

PATRIOT NATIONAL BANCORP INC

Form 10-Q

August 13, 2012

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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 June 30, 2012

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)

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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 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 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

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

Yes No

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, 38,467,073 shares outstanding as of the close of business July 31, 2012.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1: Consolidated Financial Statements****PATRIOT NATIONAL BANCORP, INC.****CONSOLIDATED BALANCE SHEETS**

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	\$ 3,720,985	\$ 4,241,552
Interest bearing deposits	58,456,392	50,474,257
Short-term investments	710,157	709,567
Total cash and cash equivalents	62,887,534	55,425,376
Securities:		
Available for sale securities, at fair value (Note 2)	56,342,630	66,469,972
Other Investments	3,500,000	3,500,000
Federal Reserve Bank stock, at cost	1,719,550	1,707,000
Federal Home Loan Bank stock, at cost	4,343,800	4,508,300
Total securities	65,905,980	76,185,272
Loans receivable (net of allowance for loan losses: 2012: \$6,673,648 2011: \$9,384,672) (Note 3)	483,858,072	501,227,297
Loans held for sale		250,000
Accrued interest and dividends receivable	2,289,346	2,453,179
Premises and equipment, net	4,712,520	4,108,318
Cash surrender value of life insurance	21,247,568	20,984,604
Other real estate owned	1,517,755	2,762,640
Deferred tax asset (Note 6)		
Other assets	1,848,344	2,419,592
Total assets	\$ 644,267,119	\$ 665,816,278
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits (Note 4):		
Noninterest bearing deposits	\$ 71,722,494	\$ 65,613,374
Interest bearing deposits	450,373,261	479,296,019
Total deposits	522,095,755	544,909,393
Borrowings:		
Repurchase agreements	7,000,000	7,000,000
Federal Home Loan Bank borrowings	50,000,000	50,000,000
Total borrowings	57,000,000	57,000,000
Junior subordinated debt owed to unconsolidated trust	8,248,000	8,248,000
Accrued expenses and other liabilities	5,164,509	5,109,225
Total liabilities	592,508,264	615,266,618

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Commitments (Note 9)

Shareholders equity

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; 2012: 38,478,778 shares issued; 38,467,073 shares outstanding. 2011: 38,374,432 shares issued; 38,362,727, shares outstanding	384,787	383,744
Additional paid-in capital	105,182,518	105,050,433
Accumulated deficit	(53,968,019)	(54,858,831)
Less: Treasury stock, at cost: 2012 and 2011 11,705 shares	(160,025)	(160,025)
Accumulated other comprehensive income	319,594	134,339
Total shareholders equity	51,758,855	50,549,660
Total liabilities and shareholders equity	\$ 644,267,119	\$ 665,816,278

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents**PATRIOT NATIONAL BANCORP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended		Six Months Ended	
	2012	June 30, 2011	2012	June 30, 2011
Interest and Dividend Income				
Interest and fees on loans	\$ 5,811,733	\$ 6,538,593	\$ 12,477,525	\$ 13,495,154
Interest on investment securities	426,658	486,738	903,688	760,921
Dividends on investment securities	31,879	80,728	65,160	150,629
Interest on federal funds sold		2,385		6,411
Other interest income	40,160	58,363	50,638	120,253
Total interest and dividend income	6,310,430	7,166,807	13,497,011	14,533,368
Interest Expense				
Interest on deposits	1,421,170	1,553,745	2,938,014	3,419,094
Interest on Federal Home Loan Bank borrowings	354,591	423,529	711,428	842,404
Interest on subordinated debt	74,677	71,219	151,244	141,617
Interest on other borrowings	76,927	76,927	153,853	153,009
Total interest expense	1,927,365	2,125,420	3,954,539	4,556,124
Net interest income	4,383,065	5,041,387	9,542,472	9,977,244
Provision for Loan Losses	(1,713,425)	1,482,798	(2,558,827)	8,464,427
Net interest income after provision for loan losses	6,096,490	3,558,589	12,101,299	1,512,817
Non-interest Income				
Mortgage brokerage referral fees	22,117	1,610	34,537	14,610
Loan application, inspection & processing fees	15,986	23,966	30,713	40,765
Deposit fees and service charges	227,064	248,039	455,732	528,940
Gain on sale of loans		79,729	263,646	79,729
Loss on sale of investment securities			(8,042)	
Earnings on cash surrender value of life insurance	120,294	152,985	262,963	321,245
Other income	69,639	203,984	165,548	307,874
Total non-interest income	455,100	710,313	1,205,097	1,293,163
Non-interest Expense				
Salaries and benefits	2,725,721	3,189,311	5,616,445	6,403,826
Occupancy and equipment expense	1,135,113	1,291,826	2,258,697	2,646,393
Data processing	345,704	336,005	691,725	663,809
Advertising and promotional expense	8,234	271,781	25,963	429,755
Professional and other outside services	854,268	1,234,958	1,469,350	2,116,665
Loan administration and processing expense	45,624	48,159	53,904	85,218
Regulatory assessments	462,153	628,476	872,154	1,239,744
Insurance expense	108,775	228,637	278,020	459,411

