PATRIOT NATIONAL BANCORP INC
Form 10KSB
March 30, 2006

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10 - KSB

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

For the Fiscal Year Ended December 31, 2005

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

For the transition period from ____________________ to ____________________

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.
(Name of small business issuer 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)
Issuer's telephone number	(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

Check whether the issuer (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 ___

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B 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-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenue for its most recent fiscal year: $ 28,377,738

Aggregate market value of the voting stock held by nonaffiliates of the registrant as of February 28, 2006 based on the last sale price as reported on the NASDAQ Small Cap Market: $ 51,106,227.

Number of shares of the registrant's Common Stock, par value $2.00 per share, outstanding as of February 28, 2006: 3,230,649.

Documents Incorporated by Reference

Proxy Statement for 2006 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-KSB.)	Incorporated into Part III of this Form 10-KSB

Transitional Small Business Disclosure Format (check one):

Yes___ No _X

Table of Contents

PART I

Item 1. Description of Business

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 branch offices in Greenwich and Old Greenwich, Connecticut, two branch offices in Norwalk, Connecticut, a second Stamford location, two branch offices in Wilton, Connecticut, a branch office in Darien, Connecticut and a branch office in Southport, Connecticut. The Bank recently received regulatory approval to open three branch offices, two in Fairfield, Connecticut and one in Milford, Connecticut.

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 Patriot National Bank Residential Lending Group (*"Residential Lending Group"*), a division of the Bank. PinPat Acquisition Corporation is presently an inactive subsidiary of the 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.

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.

The Bank conducts business at its main office located at 900 Bedford Street, Stamford, Connecticut and at branch offices located at: 838 High Ridge Road, Stamford, Connecticut, 100 Mason Street, Greenwich, Connecticut, 184 Sound Beach Avenue, Old Greenwich, Connecticut, 16 River Street and 365 Westport Avenue in Norwalk, Connecticut, One Danbury Road and 5 River Road in Wilton, Connecticut, 800 Post Road in Darien, Connecticut and

3695 Post Road in Southport, Connecticut. The Bank also operates loan origination offices at: 1177 Summer Street, Stamford, Connecticut, 200 Broad Hollow Road, Melville, New York and 450 7th Avenue, New York, New York.

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 and IRA’s (Individual Retirement Accounts). Other services include money orders, traveler’s checks, ATM’s (automated teller machines), internet banking and debit cards. In addition, the Bank may in the future offer Keogh accounts and 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 lines of credit. Other personal loans include lines of credit, installment loans 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. The Bank offers residential mortgages through its Residential Lending Group. The Residential Lending Group solicits and processes mortgage loan applications from consumers on behalf of permanent investors and originates loans for sale.

The Bank competes with a variety of financial institutions in its market area. Most have greater financial resources and capitalization, which gives them higher lending limits and the ability to conduct larger advertising campaigns to attract business. Generally the larger institutions offer 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 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 is not dependent on one or a few major customers for either 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 and Southport, Connecticut provide the majority of the Bank’s deposits. 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. This area is bordered by New York State to the west, the Town of Ridgefield to the north, the Town of Bridgeport to the east, and the Long Island Sound to the south.

The Bank's loan customers extend beyond Stamford, Greenwich, Norwalk, Wilton, Darien and Southport to include nearby towns in Fairfield County, Connecticut, and towns in Westchester County, New York, although the Bank's loan business is not necessarily limited to these areas. The Bank's mortgage brokerage business is concentrated primarily in the areas surrounding its loan origination offices. 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 to maintain adequate levels of liquidity.

The Bank's employees perform most routine day-to-day banking transactions at the Bank. However, 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 carrier service.

The cities of Stamford and Norwalk and the towns of Greenwich, Wilton, Darien, and Southport are presently served by approximately 182 branches of commercial banks and savings banks, most of which are offices of banks which have headquarters outside of the state or area 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 and Southport, posing significant competition to the Bank for deposits and loans. Many of such 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. This increase in competition has caused banks and other financial service institutions to diversify their services and become more cost effective as a result of competition with one another and with new types of financial service companies, including non-bank competitors. The impact on Bancorp of federal legislation authorizing increased services by financial holding companies and interstate branching of banks has 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.

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. While the creation of financial holding companies is evolving, to date there has been 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 the Federal Reserve Board's view that a bank holding company should pay cash dividends only to the extent that 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 the bank holding company's 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. Connecticut has "opted in"; New York has not, so at the present time the bank cannot establish a branch (deposit taking and loan making facility) in New York State except through the purchase of an existing New York bank or branch of a New York bank.

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 regulate, 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 nature and amount of collateral for certain loans a bank makes, 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 thereunder. 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.

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. For example, this may 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 Stamford, Greenwich, Norwalk, Wilton, Darien and Southport, 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 recently 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. On September 21, 2005, the SEC extended the Section 404 compliance dates for non-accelerated filers (those issuers with non-affiliated public float of less than $75 million) to fiscal years ending on or after July 15, 2007. Due to the burdens on smaller companies in designing and implementing compliance with this section, the SEC Advisory Committee on Smaller Public companies is considering recommendations for companies with market capitalization of less that $75 million that may exempt these companies from certain requirements of Section 404.

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. The Bank has, however, registered the trademark "Patriot" and the corresponding logo with the State of Connecticut Trademark Office. Compliance by Bancorp and the Bank with federal, state and local provisions which have been enacted or adopted regulating or otherwise relating to the discharge of material into the environment is not expected to have a material effect upon the capital expenditures, earnings or competitive position of Bancorp.

As of December 31, 2005, Bancorp had 97 full-time employees and seven part-time employees. None of the employees of Bancorp is covered by a collective bargaining agreement.

