ 61,184	$ 265,906	$ 12,386	$ 10,669	$ 88,012	$ 46,430	$ -	$ 484,587

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table sets forth activity in our allowance for loan losses, by loan type, for the three months and nine months ended September 30, 2014. The following table also details the amount of loans receivable that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment.

(in thousands)

Three months ended September 30, 2014	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential**	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses:								
Beginning Balance	$ 2,478	$ 1,125	$ -	$ 149	$ 630	$ 694	$ 138	$5,214
Charge-offs	(25)	(297)	-	-	-	(4)	-	(326)
Recoveries	-	15	10	-	-	-	-	25
Provision	(263)	261	66	(27)	(76)	-	39	-
Ending Balance	$ 2,190	$ 1,104	$ 76	$ 122	$ 554	$ 690	$ 177	$4,913

Nine months ended September 30, 2014	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential**	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses:								
Beginning Balance	$ 2,285	$ 1,585	$ 260	$ 25	$ 795	$ 534	$ 197	$5,681
Charge-offs	(37)	(297)	(260)	-	(195)	(39)	-	(828)
Recoveries	4	45	10	-	-	1	-	60
Provision	(62)	(229)	66	97	(46)	194	(20)	-
Ending Balance	$ 2,190	$ 1,104	$ 76	$ 122	$ 554	$ 690	$ 177	$4,913

September 30, 2014	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential**	**Consumer**	**Unallocated**	**Total**
Ending balance: individually evaluated for impairment	$ 1,513	$ 4	$ -	$ -	$ -	$ 3	$ -	$ 1,520
Ending balance: collectively	677	1,100	76	122	554	687	177	3,393

evaluated for impairment								
Total Allowance for Loan Losses	$ 2,190	$ 1,104	$ 76	$ 122	$ 554	$ 690	$ 177	$ 4,913
Total Loans ending balance	$ 56,432	$ 255,556	$ 8,622	$ 11,725	$ 85,942	$ 45,529	$ -	$ 463,806
Ending balance: individually evaluated for impairment	$ 5,827	$ 8,404	$ -	$ -	$ 4,978	$ 558	$ -	$ 19,767
Ending balance: collectively evaluated for impairment	$ 50,605	$ 247,152	$ 8,622	$ 11,725	$ 80,964	$ 44,971	$ -	$ 444,039

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The following table details for the year ended December 31, 2014 the amount of loans receivable that were evaluated individually, and collectively, for impairment, and the related portion of the allowance for the loans losses that was allocated to each loan portfolio segment:

(in thousands)

December 31, 2014	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential	Consumer	Total
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 7	$ 7
Ending balance: collectively evaluated for impairment	1,918	1,419	63	215	831	471	4,917
Total Allowance for Loan Losses	$ 1,918	$ 1,419	$ 63	$ 215	$ 831	$ 478	$ 4,924
Total Loans ending balance	$ 53,973	$ 254,505	$ 3,096	$ 10,627	$ 108,543	$ 46,164	$ 476,908
Ending balance: individually evaluated for impairment	2	7,398	-	-	3,764	560	11,724
Ending balance: collectively evaluated for impairment	$ 53,971	$ 247,107	$ 3,096	$ 10,627	$ 104,779	$ 45,604	$ 465,184

The Company monitors the credit quality of its loans receivable in an ongoing manner. Credit quality is monitored by reviewing certain credit quality indicators and trends, including but not limited to, loan to value ratios, debt service coverage ratios, debt to worth ratios, profitability ratios, cash flows and credit scores.

Appraisals on properties securing non-performing loans and Other Real Estate Owned (“OREO”) are updated annually. We update our impairment analysis monthly based on the most recent appraisal as well as other factors (such as senior lien positions, property taxes, etc.).

The majority of the Company’s impaired loans have been resolved through courses of action other than via liquidations of real estate collateral through OREO. These include normal loan payoffs, the traditional workout process, triggering personal guarantee obligations, and troubled debt restructurings. However, as loan workout efforts progress to a point where the Company's liquidation of real estate collateral is the likely outcome, the impairment analysis is updated to reflect actual recent experience with the Company's sales of OREO properties.

A disposition discount is built into our impairment analysis and reflected in our allowance once a property is determined to be a likely OREO (e.g. foreclosure is probable). To determine the discount we compare the average sales prices of our prior OREO properties to the appraised value that was obtained as of the date when we took title to the property. The difference is the Company owned disposition discount.

The Company has a risk rating system as part of the risk assessment of its loan portfolio. The Company’s lending officers are required to assign a risk rating to each loan in their portfolio at origination, which is ratified or modified by the Committee to which the loan is submitted for approval. When the lender learns of important financial developments, the risk rating is reviewed and adjusted if necessary. Similarly, the Loan Committee can adjust a risk rating. The Company employs a system to ensure an independent review of the ratings annually for commercial credits over $250,000.

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The Company uses an independent third party loan reviewer who performs quarterly reviews of a sample of loans, validating the Company's risk ratings assigned to such loans. Any upgrades to classified loans must be approved by the Management Loan Committee.

When assigning a risk rating to a loan, management utilizes the Company's internal eleven-point risk rating system. An asset is considered “special mention” when it has a potential weakness based on objective evidence, but does not currently expose the Company to sufficient risk to warrant classification in one of the following categories:

An asset is considered “substandard” if it is not adequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Substandard assets have well defined weaknesses based on objective evidence, and are characterized by the “distinct possibility” that the Company will sustain “some loss” if the deficiencies are not corrected.

Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.”

Charge–off generally commences after the loan is classified “doubtful” to reduce the loan to its recoverable balance. If the account is classified as “loss”, the full balance is charged off regardless of the potential recovery from the sale of the collateral. That amount is recognized as a recovery after the collateral is sold.