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Other real estate operations	16,351	774,450	(133,896)	1,044,957
Material and communications	132,734	164,115	263,912	364,253
Restructuring charges and asset disposals (Note 12)	126,730	2,986,441	495,207	2,986,441
Other operating expense	244,901	290,111	524,103	523,474
Total non-interest expense	6,206,308	11,444,270	12,415,584	18,963,946
Income (loss) before income taxes	345,282	(7,175,368)	890,812	(16,157,966)
Provision for Income Taxes				
Net income (loss)	\$ 345,282	\$ (7,175,368)	\$ 890,812	\$ (16,157,966)
Basic and diluted income (loss) per share (Note 7)	\$ 0.01	\$ (0.19)	\$ 0.02	\$ (0.42)

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents**PATRIOT NATIONAL BANCORP, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net income (loss)	\$ 345,282	\$ (7,175,368)	\$ 890,812	\$ (16,157,966)
Other comprehensive income:				
Unrealized holding gains on securities, net of taxes:				
Unrealized holding gains arising during the period	122,856	247,521	190,241	250,746
Less reclassification adjustment for losses included in net income			(4,986)	
Total	122,856	247,521	185,255	250,746
Comprehensive income (loss)	\$ 468,138	\$ (6,927,847)	\$ 1,076,067	\$ (15,907,220)

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents**PATRIOT NATIONAL BANCORP, INC.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY****(Unaudited)**

	Number of Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total
Six months ended June 30, 2011							
Balance at December 31, 2010	38,362,727	\$ 383,744	\$ 105,050,433	\$ (39,399,345)	\$ (160,025)	\$ 1,297,381	\$ 67,172,188
Comprehensive loss							
Net loss				(16,157,966)			(16,157,966)
Unrealized holding gain on available for sale securities, net of taxes						250,746	250,746
Total comprehensive loss							(15,907,220)
Balance, June 30, 2011	38,362,727	\$ 383,744	\$ 105,050,433	\$ (55,557,311)	\$ (160,025)	\$ 1,548,127	\$ 51,264,968
Six months ended June 30, 2012							
Balance at December 31, 2011	38,362,727	\$ 383,744	\$ 105,050,433	\$ (54,858,831)	\$ (160,025)	\$ 134,339	\$ 50,549,660
Comprehensive income							
Net income				890,812			890,812
Unrealized holding gain on available for sale securities, net of taxes						185,255	185,255
Total comprehensive income							1,076,067
Share-based compensation expense			133,128				133,128
Issuance of restricted stock	104,346	1,043	(1,043)				
Balance, June 30, 2012	38,467,073	\$ 384,787	\$ 105,182,518	\$ (53,968,019)	\$ (160,025)	\$ 319,594	\$ 51,758,855