Item 2. Description of 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 nine other branch banking offices, three approved branch locations scheduled to open in 2006, one of which is currently under renovation, and three loan origination offices. The Bank also leases space at its main office for additional parking. Lease commencement dates for office locations range from July 1, 2002 to January 1, 2006 and lease expiration dates fall between June 30, 2007 and December 31, 2015. Subsequent to December 31, 2005 the Bank entered into two leases for new branch locations with lease expiration dates during 2016 and 2021; definitive expiration dates are dependent upon the determination of lease commencement dates. 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 retail eyeglass store. See also, "Item 12. Certain Relationships and Related Transactions."

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 2005, no matter was submitted to a vote of shareholders.

PART II

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

Market Information

Bancorp Common Stock is traded on the NASDAQ Small Cap Market under the Symbol "PNBK." On December 31, 2005, the last sale price for Bancorp Common Stock on NASDAQ Small Cap Market was $20.75.

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 Small Cap Market.

	2005			2004		
	Sales Price		Cash Dividends	Sales Price		Cash Dividends
Quarter Ended	High	Low	Declared	High	Low	Declared
March 31	$ 18.38	$ 17.95	$ 0.035	$ 16.25	$ 12.49	$ 0.030
June 30	19.96	18.07	0.040	15.25	14.03	0.035
September 30	19.37	18.49	0.040	14.99	13.51	0.035
December 31	21.25	19.06	0.040	18.60	14.01	0.035

Holders

There were approximately 708 shareholders of record of Bancorp Common Stock as of December 31, 2005.

Dividends

2001 marked the first year in which Bancorp paid a dividend on Bancorp Common Stock; since then, the Company has consistently paid dividends.

Bancorp's ability to pay future dividends on its Common Stock depends on the Bank's ability to pay dividends to Bancorp. In accordance with OCC rules and regulations, the Bank may continue to pay dividends only if the total amount of all dividends that will be paid, including the proposed dividend, by the Bank in any calendar year does not exceed the total of the Bank's retained net income of that year to date, combined with the retained net income of the preceding two years, unless the proposed dividend is approved by the OCC. In addition, the OCC and/or the FDIC may impose further restrictions on dividends. Future dividends depend on many factors, including management's estimates of future earnings and Bancorp's need for capital.

Recent Sales of Unregistered Securities

On October 26, 2005, the Company issued 1,375 shares of its common stock to its six outside directors. Pursuant to a new policy adopted by the Board in February 2005, outside directors serving on the board receive an annual award of the Company's common stock valued at $5,000; the award is prorated for directors who have served less than a full year. Normally these shares would be issued and priced at the time of the annual meeting of shareholders; however, in 2005, the Company was actively involved in its rights offering preparation at the time of the annual meeting, and deferred issuance of the director stock until after that offering had been priced and completed. The shares have not been registered under the Securities Act of 1933 and therefore were issued in a private placement transaction exempt from registration under Section 4(2) of the Securities Act. For purposes of this transaction, the Company shares were valued at approximately $19.118 per share, or a total value of $26,250.

Purchases of Equity Securities by the Small Business Issuer and Affiliated Purchasers

During the fourth quarter of 2005 there were no such purchases of Bancorp Common Stock.

Securities Authorized for Issuance under Equity Compensation Plans

The following table presents information as of December 31, 2005 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	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	73,000	$10.13	-
Equity compensation plans not approved by security holders	-	-	-
Total	73,000	$10.13	-

10

Item 6. Management's Discussion and Analysis or Plan of Operation

Patriot National Bancorp, Inc
Financial Highlights

	2005	2004	2003	2002	2001
Operating Data					
Interest and dividend income	$ 25,148,701	$ 18,678,251	$ 15,214,702	$ 12,604,718	$ 13,722,943
Interest expense	10,269,625	7,008,508	5,588,255	4,764,693	6,866,960
Net interest income	14,879,076	11,669,743	9,626,447	7,840,025	6,855,983
Provision for loan losses	1,110,000	556,000	563,000	468,000	250,000
Noninterest income	3,229,037	2,702,204	4,813,740	4,113,820	3,509,955
Noninterest expense	14,634,487	12,256,550	11,659,467	9,812,838	8,675,551
Net income	1,406,626	926,397	1,340,720	1,052,007	876,387
Basic income per share	0.52	0.38	0.56	0.44	0.37
Diluted income per share	0.51	0.37	0.55	0.43	0.36
Dividends per share	0.155	0.135	0.115	0.095	0.060
Balance Sheet Data					
Cash and due from banks	7,220,557	6,670,409	4,023,732	5,385,757	7,544,242
Federal funds sold	6,500,000	37,500,000	15,000,000	3,000,000	12,700,000
Short term investments	2,247,028	11,460,057	10,430,939	3,348,968	6,788,569
Investment securities	80,991,068	78,258,775	92,330,533	61,720,716	35,816,880
Loans, net	364,243,777	263,874,820	214,420,528	170,794,939	135,680,036
Total assets	470,641,162	405,046,955	342,469,049	248,496,753	202,569,457
Total deposits	419,075,288	367,005,325	289,992,182	217,911,260	183,263,939
Total borrowings	17,248,000	16,248,000	31,301,385	10,292,675	839,280
Total shareholders' equity	31,374,615	19,756,434	18,779,913	18,544,955	17,406,016

(a) *Plan of Operation*

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

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

Summary

Bancorp's subsidiary, Patriot National Bank established its tenth branch banking office in June of 2005. In addition, Bancorp successfully completed a shareholder rights offering during September 2005 resulting in an increase in common stock of $12.0 million, $11.0 million, net of offering fees and expenses. Eligible shareholders purchased $6.3 million or 368,687 shares; standby investors purchased $5.7 million or 337,196 shares.

