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

FORM 10-K

FOR ANNUAL AND TRANSITIONAL REPORTS PURSUANT TO
SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31 , 2023

OR

☐ 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 1-12431

Unity Bancorp, Inc.
(Exact Name of Registrant as Specified in Its Charter)

New Jersey	22-3282551
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
64 Old Highway 22 , Clinton , NJ	08809
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code (908) 730-7630

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock	UNTY	NASDAQ

Securities registered pursuant to Section 12(g) of the Exchange Act: None

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

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 every Interactive Data File required to be submitted 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 such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☒
	Emerging Growth Company ☐

If an emerging growth company, indicate by checkmark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared its audit report.

Yes ☒ No ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

Yes ☐ No ☒

As of June 30, 2023, the aggregate market value of the registrant's Common Stock, no par value per share, held by non-affiliates of the registrant was $ 171,901,261 and 7,287,039 shares of the Common Stock were outstanding to non-affiliates. As of February 29, 2024, 10,141,047 shares of the registrant's Common Stock were outstanding.

Documents incorporated by reference:

- Portions of Unity Bancorp's Proxy Statement for the Annual Meeting of Shareholders to be filed no later than 120 days from December 31, 2023 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Item 1. Business:

Forward Looking Statements

This report, in Item 1, Item 7 and elsewhere, includes forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933, as amended, and 21E of the Securities Exchange Act of 1934, as amended, that involve inherent risks and uncertainties. These forward-looking statements concern the financial condition, results of operations, plans, objectives, future performance and business of Unity Bancorp, Inc. and its subsidiaries, including statements preceded by, followed by or that include words or phrases such as “believes,” “expects,” “anticipates,” “plans,” “trend,” “objective,” “continue,” “remain,” “pattern” or similar expressions or future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” “may” or similar expressions. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) the potential impact of pandemics, such as COVID-19, and other health emergencies and the government’s response thereto on our operations as well as those of our clients and on the economy generally and in our market area specifically; (2) competitive pressures among depository institutions may increase significantly; (3) changes in the interest rate environment may reduce interest margins; (4) prepayment speeds, loan origination and sale volumes, charge-offs and credit loss provisions may vary substantially from period to period; (5) general economic conditions may be less favorable than expected; (6) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (7) legislative or regulatory changes or actions may adversely affect the businesses in which Unity Bancorp, Inc. is engaged; (8) changes and trends in the securities markets may adversely impact Unity Bancorp, Inc.; (9) a delayed or incomplete resolution of regulatory issues could adversely impact our planning; (10) difficulties in integrating any businesses that we may acquire, which may increase our expenses and delay the achievement of any benefits that we may expect from such acquisitions; (11) the impact of reputation risk created by the developments discussed above on such matters as business generation and retention, funding and liquidity could be significant; and (12) the outcome of any future regulatory and legal investigations and proceedings may not be anticipated. Further information on other factors that could affect the financial results of Unity Bancorp, Inc. are included in Item 1A of this Annual Report on Form 10-K and in Unity Bancorp, Inc.’s other filings with the Securities and Exchange Commission. These documents are available free of charge at the Commission’s website at *http://www.sec.gov* and/or from Unity Bancorp, Inc. Unity Bancorp, Inc. assumes no obligation to update forward-looking statements at any time.

a) General

Unity Bancorp, Inc., ("we", "us", "our", the "Company" or "Registrant"), is a bank holding company incorporated under the laws of the State of New Jersey to serve as a holding company for Unity Bank (the “Bank”). The Company has also elected to become a financial holding company pursuant to regulations of the Board of Governors of the Federal Reserve system (the "FRB"). The Company was organized at the direction of the Board of Directors of the Bank for the purpose of acquiring all the capital stock of the Bank. Pursuant to the New Jersey Banking Act of 1948 (the "Banking Act"), and pursuant to approval of the shareholders of the Bank, the Company acquired the Bank and became its holding company on December 1, 1994. The primary activity of the Company is ownership and supervision of the Bank. The Company also owns 100 percent of the common equity of Unity (NJ) Statutory Trust II. The trust has issued $10.3 million of preferred securities to investors.

The Bank received its charter from the New Jersey Department of Banking and Insurance on September 13, 1991 and opened for business on September 16, 1991. The Bank is a full-service commercial bank, providing a wide range of business and consumer financial services through its main office in Clinton, New Jersey and twenty branches primarily along the Route 22/Route 78 corridors with branches in Bergen, Hunterdon, Middlesex, Morris, Ocean, Somerset, Union and Warren counties in New Jersey and Northampton County in Pennsylvania. Through its banking locations and on-line services, the Bank is able to support clients throughout the New York City metropolitan areas. The Company’s goal is to continue to expand as needed to support clients as their businesses grow.