In accordance with FFIEC (“Federal Financial Institutions Examination Council”) published policies establishing uniform criteria for the classification of retail credit based on delinquency status, “Open-end” credits are charged-off when 180 days delinquent and “Closed-end” credits are charged-off when 120 days delinquent.

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Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The unpaid principal balances of loans on nonaccrual status and considered impaired were $383,000 at September 30, 2015 and $866,000 at December 31, 2014. If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded approximately $3,000 of additional income during the quarter ended September 30, 2015 and $17,000 during the quarter ended September 30, 2014. If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded approximately $8,000 of additional income during the nine months ended September 30, 2015 and $52,000 during the nine months ended September 30, 2014.

The following table sets forth the detail, and delinquency status, of non-accrual loans at September 30, 2015 :

(in thousands)	**Non-Accrual Loans**					
2015	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Current**	**Total Non-Accrual Loans**
Commercial Real Estate						
Substandard	$-	$ -	$ -	$-	$ -	$ -
Total Commercial Real Estate	$-	$ -	$ -	$-	$ -	$ -
Residential Real Estate						
Substandard	$-	$ -	$ 380	$380	$ -	$ 380
Total Residential Real Estate	$-	$ -	$ 380	$380	$ -	$ 380
Consumer						
Substandard	$-	$ -	$ 3	$3	$ -	$ 3
Total Consumer	$-	$ -	$ 3	$3	$ -	$ 3
Total	$-	$ -	$ 383	$383	$ -	$ 383

Generally, loans are placed on non-accruing status when they become 90 days or more delinquent, and remain on non-accrual status until they are brought current, have at least nine months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exist. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent and still be on a non-accruing status.

At September 30, 2015, 2 loans were on non-accrual status totaling $383,000. One of them is a residential real estate loan for $380, 000 and the other one is a $3,000 consumer auto loan.

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The following table sets forth the detail, and delinquency status, of non-accrual loans at December 31, 2014:

(in thousands)	**Non-Accrual Loans**					
2014	**31-60 Days Past Due**	**61-90 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**Total Non-Accrual Loans**
Commercial						
Substandard	$-	$ -	$ 2	$2	$ -	$ 2
Total Commercial	$-	$ -	$ 2	$2	$ -	$ 2
Commercial Real Estate						
Substandard	$-	$ -	$ -	$-	$ 138	$ 138
Total Commercial Real Estate	$-	$ -	$ -	$-	$ 138	$ 138
Residential Real Estate						
Substandard	$-	$ -	$ 719	$719	$ -	$ 719
Total Residential Real Estate	$-	$ -	$ 719	$719	$ -	$ 719
Consumer						
Substandard	$-	$ -	$ 7	$7	$ -	$ 7
Total Consumer	$-	$ -	$ 7	$7	$ -	$ 7
Total	$-	$ -	$ 728	$728	$ 138	$ 866

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The following table sets forth the detail and delinquency status of loans receivable, by performing and non-performing loans at September 30, 2015.

(in thousands)	**Performing (Accruing) Loans**							
2015	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Current**	**Total Performing Loans**	**Total Non-Accrual Loans**	**Total Loans**
Commercial								
Pass	$-	$3,061	$74	$3,135	$52,849	$ 55,984	$ -	$55,984
Special Mention	-	-	-	-	101	101	-	$101
Substandard	-	-	-	-	5,099	5,099	-	$5,099
Total Commercial	$-	$3,061	$74	$3,135	$58,049	$ 61,184	$ -	$61,184
Commercial Real Estate								
Pass	$-	$3,310	$1,624	$4,934	$260,186	$ 265,120	$ -	$265,120
Special Mention	-	1,014	-	1,014	5,887	6,901	-	6,901
Substandard	-	-	-	-	1,694	1,694	-	1,694
Total Commercial Real Estate	$-	$4,324	$1,624	$5,948	$267,767	$ 273,715	$ -	$273,715
Construction								
Pass	$-	$-	$-	$-	$12,386	$ 12,386	$ -	$12,386
Total Construction	$-	$-	$-	$-	$12,386	$ 12,386	$ -	$12,386
Construction to Permanent								
Pass	$-	$-	$-	$-	$10,669	$ 10,669	$ -	$10,669
Total Construction to Permanent	$-	$-	$-	$-	$10,669	$ 10,669	$ -	$10,669
Residential Real Estate								
Pass	$-	$1,342	$1,594	$2,936	$88,062	$ 90,998	$ -	$90,998
Substandard	-	-	-	-	-	-	380	380
Total Residential Real Estate	$-	$1,342	$1,594	$2,936	$88,062	$ 90,998	$ 380	$91,378
Consumer								
Pass	$12	$348	$8	$368	$46,611	$ 46,979	$ -	$46,979
Substandard	-	-	-	-	-	-	3	3
Total Consumer	$12	$348	$8	$368	$46,611	$ 46,979	$ 3	$46,982
Total								

Pass	$12	$8,061	$3,300	$11,373	$470,763	$ 482,136	$ -	$482,136
Special Mention	-	1,014	-	1,014	5,988	7,002	-	7,002
Substandard	-	-	-	-	6,793	6,793	383	7,176
Grand Total	**$12**	**$9,075**	**$3,300**	**$12,387**	**$483,544**	**$ 495,931**	**$ 383**	**$496,314**

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The following table sets forth the detail and delinquency status of loans receivable, by performing and non-performing loans at December 31, 2014.

(in thousands)	**Performing (Accruing) Loans**							
2014	**31-60 Days Past Due**	**61-90 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**Total Performing Loans**	**Total Non-Accrual Loans**	**Total Loans**
Commercial								
Pass	$1,520	$ -	$ 279	$1,799	$46,279	$ 48,078	$ -	$48,078
Special Mention	-	-	-					