Bancorp reported earnings of $1,407,000 ($0.52 basic income per share and $0.51 diluted income per share) for 2005 compared to $926,000 ($0.38 basic income per share and $0.37 diluted income per share) for 2004. Total assets ended the year at a new record high of $470.6 million, an increase of $65.6 million from December 31, 2004.

Net interest income for the year ended December 31, 2005 increased $3.2 million or 28% to $14.9 million as compared to $11.7 million for the year ended December 31, 2004.

Total assets increased by 16% during the year as total loans increased from $263.9 million at December 31, 2004 to $364.2 million at December 31, 2005. The available for sale securities portfolio increased $2.4 million or 3% to $78.7 million from $76.3 million at December 31, 2004. Loan growth was funded through deposit growth and a reduction in federal funds sold and short term investments. Deposits increased $52.1 million to $419.1 million at December 31, 2005; interest bearing deposits increased $45.9 million, or 14%, and non-interest bearing deposits increased $6.2 million or 15%. Shareholders' equity increased $11.6 million; this increase is the result of the stock offering, the exercise of certain stock options and the increase in retained earnings from net income, net of dividend payments. The increase in shareholder's equity is partially offset by the increase in accumulated other comprehensive loss due to unrealized losses on the available for sale securities portfolio.

FINANCIAL CONDITION

Assets

Bancorp's total assets increased $65.6 million or 16% from $405.0 million at December 31, 2004 to $470.6 million at December 31, 2005. The growth in total assets was funded primarily by deposit growth of $52.1 million and $11.0 million in capital raised through the rights offering. Federal funds sold and short term investments decreased $31.0 million and $9.2 million, respectively; these decreases were used to fund loan growth.

Investments

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

	2005	2004	2003
U. S. Government Agency and Sponsored Agency Obligations	$ 16,476,684	$ 14,823,295	$ 11,865,618
Mortgage-backed securities	56,195,384	52,446,180	66,696,465
Marketable equity securities	6,000,000	9,000,000	12,000,000
Federal Reserve Bank stock	1,022,300	692,600	691,150
Federal Home Loan Bank stock	1,296,700	1,296,700	1,077,300
Total Investments	$ 80,991,068	$ 78,258,775	$ 92,330,533

Total investments increased $2.7 million to $81.0 million; purchases of U.S. Government Agency and Sponsored Agency obligations and mortgage-backed securities were partially offset by principal payments on mortgage-backed securities and redeemed money market preferred equity instruments.

The following table presents the maturity distribution of available for sale investment securities at December 31, 2005 and the weighted average yield 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 Agency and Sponsored Agency obligations	$ -	$ 16,999,341	$ -	$ -	$ -	$ 16,999,341	3.59%
Mortgage-backed securities	-	-	-	-	57,453,614	57,453,614	4.33%
Money market preferred equity securities	-	-	-	-	6,000,000	6,000,000	3.44%
Total	$ -	$ 16,999,341	$ -	$ -	$ 63,453,614	$ 80,452,955	4.11%
Weighted average yield	-%	3.59%	-%	-%	4.25%	4.11%	

The following table presents a summary of investments for any issuer that exceeds 10% of shareholders' equity at December 31, 2005:

	Amortized Cost	Fair Value
<u>Available for sale securities:</u>		
U.S. Government Agency and Sponsored Agency Obligations	$ 16,999,341	$ 16,476,684
U.S. Government Agency mortgage-backed securities	57,453,614	56,195,384

Loans

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

	2005	2004	2003
Real Estate			
Commercial	$ 129,178,889	$ 106,771,441	$ 96,339,220
Residential	77,391,833	36,965,661	21,772,759
Construction	107,232,587	74,598,919	57,122,445
Commercial	15,591,818	17,562,523	15,532,902
Consumer installment	1,106,648	1,386,709	1,861,924
Consumer home equity	39,097,450	30,874,894	25,607,775
Total Loans	369,599,225	268,160,147	218,237,025
Premiums	367,491	313,754	-
Net deferred fees	(1,134,604)	(1,117,556)	(881,822)
Allowance for loan losses	(4,588,335)	(3,481,525)	(2,934,675)
Loans, net	$ 364,243,777	$ 263,874,820	$ 214,420,528

Bancorp's net loan portfolio increased $100.3 million or 38% to $364.2 million at December 31, 2005 from $263.9 million at December 31, 2004. Loan growth was funded through an increase in total deposits as well as by reductions in federal funds sold and short term investments. At December 31, 2005, the net loan to deposit ratio was 87% and the net loan to asset ratio was 77%. At December 31, 2004, the net loan to deposit ratio was 72%, and the net loan to asset ratio was 65%.

Despite a period of rising short term rates, the yield curve was relatively flat and longer term rates have remained lower; therefore, loan activity continued to remain strong and the volume of new loans far exceeded principal reductions and payoffs.

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, 2005, 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	$	20,823	$	42,705	$	65,651	$	129,179
Residential real estate		3,055		4,034		70,303		77,392
Construction loans		68,074		35,866		3,293		107,233
Commercial loans		8,289		6,154		1,149		15,592
Consumer installment		1,016		90		-		1,106
Consumer home equity		35		6,048		33,014		39,097
Total	$	101,292	$	94,897	$	173,410	$	369,599
Fixed rate loans	$	5,503	$	20,955	$	3,405	$	29,863
Variable rate loans		95,789		73,942		170,005		339,736
Total	$	101,292	$	94,897	$	173,410	$	369,599

The following table presents loan concentrations at December 31, 2005:

Category	Percentage	Dollars Outstanding (thousands of dollars)
Construction	29%	$107,233
Commercial Retail	7%	25,351
Commercial Residential Rental	5%	17,797

Critical Accounting Policies

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

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are considered impaired. A risk rating system is 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 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, delays in obtaining information, including unfavorable information about a borrower's financial condition, difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. Loan quality control is continually monitored by management subject to oversight by the board of directors through its members who serve on the loan committee and is also reviewed by the full board of directors on a monthly basis. The methodology for determining the adequacy of the allowance for loan losses is consistently applied; however, revisions may be made to the methodology and assumptions based on historical information related to charge-off and recovery experience and management's evaluation of the current loan portfolio.