The principal executive offices of the Company are located at 64 Old Highway 22, Clinton, New Jersey 08809 and the telephone number is (800) 618-2265. The Company's website address is www.unitybank.com.

Business of the Company

The Company's primary business is ownership and supervision of the Bank. The Company and the Bank derive a majority of their revenue from net interest income (i.e., the difference between the interest received on loans and securities and the interest paid on deposits and borrowings). The Company, through the Bank, conducts a traditional and community-oriented commercial banking business and offers services, including personal and business checking accounts, time deposits, money market accounts, savings accounts, credit cards, debit cards, wire transfers, safe deposit boxes, access to automated teller services and internet and mobile banking, typical of a community banking business. The Bank also offers retirement accounts, Automated Clearing House ("ACH") origination and Remote Deposit Capture ("RDC"). CDARS/ICS Reciprocal deposits are offered based on the Bank's participation in the IntraFi Network LLC network and enables Federal Deposit Insurance Corporation ("FDIC") insurance sensitive customers to have coverage for large dollar deposits. The Company structures its specific services and charges in a manner designed to attract the business of the small and medium sized business and professional community, as well as that of individuals residing, working and shopping in its service area.

Deposits serve as the primary source of funding for interest-earning assets, but also generate noninterest income through stop payment fees, wire transfer fees, insufficient fund fees, debit card income, foreign ATM fees, interchange and other miscellaneous fees. In addition the bank generates additional noninterest income through residential, commercial and Small Business Administration ("SBA") loan originations, servicing and sales.

The Company engages in a wide range of lending activities and offers commercial, SBA, consumer, mortgage, home equity and personal loans. Commercial lending primarily comprises of owner-occupied and non-owner occupied commercial mortgages and is supplemented by commercial and industrial lending activities, secured by business assets including receivables, inventory and equipment. Additionally, the Company engages in commercial and residential construction lending activities.

Service Areas

The Company's primary service area is defined as the neighborhoods served by the Bank's offices. The Bank's main office is located in Clinton, New Jersey and the Bank operates twenty additional branches primarily along the Route 22/Route 78 corridors with branches in Bergen, Hunterdon, Middlesex, Morris, Ocean, Somerset, Union and Warren counties in New Jersey and Northampton County in Pennsylvania. Through its banking locations and on-line services, the Bank is able to support clients throughout the New York City metropolitan areas. The Company's goal is to continue to expand as needed to support clients as their businesses grow.

Competition

The banking business is highly competitive. The Company is located in an extremely competitive area. The Company's service area is also serviced by national banks, major regional banks, large thrift institutions, financial technology companies and a variety of credit unions. In addition, since passage of the Gramm-Leach-Bliley Financial Modernization Act of 1999 (the "Modernization Act"), securities firms and insurance companies have been allowed to acquire or form financial institutions, thereby increasing competition in the financial services market. Most of the Company's competitors have substantially more capital, and therefore greater lending limits than the Company. The Company's competitors generally have established positions in the service area and have greater resources than the Company with which to pay for advertising, technologies, physical facilities, personnel and interest on deposited funds. The Company relies on the competitive pricing of its loans, deposits and other services, as well as its ability to provide local decision-making and personal service in order to compete with these larger institutions.

Employees and Human Capital

At December 31, 2023, the Company employed 227 full-time and 10 part-time employees. None of the Company's employees are represented by any collective bargaining units. The Company believes that its relations with its employees are good and believes its ability to attract and retain employees is a key to the Company's success. Accordingly, the Company strives to offer competitive salaries and employee benefits to all employees and monitors salaries in its market areas. In addition, the principal purposes of the Company's equity incentive plans are to attract, retain and motivate selected employees, consultants and directors through the granting of stock-based compensation awards.

SUPERVISION AND REGULATION

General Supervision and Regulation

Bank holding companies and banks are extensively regulated under both federal and state law and these laws are subject to change. As an example, in the summer of 2010, Congress passed, and the President signed, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") (discussed below). These laws and regulations are intended to protect depositors, not stockholders. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in the applicable law or regulation may have a material effect on the business and prospects of the Company and the Bank. Management of the Company is unable to predict, at this time, the impact of future changes to laws and regulations.

General Bank Holding Company Regulation

General: As a bank holding company registered under the Bank Holding Company Act of 1956, as amended, (the "BHCA"), the Company is subject to the regulation and supervision of the FRB. The Company is required to file with the FRB annual reports and other information regarding its business operations and those of its subsidiaries. Under the BHCA, activities of a holding company and those of its subsidiaries are limited to banking, managing or controlling banks, furnishing services to or performing services for its subsidiaries or engaging in any other activity which the FRB determines to be so closely related to banking or managing or controlling banks as to be properly incident thereto. However, as a financial holding company, the Company may engage in a broader scope of activities. See "Financial Holding Company Status".