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents**PATRIOT NATIONAL BANCORP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Six Months Ended	
	2012	June 30, 2011
Cash Flows from Operating Activities:		
Net income (loss)	\$ 890,812	\$ (16,157,966)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Restructuring charges and asset disposals	(5,049)	1,996,441
Amortization and accretion of investment premiums and discounts, net	213,178	116,431
Amortization and accretion of purchase loan premiums and discounts, net	7,272	5,028
Provision for loan losses	(2,558,827)	8,464,427
Gain on sale of loans	(263,646)	(79,729)
Loss on sale of investment securities	8,042	
Amortization of core deposit intangible	6,963	7,506
Earnings on cash surrender value of life insurance	(262,964)	(321,245)
Depreciation and amortization	606,350	684,904
(Gain) loss on sale of other real estate owned	(201,355)	58,215
Impairment writedown on other real estate owned		165,764
Share-based compensation	133,128	
Changes in assets and liabilities:		
Decrease in deferred loan costs	36,089	100,958
Decrease in accrued interest and dividends receivable	163,833	182,723
Decrease in other assets	564,285	6,717,760
(Decrease) increase in accrued expenses and other liabilities	(61,423)	457,203
Net cash (used in) provided by operating activities	(723,312)	2,398,420
Cash Flows from Investing Activities:		
Principal repayments on available for sale securities	5,039,296	3,976,411
Proceeds from the sale (purchases) of available for sale securities	5,165,626	(51,995,480)
Redemptions of Federal Reserve Bank Stock		455,500
Purchases of Federal Reserve Bank Stock	(12,550)	(1,174,100)
Proceeds from repurchase of excess Federal Home Loan Bank Stock	164,500	
Proceeds from sale of loans	67,126,928	55,089,794
Net (increase) decrease in loans	(47,966,735)	16,308,380
Purchase of other real estate owned		(481,165)
Proceeds from sale of other real estate owned	1,823,435	15,715,973
Capital improvements of other real estate owned	(89,051)	
Purchase of bank premises and equipment	(252,341)	(218,522)
Net cash provided by investing activities	30,999,108	37,676,791
Cash Flows from Financing Activities:		
Net increase (decrease) in demand, savings and money market deposits	7,813,928	(9,443,954)
Net decrease in time certificates of deposits	(30,627,566)	(112,860,038)
Net cash used in financing activities	(22,813,638)	(122,303,992)

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Net increase in cash and cash equivalents	7,462,158	(82,228,781)
Cash and Cash Equivalents:		
Beginning	55,425,376	146,777,658
Ending	\$ 62,887,534	\$ 64,548,877

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PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued

(Unaudited)

	Six Months Ended	
	2012	June 30, 2011
Supplemental Disclosures of Cash Flow Information		
Interest paid	\$ 3,807,140	\$ 4,432,799
Income taxes paid	\$	\$ 10,534
Supplemental disclosures of noncash operating, investing and financing activities:		
Unrealized holding gain on available for sale securities arising during the period	\$ 306,842	\$ 459,133
Transfer of loans to other real estate owned	\$ 1,238,144	\$ 2,661,330
Transfer of other real estate owned to premises and equipment	\$ 950,000	\$

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents**PATRIOT NATIONAL BANCORP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****Note 1: Basis of Financial Statement Presentation**

The Consolidated Balance Sheet at December 31, 2011 has been derived from the audited financial statements of Patriot National Bancorp, Inc. (Bancorp or 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 audited financial statements of Bancorp and notes thereto for the year ended December 31, 2011.

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 six months ended June 30, 2012 are not necessarily indicative of the results of operations that may be expected for the remainder of 2012.

Note 2: Investment Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available-for-sale securities at June 30, 2012 and December 31, 2011 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012:				
U. S. Government agency bonds	\$ 5,000,000	\$ 16,920	\$	\$ 5,016,920
U. S. Government agency mortgage-backed securities	38,624,381	1,020,326	(1,942)	39,642,765
Corporate bonds	12,202,773	8,553	(528,381)	11,682,945
	\$ 55,827,154	\$ 1,045,799	\$ (530,323)	\$ 56,342,630
December 31, 2011:				
U. S. Government agency bonds	\$ 5,000,000	\$ 37,085	\$	\$ 5,037,085
U. S. Government agency mortgage-backed securities	49,004,232	1,051,097	(5,900)	50,049,429
Corporate bonds	12,249,064	25,338	(890,944)	11,383,458
	\$ 66,253,296	\$ 1,113,520	\$ (896,844)	\$ 66,469,972