Based upon this evaluation, management believes the allowance for loan losses of $4.6 million, at December 31, 2005, which represents 1.25% of gross loans outstanding, is adequate, under prevailing economic conditions, to absorb losses on existing loans. At December 31, 2004, the allowance for loan losses was $3.5 million or 1.31% of gross loans outstanding.

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. A non-accrual loan is restored to an accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt.

Management considers all non-accrual loans and 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

	2005	2004	2003	2002	2001
			(thousands of dollars)		
Balance at beginning of period	$ 3,481	$ 2,934	$ 2,372	$ 1,894	$ 1,645
Charge-offs	(3)	(9)	(1)	-	(2)
Recoveries	-	-	-	10	1
Net (charge-offs) recoveries	(3)	(9)	(1)	10	(1)
Additions charged to operations	1,110	556	563	468	250
Balance at end of period	$ 4,588	$ 3,481	$ 2,934	$ 2,372	$ 1,894
Ratio of net (charge-offs) recoveries					
during the period to average loans					
outstanding during the period	(0.00%)	(0.01%)	(0.00%)	0.01%	(0.00%)

Allocation of the Allowance for Loan Losses

Balance at end of each period applicable to	Amounts (thousands of dollars)					Percent of loans in each category to total loans				
	2005	2004	2003	2002	2001	2005	2004	2003	2002	2001
Real Estate:										
Commercial	$ 1,607	$ 1,319	$ 1,183	$ 893	$ 833	34.95%	39.82%	44.15%	37.97%	43.88%
Residential	511	304	230	276	153	20.94%	13.78%	9.98%	15.54%	5.44%
Construction	1,963	1,358	972	726	348	29.01%	27.82%	26.17%	22.56%	19.02%
Commercial	164	185	155	129	142	4.22%	6.55%	7.12%	7.49%	10.63%
Consumer installment	10	11	12	11	14	0.30%	0.52%	0.85%	1.01%	0.89%
Consumer home equity	260	233	285	283	296	10.58%	11.51%	11.73%	15.43%	20.14%
Unallocated	73	71	97	54	108	N/A	N/A	N/A	N/A	N/A
Total	$ 4,588	$ 3,481	$ 2,934	$ 2,372	$ 1,894	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.

	2005	2004	2003	2002	2001
			(thousands of dollars)		
Loans delinquent over 90 days still accruing	$ 275	$ 373	$ 165	$ 1,172	$ 1,300
Non-accruing loans	1,935	3,669	150	201	1,654
	$ 2,210	$ 4,042	$ 315	$ 1,373	$ 2,954
% of Total Loans	0.60%	1.51%	0.14%	0.79%	2.14%
% of Total Assets	0.47%	1.00%	0.09%	0.56%	1.46%
Additional income on non-accrual loans if recognized on an accrual basis	$ 6	$ 18	$ 18	$ 67	$ 159

There were no loans in either 2005 or 2004 considered as "troubled debt restructurings."

Potential Problem Loans

The $1.9 million of non-accruing loans at December 31, 2005 is comprised of two loans, both of which are well collateralized and in the process of collection; both loans are current as to principal and interest payments.

At December 31, 2005, Bancorp had no loans other than those described above, as to which management has significant doubts as to the ability of the borrower to comply with the present repayment terms.

Deposits

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

	2005	2004	2003
Non-interest bearing	$ 48,797,389	$ 42,584,120	$ 30,477,295
Interest bearing			
Time certificates, less than $100,000	168,565,756	131,764,662	92,574,784
Time certificates, $100,000 or more	98,440,248	71,287,106	50,793,863
Money market	57,798,772	72,450,663	69,503,859
Savings	20,089,889	22,104,121	23,792,811
NOW	25,383,234	26,814,653	22,849,570
Total interest bearing	370,277,899	324,421,205	259,514,887
Total deposits	$ 419,075,288	$ 367,005,325	$ 289,992,182

Total deposits increased $52.1 million or 14% to $419.1 million at December 31, 2005. Non-interest bearing deposits increased $6.2 million or 15% to $48.8 million at December 31, 2005; interest bearing deposits increased $45.9 million or 14% to $370.3 million at December 31, 2005. Based upon the Bank's continued expansion and the increased penetration into the areas served by the Bank, commercial demand accounts increased $2.6 million, a 10% increase as compared to last year, and personal demand accounts increased $1.6 million, an increase of 13% when compared to last year. During 2005, the Bank established its tenth branch banking office; this new office contributed significantly to the annual growth in deposits. The promotional campaign run in conjunction with the opening of the new branch was also a contributing factor to the growth of deposits in established branches. Certificates of deposit increased $64.0 million which represents an increase of 32% when compared to last year; much of the growth in certificates of deposit is attributable to the promotional campaign run in conjunction with the new branch opening as well as to the transfer of funds from lower rate products, which decreased as compared to last year. The increase in certificates of deposit greater than $100 thousand of $27.2 million is the result of successful sales efforts and branch expansion; these balances do not include brokered deposits. Money market fund and savings accounts decreased $14.7 million and $2.0 million, respectively; a portion of these decreases represents transfers to certificates of deposit as a result of promotional campaigns and general increases in interest rates offered on certificates of deposit accounts. 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, 2005, the Bank's maturities of time deposits were:

	$100,000 or greater	Less than $100,000	Totals
(thousands of dollars)			
Three months or less	$ 13,340	$ 27,240	$ 40,580
Three to six months	16,671	27,017	43,688
Six months to one year	27,952	53,228	81,180
Over one year	40,477	61,081	101,558
Total	$ 98,440	$ 168,566	$ 267,006

Borrowings

Borrowings increased $1.0 million to $17.2 million at December 31, 2005.