The BHCA requires, among other things, the prior approval of the FRB in any case where a bank holding company proposes to; (i) acquire all or substantially all the assets of any other bank; (ii) acquire direct or indirect ownership or control of more than 5% of the outstanding voting stock of any bank (unless it owns a majority of such bank's voting shares); or (iii) merge or consolidate with any other bank holding company. The FRB will not approve any acquisition, merger or consolidation that would have a substantially anti-competitive effect, unless the anti-competitive impact of the proposed transaction is clearly outweighed by a greater public interest in meeting the convenience and needs of the community to be served. The FRB also considers capital adequacy, as well as other financial and management resources, and future prospects of the companies and banks concerned, along with the convenience and needs of the community to be served.

The BHCA also generally prohibits a bank holding company, with certain limited exceptions, from; (i) acquiring or retaining direct or indirect ownership or control of more than 5% of the outstanding voting stock of any company which is not a bank or bank holding company; or (ii) engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or performing services for its subsidiaries, unless such non-banking business is determined by the FRB to be so closely related to banking or managing or controlling banks as to be properly incident thereto. In making such determinations, the FRB is required to weigh the expected benefits to the public such as greater convenience, increased competition or gains in efficiency, against the possible adverse effects such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

The BHCA was substantially amended through the Modernization Act. The Modernization Act permits bank holding companies and banks, which meet certain capital, management and Community Reinvestment Act standards, to engage in a broader range of non-banking activities. In addition, bank holding companies, which elect to become financial holding companies, may engage in certain banking and non-banking activities without prior FRB approval. Finally, the Modernization Act imposes certain privacy requirements on all financial institutions and their treatment of consumer information. The Company has elected to become a financial holding company. See "Financial Holding Company Status" below.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by law and regulatory policy that are designed to minimize potential loss to the depositors of such depository institutions and the Federal Deposit Insurance Corporation (the “FDIC”) Deposit Insurance Fund in the event the depository institution becomes in danger of default. Under regulations of the FRB, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. The FRB also has the authority under the BHCA to require a bank holding company to terminate any activity or to relinquish control of a non-bank subsidiary upon the FRB’s determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

Capital Adequacy Guidelines

In December 2010 and January 2011, the Basel Committee on Banking Supervision (the “Basel Committee”) published the final reforms on capital and liquidity generally referred to as “Basel III.” In July 2013, the FRB, the FDIC and the Comptroller of the Currency adopted final rules (the “New Rules”), which implement certain provisions of Basel III and the Dodd-Frank Act. The New Rules replaced the existing general risk-based capital rules of the various banking agencies with a single, integrated regulatory capital framework. The New Rules require higher capital cushions and more stringent criteria for what qualifies as regulatory capital. The New Rules were effective for the Bank and the Company on January 1, 2015.

Under the New Rules, a bank holding company or bank, not eligible for or electing to use the Community Banking Leverage Ratio (discussed below), is required to maintain the following minimum capital ratios, expressed as a percentage of risk-weighted assets:

- Common Equity Tier 1 Capital Ratio of 4.5% (the “CET1”);
- Tier 1 Capital Ratio (CET1 capital plus “Additional Tier 1 capital”) of 6.0%;
- Total Capital Ratio (Tier 1 capital plus Tier 2 capital) of 8.0%.

In addition, such a bank holding company or bank is also subject to a leverage ratio of 4% (calculated as Tier 1 capital to average consolidated assets as reported on the consolidated financial statements).

The New Rules also require a “capital conservation buffer.” A bank holding company or bank is required to maintain a 2.5% capital conservation buffer, which is composed entirely of CET1, on top of the minimum risk-weighted asset ratios described above, resulting in the following minimum capital ratios:

- CET1 of 7%;
- Tier 1 Capital Ratio of 8.5%;
- Total Capital Ratio of 10.5%.

The purpose of the capital conservation buffer is to absorb losses during periods of economic stress. Banking institutions with a CET1, Tier 1 Capital Ratio and Total Capital Ratio above the minimum set forth above but below the capital conservation buffer will face constraints on their ability to pay dividends, repurchase equity and pay discretionary bonuses to executive officers, based on the amount of the shortfall.

The New Rules provide for several deductions from and adjustments to CET1. For example, mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in common equity issued by nonconsolidated financial entities must be deducted from CET1 to the extent that any one of those categories exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

Under the New Rules, banking organizations may make a one-time permanent election regarding the treatment of accumulated other comprehensive income items in determining regulatory capital ratios. Effective as of January 1, 2015, the Company and the Bank elected to exclude accumulated other comprehensive income items for purposes of determining regulatory capital.