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The following table presents the gross unrealized loss and fair value of Bancorp's available-for-sale securities, aggregated by the length of time the individual securities have been in a continuous loss position, at June 30, 2012 and December 31, 2011:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2012:						
U. S. Government mortgage - backed securities	\$ 67,729	\$ (160)	\$ 285,040	\$ (1,782)	\$ 352,769	\$ (1,942)
Corporate bonds	5,814,060	(185,940)	2,657,559	(342,441)	8,471,619	(528,381)
Totals	\$ 5,881,789	\$ (186,100)	\$ 2,942,599	\$ (344,223)	\$ 8,824,388	\$ (530,323)
December 31, 2011:						
U. S. Government mortgage - backed securities	\$ 4,941,662	\$ (5,492)	\$ 68,309	\$ (408)	\$ 5,009,971	\$ (5,900)
Corporate bonds	8,358,120	(890,944)			8,358,120	(890,944)
Totals	\$ 13,299,782	\$ (896,436)	\$ 68,309	\$ (408)	\$ 13,368,091	\$ (896,844)

At June 30, 2012, eight securities had unrealized holding losses with aggregate depreciation of 5.7% from the amortized cost. At December 31, 2011, nine securities had unrealized losses with aggregate depreciation of 6.3% from the amortized cost.

Bancorp 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, an impairment due to a deterioration in credit, 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 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 is not more-likely-than-not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2012.

The amortized cost and fair value of available-for-sale debt securities at June 30, 2012 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 maturity summary:

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	Amortized Cost	Fair Value
Maturity:		
Over 10 years	\$	\$
Corporate bonds < 5 years	3,202,773	3,211,326
Corporate bonds 5 to 10 years	9,000,000	8,471,619
U.S. Government bonds 5 to 10 years	5,000,000	5,016,920
Mortgage-backed securities	38,624,381	39,642,765
Total	\$ 55,827,154	\$ 56,342,630

Note 3: Loans Receivable and Allowance for Loan Losses

A summary of the Company's loan portfolio at June 30, 2012 and December 31, 2011 is as follows:

	June 30, 2012	December 31, 2011
Real Estate		
Commercial	\$ 237,217,702	\$ 215,659,837
Residential	149,905,067	188,108,855
Construction	6,217,516	12,306,922
Construction to permanent	8,287,915	10,012,022
Commercial	32,379,945	31,810,735
Consumer home equity	53,587,509	49,694,546
Consumer installment	2,125,347	2,164,972
Total Loans	489,721,001	509,757,889
Premiums on purchased loans	223,853	231,125
Net deferred costs	586,866	622,955
Allowance for loan losses	(6,673,648)	(9,384,672)
Loans receivable, net	\$ 483,858,072	\$ 501,227,297

On March 29, 2012, the Bank completed the sale of \$66.4 million of residential loans consummated for a cash purchase price of \$66.7 million, which represented 101% of the Bank's net book value for these assets.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Balance, beginning of period	\$ 8,460,943	\$ 12,208,476	\$ 9,384,672	\$ 15,374,101
Provision for loan losses	(1,713,425)	1,482,798	(2,558,827)	8,464,427
Loans charged-off	(90,739)	(3,034,591)	(193,223)	(7,188,138)
Recoveries of loans previously charged-off	16,869	743,044	41,026	763,650
Transferred to loans held-for-sale				(6,014,313)
Balance, end of period	\$ 6,673,648	\$ 11,399,727	\$ 6,673,648	\$ 11,399,727

At June 30, 2012 and December 31, 2011, the unpaid balances of loans 90 days or more past maturity, and still accruing interest were \$4,234,926 and \$9,461,106, respectively. All of the borrowers of said loans at June 30, 2012 continue to make interest payments, but are past maturity where payoff is pending or are in the process of being renewed.

The unpaid principal balances of loans on nonaccrual status and considered impaired were \$17.5 million at June 30, 2012 and \$20.7 million at December 31, 2011.

If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded approximately \$274,000 of additional income during the quarter ended June 30, 2012 and \$0.5 million during the quarter ended June 30, 2011. If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded approximately \$584,000 of additional income for the six months ended June 30, 2012 and \$1.5 million for the six months ended June 30, 2011.

For the three months ended June 30, 2012 and 2011, the interest collected and recognized as income on impaired loans, which includes non-accrual loans, TDRs and loans that were previously classified as TDRs that have been upgraded, was approximately \$0 and \$30,000, respectively. For the six months ended June 30, 2012 and 2011, the interest income collected and recognized on impaired loans was approximately \$180,000 and \$461,000 respectively. The average recorded investment in impaired loans for the three and six months ended June 30, 2012 was \$34.0 million and \$34.1 million respectively.