Borrowings are comprised of Federal Home Loan Bank Advances and junior subordinated debentures.

The following table sets forth short term borrowing amounts along with the respective interest rates and maturities:

Federal Home Loan Bank advances:

Amount	Maturity	Rate	Average amount outstanding
$ 5,000,000	03/13/2006	4.490%	$ 273,973
1,000,000	05/01/2006	2.490%	1,000,000
$ 6,000,000		4.156%	$ 1,273,973

The maximum amount of short term borrowings outstanding under Federal Home Loan Bank advances during 2005 was $15,000,000.

Other

The increase in premises and equipment is due primarily to the capitalized costs associated with leasehold improvements and equipment for a new branch office.

The increase in accrued interest receivable is due primarily to higher outstanding balances in loans at December 31, 2005 as compared to those in effect at December 31, 2004.

The increase in accrued expenses and other liabilities is due primarily to increases in accruals for income taxes, salaries and commissions, and higher balances in accrual estimates for other unpaid expenses.

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 Shareholders' Equity
Interest Rates and Interest Differential and Rate Volume Variance Analysis
(thousands of dollars) (1)

	2005			2004			2003			2005 vs. 2004 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
Interest earning assets:												
Loans (2)	316,058	21,561	6.82%	$ 239,239	$ 15,632	6.53%	$ 193,990	$ 12,782	6.59%	$ 4,824	$ 1,105	$ 5,929
Short term investments	6,466	178	2.75%	8,356	105	1.26%	7,124	79	1.11%	(19)	92	73
Investments (4)	87,164	3,094	3.55%	87,631	2,752	3.14%	72,250	2,256	3.12%	(15)	357	342
Federal funds sold	10,311	316	3.06%	12,733	189	1.48%	9,147	97	1.06%	(30)	157	127
Total interest earning assets	419,999	25,149	5.99%	347,959	18,678	5.37%	282,511	15,214	5.39%	4,760	1,711	6,471
Cash and due from banks	5,117			4,159			4,001					
Allowance for loan losses	(3,897)			(3,190)			(2,652)					
Other	8,446			8,017			6,881					
Total Assets	$ 429,665			$ 356,945			$ 290,741					
Interest bearing liabilities:												
Time certificates	$ 224,526	$ 8,040	3.58%	$ 156,623	$ 4,901	3.13%	$ 110,129	$ 3,512	3.19%	$ 1,895	$ 1,244	$ 3,139
Savings accounts	21,792	277	1.27%	23,666	294	1.24%	24,824	337	1.36%	(22)	5	(17)
Money market accounts	67,943	862	1.27%	70,264	867	1.23%	62,217	863	1.39%	(29)	24	(5)
NOW accounts	26,072	188	0.72%	23,107	152	0.66%	22,627	149	0.66%	19	17	36
	10,422	374	3.59%	14,197	372	2.62%	11,671	327	2.80%	(84)	86	2

FHLB advances												
Subordinated debt	8,248	528	6.40%	8,248	380	4.61%	6,159	271	4.40%	-	148	148
Other borrowings	34	1	2.94%	2,469	42	1.70%	6,171	129	2.09%	(23)	(18)	(41)
Total interest bearing liabilities	359,037	10,270	2.86%	298,574	7,008	2.35%	243,798	5,588	2.29%	1,756	1,506	3,262
Demand deposits	43,813			36,456			25,892					
Accrued expenses and other liabilities	3,380			2,362			2,140					
Shareholders' equity	23,435			19,553			18,911					
Total liabilities and equity	$ 429,665			$ 356,945			$ 290,741					
Net interest income		$ 14,879			$ 11,670			$ 9,626		$ 3,004	$ 205	$ 3,209
Interest margin			3.54%			3.35%			3.41%			
Interest Spread			3.13%			3.02%			3.10%			

(1) The rate volume analysis reflects the changes in net interest income arising from changes in interest rates and from asset and liability volume, including mix. The change in interest attributable to volume includes changes in interest attributable to mix.

(2) Includes non-accruing loans.

(3) Favorable/ (unfavorable) fluctuations.

(4) Yields are calculated at historical cost and excludes the effects of unrealized gain or loss on available for sale securities.

21

RESULTS OF OPERATIONS

For the year ended December 31, 2005, Bancorp earned $1,407,000 ($0.52 basic income per share and $0.51 diluted income per share) an increase of 52% as compared to 2004 when Bancorp earned $926,000 ($0.38 basic income per share and $0.37 diluted income per share). Net income for the commercial banking segment increased $462,000 or 44% to $1.5 million for the year ended December 31, 2005 from $1.1 million for the year ended December 31, 2004; the net loss for the Residential Lending Segment decreased 14% or $18,000 from a loss of $128,000 for the year ended December 31, 2004 to a loss of $110,000 for the year ended December 31, 2005.

Interest and dividend income increased $6.4 million to $25.1 million in 2005 as compared to 2004 when interest and dividend income was $18.7 million. This increase is due primarily to the growth in the loan portfolio combined with a general increase in interest rates.

Interest expense increased $3.3 million or 47% to $10.3 million in 2005 compared to $7.0 million in 2004. The increase in interest expense is due largely to the increase in total deposits as well as to a general increase in interest rates.

Noninterest income increased $527,000 or 20% to $3.2 million in 2005 as compared to $2.7 million in 2004. Noninterest expenses for 2005 totaled $14.6 million which represents an increase of $2.3 million or 19% over the prior year. The higher operating costs were primarily the result of the full year impact in 2005 of the two branch offices opened in 2004, the new branch office opened in 2005 and increased commission expense.