While the New Rules generally require the phase-out of non-qualifying capital instruments such as trust preferred securities and cumulative perpetual preferred stock, holding companies with less than $15 billion in total consolidated assets as of December 31, 2009, such as the Company, may permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in Additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The New Rules prescribe a standardized approach for calculating risk-weighted assets. Depending on the nature of the assets, the risk categories generally range from 0% for U.S. Government and agency securities to 600% for certain equity exposures and result in higher risk weights for a variety of asset categories. In addition, the New Rules provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

Consistent with the Dodd-Frank Act, the New Rules adopt alternatives to credit ratings for calculating the risk-weighting for certain assets.

On September 17, 2019, the federal banking agencies issued a final rule providing simplified capital requirements for certain community banking organizations (banks and holding companies) with less than $10 billion in total consolidated assets, implementing provisions of The Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA"). Under the rule, a qualifying community banking organization would be eligible to elect the community bank leverage ratio framework, or continue to measure capital under the existing Basel III requirements set forth in the New Rules. The community bank capital rule took effect January 1, 2020 and qualifying community banking organizations may elect to opt into the new community bank leverage ratio ("CBLR") in their call report for the first quarter of 2020 or any quarter thereafter.

A qualifying community banking organization ("QCBO") is defined as a bank, a savings association, a bank holding company or a savings and loan holding company with:

- a leverage capital ratio of greater than 9.0%;
- total consolidated assets of less than $10.0 billion;
- total off-balance sheet exposures (excluding derivatives other than credit derivatives and unconditionally cancelable commitments) of 25% or less of total consolidated assets;
- total trading assets and trading liabilities of 5% or less of total consolidated assets.

A QCBO opting into the CBLR must maintain a CBLR of 9.0%, subject to a two quarter grace period to come back into compliance, provided that the QCBO maintains a leverage ratio of more than 8.0% during the grace period. A QCBO failing to satisfy these requirements must comply with the Basel III requirements as implemented by the New Rules. The numerator of the CBLR is Tier 1 capital, as calculated under the New Rules. The denominator of the CBLR is the QCBO's average assets, calculated in accordance with the QCBO's Call Report instructions and less assets deducted from Tier 1 capital. Commencing with the first quarter of 2020, the Bank elected to comply with the CBLR, rather than the capital requirements specified in the New Rules. However, although the Bank continued to meet all of the requirements of CBLR, the Bank elected to opt out of CBLR and comply with the Basel III requirements effective December 31, 2023.

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), each federal banking agency has promulgated regulations, specifying the levels at which an insured depository institution such as the Bank would be considered "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," and providing for certain mandatory and discretionary supervisory actions based on the capital level of the institution. To qualify to engage in financial activities under the Gramm-Leach-Bliley Act, all depository institutions must be "well capitalized."

The New Rules also revised the regulations implementing these provisions of FDICIA, to change the capital levels applicable to each designation. Under the New Rules, an institution will be classified as "well capitalized" if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 8.0 percent, (iii) has a Tier 1 leverage ratio of at least 5.0 percent, (iv) has a common equity Tier 1 capital ratio of at least 6.5 percent and (v) meets certain other requirements. An institution will be classified as "adequately capitalized" if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a Tier 1 leverage ratio of at least 4.0 percent, (iv) has a common equity Tier 1 capital ratio of at least 4.5 percent and (v) does not meet the definition of "well capitalized." An institution will be classified as "undercapitalized" if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 6.0 percent, (iii) has a Tier 1 leverage ratio of less than 4.0 percent or (iv) has a common equity Tier 1 capital ratio of less than 4.5 percent. An institution will be classified as "significantly undercapitalized" if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, (iii) has a Tier 1 leverage ratio of less than 3.0 percent or (iv) has a common equity Tier 1 capital ratio of less 3.0 percent. An institution will be classified as "critically undercapitalized" if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating.

General Bank Regulation

As a New Jersey-chartered commercial bank, the Bank is subject to the regulation, supervision and control of the New Jersey Department of Banking and Insurance (the "Department"). As an FDIC-insured institution, the Bank is subject to regulation, supervision and control of the FDIC, an agency of the federal government. The regulations of the FDIC and the Department affect virtually all activities of the Bank, including the Bank's minimum capital level, the Bank's ability to pay dividends, expand through new branches or acquisitions and various other matters.

Insurance of Deposits: The Dodd-Frank Act has caused significant changes in the FDIC's insurance of deposit accounts. Among other things, the Dodd-Frank Act permanently increased the FDIC deposit insurance limit to $250 thousand per depositor.

On February 7, 2011, the FDIC announced the approval of the assessment system mandated by the Dodd-Frank Act. Dodd-Frank required that the base on which deposit insurance assessments are charged be revised from one based on domestic deposits to one based on assets. The FDIC's rule to base the assessment on average total consolidated assets minus average tangible equity instead of domestic deposits lowered assessments for many community banks with less than $10 billion in assets and reduced the Company's costs.