At June 30, 2012, there were ten loans totaling \$22.9 million that were considered troubled debt restructurings, as compared to December 31, 2011 when there were twelve loans totaling \$25.5 million, all of which were included in impaired loans. At June 30, 2012, six of the ten loans aggregating \$16.0 million were accruing loans and four loans aggregating \$6.8 million were non-accruing loans.

The Company's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County, New York City and Long Island, New York. The Company originates commercial real estate loans, commercial business loans and a variety of consumer loans. In addition, the Company had originated loans for the construction of residential homes, residential developments and for land development projects. A moratorium on all new speculative construction loans was instituted by management in July 2008. 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.

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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 borrower's creditworthiness and type of collateral and up to 80% for residential 1-4 family real estate. In the case of construction loans, the maximum loan-to-value was 65% of the as completed market value. The market value of collateral is monitored on an ongoing basis and additional collateral is obtained 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. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrower's ability to generate continuing cash flows on all loans not related to construction.

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 the borrower default or should there be a substantial decline in the value of the property securing the loan or a decline in the general economic conditions. Where the owner occupies the property, the Company also evaluates the business's 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. These types of loans may involve some additional risks than in investor owned commercial real estate lending, because payments on such loans are dependent upon the successful operation of the business involved, therefore, repayment of such loans may be negatively impacted by adverse changes in economic conditions affecting the borrower's businesses.

Construction Loans Construction loans are short-term loans (generally up to 18 months) secured by land for both residential and commercial development. The loans are generally made for acquisition and improvements. Funds are disbursed as phases of construction are completed.

In the past, the Company funded construction of single family homes, when no contract of sale existed, based upon the experience of the builder, the financial strength of the owner, the type and location of the property and other factors. 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. The Company has had a moratorium in place since mid-2008 on new speculative construction loans.

Residential Real Estate Loans Various loans secured by residential real estate properties are offered by the Company, including 1-4 family residential mortgages, multi-family residential loans and a variety of home equity line of credit products. Repayment of such loans may be negatively impacted should the borrower default, 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.

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 the purchase of inventory, new or used equipment or other short or long-term working capital purposes. These loans are generally secured by corporate assets, often with real estate as secondary collateral, 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, where obtained, as a secondary source. Commercial loans are often larger and may involve greater risks than other types of loans offered by the Company. Payments on such loans are often dependent upon the successful operation of the underlying business involved and, therefore, repayment of such loans may 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 for the borrower's products or services.

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Other Loans The Company also offers installment loans and reserve 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 an 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.

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The following table sets forth activity in our allowance for loan losses, by loan type, for the three months ended June 30, 2012. The following table also details the amount of loans receivable, net, 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.

Three months ended June 30, 2012	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	\$ 1,094,736	\$ 4,645,248	\$ 842,636	\$ 236,313	\$ 1,049,555	\$ 413,724	\$ 178,731	\$ 8,460,943
Charge-offs	(44,471)				(32,150)	(14,118)		(90,739)
Recoveries	1,500	14,988				381		16,869
Provision	(316,423)	(877,846)	(592,125)	(114,863)	192,498	103,345	(108,011)	(1,713,425)
Ending Balance	\$ 735,342	\$ 3,782,390	\$ 250,511	\$ 121,450	\$ 1,209,903	\$ 503,332	\$ 70,720	\$ 6,673,648
Ending balance: individually evaluated for impairment	\$ 37,330	\$ 139,851	\$ 31,520	\$ 110,045	\$ 30,291	\$ 151,501	\$	\$ 500,538
Ending balance: collectively evaluated for impairment	\$ 698,012	\$ 3,642,539	\$ 218,991	\$ 11,405	\$ 1,179,612	\$ 351,831	\$ 70,720	\$ 6,173,110
Total Allowance for Loan Losses	\$ 735,342	\$ 3,782,390	\$ 250,511	\$ 121,450	\$ 1,209,903	\$ 503,332	\$ 70,720	\$ 6,673,648
Total Loans ending balance	\$ 32,379,945	\$ 237,217,702	\$					