The following are measurements relating to Bancorp's earnings.

	2005	2004	2003
Return on average assets	.33%	.26%	.46%
Return on average equity	6.00%	4.74%	7.09%
Dividend payout ratio	29.81%	35.26%	20.54%
Average equity to average assets	5.46%	5.48%	6.50%
Basic income per share	$ 0.52	$ 0.38	$ 0.56
Diluted income per share	$ 0.51	$ 0.37	$ 0.55

Interest income and expense

Bancorp's net interest income derived from the operations of the commercial banking segment increased $3.2 million or 28%, to $14.9 million in 2005 from $11.7 million in 2004. An increase in average earning assets of $72.0 million, or 21%, increased Bancorp's interest income $6.5 million or 35% from $18.7 million in 2004 to $25.1 million in 2005. Average loans outstanding increased $76.8 million, or 32%, led by growth in construction and real estate loans, which reflects the continuing strength of the local real estate market. The increase in the yields on investments partially offset by a decrease in the volume of investments resulted in an increase in interest and dividends on investments of $342,000. Higher yields on federal funds sold and short term investments partially offset by a decrease in the average balances of both resulted in an increase in interest income of $127,000 and $73,000, respectively. Total average interest bearing liabilities increased by $60.4 million or 20%; average certificates of deposit and NOW accounts increased by $67.9 million and $3.0 million, respectively; average money market deposits and savings deposits decreased $2.3 million and $1.9 million, respectively; average FHLB advances and other borrowings decreased $3.8 million and $2.4 million respectively. Interest expense increased from $7.0 million in 2004 to $10.3 million in 2005. Interest expense on certificates of deposit increased $3.1 million as a result of higher average outstanding balances combined with an increase in the cost of funds for that portfolio from 3.13% in 2004 to 3.58% in 2005. Rising interest rates also contributed to the increase in the interest expense on subordinated debentures of $148,000 or 39% from $380,000 in 2004 to $528,000 in 2005 resulting in an increase in the cost of the debt from 4.61% in 2004 to 6.40% in 2005.

Provision for loan losses

The provision for loan losses charged to operations for the year ended December 31, 2005 of $1.1 million represents an increase of $554,000 when compared to the provision of $556,000 for the year ended December 31, 2004. This increase is due to the loan growth and the credit risk factors applied against the portfolio and not to any adverse changes in the credit quality of the loan portfolio or in non-performing loans.

An analysis of the changes in the allowance for loan losses is presented under the discussion entitled “Allowance for Loan Losses.”

Noninterest income

Noninterest income increased $527,000 or 20% from $2.7 million in 2004 to $3.2 million in 2005. An increase in the volume and size of loan transactions resulted in an increase in mortgage brokerage and referral fees of $386,000 or 22% from $1.7 million in 2004 to $2.1 million in 2005. Increases in deposit accounts and transaction volumes resulted in an increase in fees and service charges of $97,000 or 21% from $465,000 for the year ended December 31, 2004 to $562,000 for the year ended December 31, 2005. Other noninterest income increased 44% or $50,000 to $161,000 for the year ended December 31, 2005 from $111,000 for the year ended December 31, 2004; this increase is due mainly to increased fees from debit card transactions and the settlement of an insurance claim. Noninterest income for the Residential Lending Group segment increased $752,000 or 37% from $2.0 million for the year ended December 31, 2004 to $2.8 million for the year ended December 31, 2005; this increase is due to increases in the loan origination staff, the volume of transactions and the per transaction loan size, as well as to fees earned for commercial real estate and construction transactions referred to the commercial banking segment. Noninterest income for the commercial banking segment decreased $225,000 or 33% from $682,000 for the year ended December 31, 2004 to $457,000 for the year ended December 31, 2005; increases in fees and service charges and other noninterest income of $97,000 and $50,000 respectively were more than offset by a decrease in fee income of $350,000 due to intersegment transactions for referrals of loans from the Residential Lending Group segment that were booked into the portfolio of the commercial banking segment.

Noninterest expenses

Noninterest expenses increased $2.3 million in 2005 from $12.3 million in 2004 to $14.6 million in 2005. Salaries and benefits increased $1.5 million or 19% in 2005 as compared to 2004, due primarily to staff additions resulting from the full year impact in 2005 of the two branches opened in 2004 and one branch opened in 2005 and higher levels of commissions as a direct result of the increase in the revenue generated by the residential lending group. Higher staffing levels and incentive compensation also resulted in higher payroll taxes, employee benefit costs and the expenses associated with training programs. Occupancy and equipment expenses increased $375,000 from $1.7 million in 2004 to $2.1 million in 2005; this increase is due primarily to the full year impact in 2005 of opening two new branch offices in 2004 and of opening one branch in 2005. For the year ended December 31, 2005 data processing and other outside services increased $345,000 or 22% to $2.1 million from $1.7 million for the year ended December 31, 2004; much of this increase is due to an increase in personnel placement fees, data processing expenses and information technology consulting. The increase in data processing expenses is a result of the growth in the branch network as well as to increases due to ongoing maintenance charges for the implementation of additional products and services. Noninterest expenses for the residential lending group segment of $3.0 million represent an increase of $731,000 or 33% as compared to $2.2 million for the year ended December 31, 2004; much of this increase is related to increases in commission and production related compensation which relates to the increase in noninterest income for the year. Noninterest expenses for the commercial banking segment of $11.7 million represent an increase of $1.6 million or 16% as compared to $10.0 million for the year ended December 31, 2004; these increases are due primarily to branch expansion, data processing and other outside services as described earlier.