Dividend Rights: Under the Banking Act, a bank may declare and pay dividends only if, after payment of the dividend, the capital stock of the bank will be unimpaired and either the bank will have a surplus of not less than 50% of its capital stock or the payment of the dividend will not reduce the bank's surplus. Unless and until the Company develops other lines of business, payments of dividends from the Bank will remain the Company's primary source of income and the primary source of funds for dividend payments to the shareholders of the Company.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), enacted on July 21, 2010, significantly changed the bank regulatory landscape and has impacted and will continue to impact the lending, deposit, investment, trading and operating activities of insured depository institutions and their holding companies. The Dodd-

Frank Act requires various federal agencies to adopt a broad range of new rules and regulations. The Dodd-Frank Act, among other things:

- capped debit card interchange fees for institutions with $10 billion in assets or more at $0.21 plus 5 basis points times the transaction amount, a substantially lower rate than the average rate in effect prior to adoption of the Dodd-Frank Act;
- provided for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more, increases in the minimum reserve ratio for the Deposit Insurance Fund ("DIF") from 1.15% to 1.35% and changes the basis for determining FDIC premiums from deposits to assets;
- permanently increased the deposit insurance coverage to $250 thousand and allowed depository institutions to pay interest on checking accounts;
- created a new Consumer Financial Protection Bureau ("CFPB") that has rulemaking authority for a wide range of consumer financial protection laws that apply to all banks and has broad authority to enforce these laws;
- provided for new disclosure and other requirements relating to executive compensation and corporate governance;
- changed standards for Federal preemption of state laws related to federally-chartered institutions and their subsidiaries;
- provided mortgage reform provisions regarding a customer's ability to repay, restricting variable rate lending by requiring the ability to repay to be determined for variable rate loans by using the maximum rate that will apply during the first five years of a variable rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures and certain other revisions;
- created a financial stability oversight council that will recommend to the FRB increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

The Dodd-Frank Act also imposes new obligations on originators of residential mortgage loans, such as the Bank. Among other things, the Dodd-Frank Act requires originators to make a reasonable and good faith determination based on documented information that a borrower has a reasonable ability to repay a particular mortgage loan over the long term. If the originator cannot meet this standard, the mortgage may be unenforceable. The Dodd-Frank Act contains an exception from this ability-to-repay rule for "Qualified Mortgages". The CFPB has established specific underwriting criteria for a loan to qualify as a Qualified Mortgage. The criteria generally exclude loans that (1) are interest-only, (2) have excessive upfront points or fees or (3) have negative amortization features, balloon payments or terms in excess of 30 years. The underwriting criteria also impose a maximum debt to income ratio of 43%, based upon documented and verifiable information. If a loan meets these criteria and is not a "higher priced loan" as defined in FRB regulations, the CFPB rule establishes a safe harbor preventing a consumer from asserting the failure of the originator to establish the consumer's ability to repay. However, a consumer may assert the lender's failure to comply with the ability-to-repay rule for all residential mortgage loans other than Qualified Mortgages, and may challenge whether a loan in fact qualified as a Qualified Mortgage.

Although the majority of residential mortgages historically originated by the Bank would be considered Qualified Mortgages, the Bank has and may continue to make residential mortgage loans that would not qualify. As a result of such rules, the Bank might experience increased compliance costs, loan losses, litigation related expenses and delays in taking title to real estate collateral, if these loans do not perform and borrowers challenge whether the Bank satisfied the ability-to-repay rule upon originating the loan.

The requirements of the Dodd-Frank Act and other regulatory reforms continue to be implemented. It is difficult to predict at this time what specific impact certain provisions and yet-to-be-finalized rules and regulations will have on the Company, including any regulations promulgated by the CFPB. Financial reform legislation and rules could have adverse implications on the financial industry, the competitive environment and the Company's ability to conduct business. Management will have to apply resources to ensure compliance with all applicable provisions of regulatory reforms, including the Dodd-Frank Act and any implementing rules, which may increase the Company's costs of operations and adversely impact its earnings.

Regulation W

Regulation W codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretative guidance with respect to affiliate transactions. Affiliates of a bank include, among other entities, the bank's holding company and companies that are under common control with the bank. The Company is considered to be an affiliate of the Bank. In general, subject to certain specified exemptions, a bank or its subsidiaries are limited in their ability to engage in "covered transactions" with affiliates:

- to an amount equal to 10% of the bank's capital and surplus, in the case of covered transactions with any one affiliate; and
- to an amount equal to 20% of the bank's capital and surplus, in the case of covered transactions with all affiliates.

In addition, a bank and its subsidiaries may engage in covered transactions and other specified transactions only on terms and under circumstances that are substantially the same, or at least as favorable to the bank or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A "covered transaction" includes:

- a loan or extension of credit to an affiliate;
- a purchase of, or an investment in, securities issued by an affiliate;
- a purchase of assets from an affiliate, with some exceptions;
- the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; and
- the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

Further, under Regulation W:

- a bank and its subsidiaries may not purchase a low-quality asset from an affiliate;
- covered transactions and other specified transactions between a bank or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices; and
- with some exceptions, each loan or extension of credit by a bank to an affiliate must be secured by certain types of collateral with a market value ranging from 100% to 130% of the loan value, depending on the type of collateral, of the amount of the loan or extension of credit.

Regulation W generally excludes all non-bank and non-savings association subsidiaries of banks from treatment as affiliates, except to the extent that the FRB decides to treat these subsidiaries as affiliates.

Loans to Related Parties

The Company's authority to extend credit to its directors and executive officers, as well as to entities controlled by such persons, is currently governed by the requirements of the Sarbanes-Oxley Act of 2002 and Regulation O promulgated by the FRB. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, the Bank's Board of Directors must approve all extensions of credit to insiders.

USA PATRIOT Act

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “USA PATRIOT Act”) gives the federal government powers to address terrorist threats through domestic security measures, surveillance powers, information sharing and anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, the USA PATRIOT Act encourages information-sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of the USA PATRIOT Act impose affirmative obligations on a broad range of financial institutions, including banks, thrift institutions, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other requirements, the USA PATRIOT Act imposes the following requirements with respect to financial institutions:

- All financial institutions must establish anti-money laundering programs that include, at a minimum: (i) internal policies, procedures and controls; (ii) specific designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program.

- The Secretary of the Department of Treasury, in conjunction with other bank regulators, is authorized to issue regulations that provide for minimum standards with respect to client identification at the time new accounts are opened.

- Financial institutions that establish, maintain, administer, or manage private banking accounts or correspondent accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) are required to establish appropriate, specific and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.

- Financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for foreign shell banks (foreign banks that do not have a physical presence in any country), and will be subject to certain record keeping obligations with respect to correspondent accounts of foreign banks.

- Bank regulators are directed to consider a holding company’s effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

The United States Treasury Department has issued a number of implementing regulations which address various requirements of the USA PATRIOT Act and are applicable to financial institutions such as the Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their clients.

Financial Holding Company Status

The Company has elected to become a financial holding company. Financial holding companies may engage in a broader scope of activities than a bank holding company. In addition, financial holding companies may undertake certain activities without prior FRB approval.

A financial holding company may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature. "Financial in nature" activities include:

- securities underwriting, dealing and market making;
- sponsoring, mutual funds and investment companies;
- insurance underwriting and insurance agency activities;
- merchant banking;
- activities that the FRB determines to be financial in nature or incidental to a financial activity or which are complementary to a financial activity and do not pose a safety and soundness risk.

A financial holding company that desires to engage in activities that are financial in nature or incidental to a financial activity but not previously authorized by the FRB must obtain approval from the FRB before engaging in such activity. Also, a financial holding company may seek FRB approval to engage in an activity that is complementary to a financial activity, if it shows, among other things, that the activity does not pose a substantial risk to the safety and soundness of its insured depository institutions or the financial system.

A financial holding company generally may acquire a company (other than a bank holding company, bank or savings association) engaged in activities that are financial in nature or incidental to activities that are financial in nature without prior approval from the FRB. Prior FRB approval is required, however, before the financial holding company may acquire control of more than 5% of the voting shares or substantially all of the assets of a bank holding company, bank or savings association. In addition, under the FRB's merchant banking regulations, a financial holding company is authorized to invest in companies that engage in activities that are not financial in nature, as long as the financial holding company makes its investment with the intention of limiting the duration of the investment, does not manage the company on a day-to-day basis and the company does not cross-market its products or services with any of the financial holding company's controlled depository institutions.

If any subsidiary bank of a financial holding company ceases to be "well capitalized" or "well managed" and fails to correct its condition within the time period that the FRB specifies, the FRB has authority to order the financial holding company to divest its subsidiary banks. Alternatively, the financial holding company may elect to limit its activities and the activities of its subsidiaries to those permissible for a bank holding company that is not a financial holding company. If any subsidiary bank of a financial holding company receives a rating under the CRA of less than "satisfactory", then the financial holding company is prohibited from engaging in new activities or acquiring companies other than bank holding companies, banks or savings associations until the rating is raised to "satisfactory" or better.

Federal Securities Laws
The Company's common stock is registered with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company is therefore subject to the information, proxy solicitation, insider trading and other requirements and restrictions under the Exchange Act.

Item 1A. Risk Factors:

The Company's business, financial condition, results of operations and the trading price of its securities can be materially and adversely affected by many events and conditions including the following:

Pandemic or other health related events may have a material adverse effect on operations and financial condition.