Management believes that additional branch offices will contribute to the future growth and earnings of Bancorp. While the opening of these new branches will result in increased operating expenses, the openings will be strategically planned to maintain profitable operations.

Management regularly reviews loan and deposit rates and attempts to price Bancorp's products competitively. With the assistance of its investment advisors, Bancorp tracks its mix of asset/liability maturities and strives to maintain a reasonable match. Performance ratios are reviewed monthly by management and the Board and are used to set strategies.

Income Taxes

The provision for income taxes of $957,000 in 2005 and $633,000 for 2004 represents the tax expense recognized for both federal and state income tax. The effective tax rate for both 2005 and 2004 was 40.5%.

LIQUIDITY

Bancorp's liquidity position was 20% and 33% at December 31, 2005 and 2004, respectively. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets as described in the accompanying balance sheets are considered liquid assets: cash and due from banks, federal funds sold, short-term investments and available-for-sale securities. Liquidity is a measure of Bancorp's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover increases in its loan portfolio and downward fluctuations in deposit accounts. Management believes Bancorp's short-term assets have sufficient liquidity to satisfy loan demand, cover potential fluctuations in deposit accounts and to meet other anticipated cash requirements.

CAPITAL

The following table illustrates Bancorp's regulatory capital ratios for each of the years shown:

	December 31,		
	2005	2004	2003
Total Risk-Based Capital	12.70%	10.70%	11.87%
Tier 1 Risk-Based Capital	11.45%	9.04%	10.00%
Leverage Capital	8.56%	6.79%	7.51%

The following table illustrates the Bank's regulatory capital ratios for each of the years shown:

	December 31,		
	2005	2004	2003
Total Risk-Based Capital	12.52%	10.50%	11.67%
Tier 1 Risk-Based Capital	11.27%	9.29%	10.47%
Leverage Capital	8.42%	6.98%	7.85%

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. Based on the above ratios, the Bank is considered to be "well capitalized" under applicable regulations. To be considered "well-capitalized," an institution must generally have a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%.

The increase in capital ratios during 2005 was due primarily to the issuance of additional capital stock combined with the increase in retained earnings and partially offset by the growth of the Bank.

Management continuously assesses the adequacy of the Bank's capital with the goal to maintain its "well capitalized" classification. Management's strategic and capital plans contemplate various alternatives to raise additional capital to support the planned growth of the Bank which plans include the opening of additional branches in 2006.

MARKET RISK

Market risk is defined as the sensitivity of income to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices and other market-driven rates or prices. Based upon the nature of Bancorp's business, market risk is primarily limited to interest rate risk, which is the impact that changing interest rates have on current and future earnings.

Bancorp's goal is to maximize long term profitability while minimizing its exposure to interest rate fluctuations. The first priority is to structure and price Bancorp's assets and liabilities to maintain an acceptable interest rate spread while reducing the net effect of changes in interest rates. In order to accomplish this, the focus is on maintaining a proper balance between the timing and volume of assets and liabilities re-pricing within the balance sheet. One method of achieving this balance is to originate variable rate loans for the portfolio and purchase short term investments to offset the increasing short term re-pricing of the liability side of the balance sheet. In fact, a number of the interest bearing deposit products have no contractual maturity. Customers may withdraw funds from their accounts at any time and deposit balances may therefore run off unexpectedly due to changing market conditions. Additionally, loans and investments with longer term rate adjustment frequencies are matched against longer term deposits and borrowings to lock in a desirable spread.

The exposure to interest rate risk is monitored by the Management Asset and Liability Committee consisting of senior management personnel. The committee meets on a monthly basis, or more frequently, if needed. The committee reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk. This committee reports to the Board of Directors on a monthly basis regarding its activities.

The Board Asset and Liability Committee *("ALCO")* meets quarterly. ALCO monitors the interest rate risk analyses, reviews investment transactions during the period and determines compliance with Bank policies.

Impact of Inflation and Changing Prices

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

"Safe Harbor" Statement Under Private Securities Litigation Reform Act of 1995

Certain statements contained in Bancorp's public reports, including this report, and in particular in this "Management's Discussion and Analysis or Plan 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 and the impact of federal legislation, (6) the ability of competitors which are larger than Bancorp to provide products and services which it is impracticable for Bancorp to provide, (7) the effect of Bancorp's opening of branches, and (8) the effect of any decision by Bancorp to engage in any business not historically operated by it. 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.

Item 7. Financial Statements

The consolidated balance sheets of Bancorp as of December 31, 2005 and December 31, 2004 and the related consolidated statements of income, shareholders' equity and cash flows for the years ended December 31, 2005 and December 31, 2004, together with the report thereon of McGladrey & Pullen, LLP dated March 8, 2006, are included as part of this Form 10-KSB in the "Financial Report" following page 33 hereof.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 8A. Controls and Procedures

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

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

There were no changes in Bancorp's internal control over financial reporting identified in connection with the evaluation described in the preceding paragraph that occurred during

Bancorp's fiscal year ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, Bancorp's internal control over financial reporting.

Item 8B. Other Information

Not applicable

PART III

Item 9. Directors and Executive Officers of the Registrant

The information required by Items 401 and 405 of Regulation S-B is incorporated into this Form 10-KSB by reference to Bancorp's definitive proxy statement (the "*Definitive Proxy Statement*") for its 2006 Annual Meeting of Shareholders, to be filed within 120 days following December 31, 2005.

The Company has adopted a Code of Ethics for its senior financial officers. The information required by Item 406 is contained in Exhibit 14 to this Form 10-KSB. A copy of this Code of Ethics will be provided to any person so requesting by writing to Patriot National Bancorp, Inc., 900 Bedford Street, Stamford, Connecticut 06901, Attn: Robert F. O'Connell, Chief Financial Officer.