The outbreak of disease or other health related events on a regional, national or global level, such as the spread of the COVID-19 coronavirus, may have a material adverse effect on commerce, which may, in turn impact the Company's lines of business.

The Company's operations are significantly affected by the general economic conditions of New Jersey, Eastern Pennsylvania and the specific local markets in which the Company operates. To the extent these markets are negatively impacted by health related matters, such as pandemics like COVID-19, our results of operations may be materially affected.

The Company has been and may continue to be adversely affected by national financial markets and economic conditions, as well as local conditions.

The Company's business and results of operations are affected by the financial markets and general economic conditions in the United States, including factors such as the level and volatility of interest rates, inflation, home prices, unemployment and under-employment levels, bankruptcies, household income, consumer spending, investor confidence and the strength of the U.S. economy. The deterioration of any of these conditions can adversely affect the Company's securities and loan portfolios, level of charge-offs and provision for credit losses, capital levels, liquidity and results of operations.

In addition, the Company is affected by the economic conditions within its New Jersey and Pennsylvania primary trade areas. Unlike larger banks that are more geographically diversified, the Company provides banking and financial services primarily to customers in the New Jersey market and one county in Pennsylvania in which it has branches, so any decline in the economy of New Jersey or eastern Pennsylvania could have an adverse impact. Additionally, certain aspects of these primary trade areas may be adversely impacted by the economic wellbeing of the New York City metro region.

The Company's loans, the ability of borrowers to repay these loans and the value of collateral securing these loans are impacted by economic conditions. The Company's financial results, the credit quality of its existing loan portfolio and the ability to generate new loans with acceptable yield and credit characteristics may be adversely affected by changes in prevailing economic conditions, including declines in real estate values, changes in interest rates, adverse employment conditions and the monetary and fiscal policies of the federal government. The Company cannot assure that positive trends or developments discussed in this annual report will continue or that negative trends or developments will not have a significant adverse effect on itself.

A significant portion of the Company's loan portfolio is secured by real estate and events that negatively impact the real estate market could hurt its business.

A significant portion of the Company's loan portfolio is secured by real estate. As of December 31, 2023, approximately 96 percent of its loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. Weakness in the real estate market in the Company's primary market areas could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on the Company's profitability and asset quality. Any future declines in home prices in the New Jersey, New York and Pennsylvania markets the Company serves also may result in increases in delinquencies and losses in its loan portfolios. Stress in the real estate market, combined with any weakness in economic conditions could drive losses beyond that which is provided for in the Company's allowance for credit losses. In that event, the Company's earnings could be adversely affected.

There is a risk that the SBA will not honor their guarantee.

The Company has historically been a participant in various SBA lending programs which guarantee up to 90% of the principal on the underlying loan. There is a risk that the SBA will not honor its guarantee if a loan is not underwritten and administered to SBA guidelines. The Company follows the underwriting guidelines of the SBA; however, its ability to manage this will depend on the Company's ability to continue to attract, hire and retain skilled employees who have knowledge of the SBA program. If the SBA program does not honor the guarantee, this could adversely impact the Company's financial performance.

There is a risk that the Company may not be repaid in a timely manner, or at all, for loans it makes or securities it purchases.

The risk of nonpayment (or deferred or delayed payment) of loans is inherent in banking. Such nonpayment, or delayed or deferred payment, of loans to the Company may have a material adverse effect on its earnings and overall financial condition. Additionally, in compliance with applicable banking laws and regulations and U.S. Generally Accepted Accounting Principles (“ U.S. GAAP”), the Company maintains an allowance for credit losses created through charges against earnings. As of December 31, 2023, the Company’s allowance for credit losses was $25.9 million, or 1.19 percent of its total loan portfolio and 134.75 percent of its nonperforming assets. The Company’s marketing focus on small to medium size businesses may result in the assumption by the Company of certain lending risks that are different from or greater than those which would apply to loans made to larger companies. The Company seeks to minimize its credit risk exposure through credit controls, which include evaluation of potential borrowers’ available collateral, liquidity and cash flow. However, there can be no assurance that such procedures will actually reduce credit losses.

The risk of nonpayment (or deferred or delayed payment) on securities is also inherent in banking. Such nonpayment, or delayed or deferred payment on securities held by the Company, if they occur may have a material adverse effect on the Company’s earnings and overall financial condition. As of December 31, 2023, the Company maintained a valuation reserve on a single available for sale security for $1.3 million. The Company seeks to minimize its credit risk exposure on securities through ongoing monitoring and credit controls, which evaluate the financial condition of the issuer of the securities. However, there can be no assurance that such procedures will actually reduce credit losses.

The Company’s allowance for credit losses may not be adequate to cover actual losses.