Item 10. Executive Compensation

The information required by Item 402 of Regulation S-B is incorporated into this Form 10-KSB by reference to the Definitive Proxy Statement.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 201(d) and Item 403 of Regulation S-B is incorporated into this Form 10-KSB by reference to the Definitive Proxy Statement.

Item 12. Certain Relationships and Related Transactions

The information required by Item 404 of Regulation S-B is incorporated into this Form 10-KSB by reference to the Definitive Proxy Statement.

Item 13. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
2	Agreement and Plan of Reorganization dated as of June 28, 1999 between Bancorp and the Bank (incorporated by reference to Exhibit 2 to Bancorp's Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
3(i)	Certificate of Incorporation of Bancorp, (incorporated by reference to Exhibit 3(i) to Bancorp's Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
3(i)(A)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated July 16, 2004 (incorporated by reference to Exhibit 3(i)(A) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2004 (Commission File No. 000-29599)).
3(ii)	By-laws of Bancorp (incorporated by reference to Exhibit 3(ii) to Bancorp's Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
4	Reference is made to the Rights Agreement dated April 19, 2004 by and between Patriot National Bancorp, Inc. and Registrar and Transfer Company filed as Exhibit 99.2 to Bancorp's Report on Form 8-K filed on April 19, 2004, which is incorporated herein by reference.
10(a)(1)	2001 Stock Appreciation Rights Plan of Bancorp (incorporated by reference to Exhibit 10(a)(1) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2001 (Commission File No. 000-29599)).
10(a)(3)	Employment Agreement, dated as of October 23, 2000, as amended by a First Amendment, dated as of March 21, 2001, among the Bank, Bancorp and Charles F. Howell (incorporated by reference to Exhibit 10(a)(4) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2000 (Commission File No. 000-29599)).
10(a)(4)	Change of Control Agreement, dated as of May 1, 2001 between Martin G. Noble and Patriot National Bank (incorporated by reference to Exhibit 10(a)(4) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2004 (Commission File No. 000-29599)) .

Exhibit No.	Description
10(a)(5)	Employment Agreement dated as of November 3, 2003 among Patriot National Bank, Bancorp and Robert F. O'Connell (incorporated by reference to Exhibit 10(a)(5) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2003 (Commission File No. 000-29599)).
10(a)(6)	Change of Control Agreement, dated as of November 3, 2003 between Robert F. O'Connell and Patriot National Bank (incorporated by reference to Exhibit 10(a)(6) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2003 (Commission File No. 000-29599)).
10(a)(8)	Employment Agreement dated as of January 1, 2006 between Patriot National Bank and Marcus Zavattaro.
10(a)(9)	License agreement dated July 1, 2003 between Patriot National Bank and L. Morris Glucksman (incorporated by reference to Exhibit 10(a)(9) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2003 (Commission File No. 000-29599)).
10(a)(10)	Employment Agreement dated as of October 23, 2003 among the Bank, Bancorp and Charles F. Howell (incorporated by reference to Exhibit 10(a)(10) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2003 (Commission File No. 000-29599)).
10(a)(11)	Amendment No. 1 to the Amended and Restated Change of Control Agreement, dated March 30, 2006, between Robert F. O'Connell and Patriot National Bank.
10(c)	1999 Stock Option Plan of the Bank (incorporated by reference to Exhibit 10(c) to Bancorp's Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
14	Code of Conduct for Senior Financial Officers (incorporated by reference to Exhibit 14 to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2004 (Commission File No. 000-29599)).
21	Subsidiaries of Bancorp (Incorporated by reference to Exhibit 21 to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 1999 (Commission File No. 000-29599)).
23	Consent of McGladrey & Pullen, LLP.
31(1)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31(2)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certification

(b) Reports on Form 8-K

During the quarter ended December 31, 2005, Bancorp filed two current Reports of Form 8-K; the first was dated November 10, 2005 (filed November 10, 2005) responding to Item 2 and relating to a press release announcing certain information concerning Bancorp's results of operations for the quarter and nine months ended September 30, 2005 and its financial condition at September 30, 2005; the second report was dated December 15, 2005 (filed December 15, 2005) responding to Item 8 and related to a press release announcing Bancorp's quarterly dividend.

14. <u>Principal Accountant Fees and Services</u>

The information required by Item 9(e) of Schedule 14A of Regulation S-B is incorporated into this Form 10-KSB by reference to the Definitive Proxy Statement.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Patriot National Bancorp, Inc.
(Registrant)

By: s/ Angelo De Caro
Name: Angelo De Caro
Title: Chairman & Chief Executive Officer

Date: March 27, 2006

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in capacities and on the dates indicated.

/s/ Angelo De Caro Angelo De Caro, Chairman, Chief Executive Officer and Director	March 27, 2006 Date
/s/ Robert F. O'Connell Robert F. O'Connell Senior Executive Vice President, Chief Financial Officer and Director	March 27, 2006 Date
/s/ Michael A. Capodanno Michael A. Capodanno Senior Vice President & Controller	March 27, 2006 Date
/s/ John J. Ferguson John J. Ferguson Director	March 27, 2006 Date
/s/ Brian A. Fitzgerald Brian A. Fitzgerald Director	March 27, 2006 Date

32

Form 10 KSB - Signatures continued

/s/ John A. Geoghegan John A. Geoghegan Director	March 29, 2006 Date
/s/ L. Morris Glucksman L. Morris Glucksman Director	March 27, 2006 Date
/s/ Charles F. Howell Charles F. Howell Director	March 27, 2006 Date
/s/ Michael F. Intrieri Michael F. Intrieri Director	March 27, 2006 Date
/s/ Philip Wolford Philip Wolford Director	March 27, 2006 Date

McGladrey & Pullen
Certified Public Accountants

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

FINANCIAL REPORT
December 31, 2005 and 2004

CONTENTS