Like all financial institutions, the Company maintains an allowance for credit losses to provide for loan defaults and nonperformance. Its allowance for credit losses may not be adequate to cover actual losses and future provisions for credit losses could materially and adversely affect the results of operations. Risks within the loan portfolio are analyzed on a continuous basis by management and, periodically, by an independent loan review function and by the Audit Committee. A risk system, consisting of multiple-grading categories, is utilized as an analytical tool to assess risk and the appropriate level of loss reserves. Along with the risk system, management further evaluates risk characteristics of the loan portfolio under current economic conditions and considers such factors as the financial condition of the borrowers, past and expected credit loss experience, historical trends and other factors management feels deserve recognition in establishing an adequate reserve. This risk assessment process is performed at least quarterly and, as adjustments become necessary, they are realized in the periods in which they become known. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond the Company’s control, and these losses may exceed current estimates. State and federal regulatory agencies, as an integral part of their examination process, review the Company’s loans and allowance for credit losses and may require an increase in its allowance for credit losses. Although the Company believes that its allowance for credit losses is adequate to cover probable and reasonably estimated losses, there can be no assurance that the Company will not further increase the allowance for credit losses or that its regulators will not require an increase to this allowance. Either of these occurrences could adversely affect the Company’s earnings.

The Company is subject to interest rate risk and variations in interest rates may negatively affect its financial performance.

Net interest income, the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities, represents a significant portion of the Company's earnings. Both increases and decreases in the interest rate environment may reduce the Company's profits. Interest rates are subject to factors which are beyond the Company's control, including general economic conditions, competition and policies of various governmental and regulatory agencies, such as the FRB. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and investment securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the ability to originate loans and obtain deposits, (ii) the fair value of financial assets and liabilities, including the held to maturity and available for sale securities portfolios and (iii) the average duration of interest-earning assets. This also includes the risk that interest-earning assets may be more responsive to changes in interest rates than interest-bearing liabilities, or vice versa (repricing risk), the risk that the individual interest rates or rate indexes underlying various interest-earning assets and interest-bearing liabilities may not change in the same degree over a given time period (basis risk) and the risk of changing interest rate relationships across the spectrum of interest-earning asset and interest-bearing liability maturities (yield curve risk). The Company monitors interest rate risk through its asset liability management process; however, there are no assurances that this process will reduce interest rate risk exposures.

The banking business is subject to significant government regulations.

The Company is subject to extensive governmental supervision, regulation and control. These laws and regulations are subject to change and may require substantial modifications to the Company's operations or may cause it to incur substantial additional compliance costs. These laws and regulations are designed to protect depositors and the public, but not the Company's shareholders. In addition, future legislation and government policy could adversely affect the commercial banking industry and the Company's operations. Such governing laws can be anticipated to continue to be the subject of future modification. The Company's management cannot predict what effect any such future modifications will have on the Company's operations. In addition, the primary focus of federal and state banking regulation is the protection of depositors and not the shareholders of the regulated institutions.

For example, the Dodd-Frank Act has resulted in substantial compliance costs and may restrict certain sources of revenue. The Dodd-Frank Act was signed into law on July 21, 2011. Generally, the Act is effective the day after it is signed into law, but different effective dates apply to specific sections of this law, many of which will not become effective until various Federal regulatory agencies have promulgated rules implementing the statutory provisions.

Uncertainty remains as to the ultimate impact of the Dodd-Frank Act and the implementing regulations thereunder, which could have a material adverse impact either on the financial services industry as a whole, or on the Company's business, results of operations and financial condition. For a more detailed discussion of the Dodd-Frank Act, see "Item 1-Business – Supervision and Regulation."

The provisions of the Dodd-Frank Act, as well as any other aspects of current or proposed regulatory or legislative changes to laws or regulations applicable to the financial industry, may impact the profitability of business activities and may change certain business practices, including the ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads, and could expose the Company to additional costs, including increased compliance costs. These changes also may require the Company to invest significant management attention and resources to make any necessary changes to operations in order to comply, and could therefore also materially and adversely affect business, financial condition and results of operations.

As the Company continues to grow its total assets, the Company will be subject to heighted regulatory and reporting requirements. The Company faces the risk of failing to meet these requirements, which may negatively impact the results of operations and financial conduction.

The Company is subject to changes in accounting policies or accounting standards.

Understanding the Company's accounting policies is fundamental to understanding its financial results. Some of these policies require the use of estimates and assumptions that may affect the value of assets or liabilities and financial results. The Company has identified its accounting policies regarding the allowance for credit losses and security valuations and security credit events to be critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. Under these policies, it is possible that materially different amounts would be reported under different conditions, using different assumptions, or as new information becomes available.

From time to time, the Financial Accounting Standards Board ("FASB") and the SEC change their guidance governing the form and content of the Company's external financial statements. In addition, accounting standard setters and those who interpret U.S. GAAP, such as the FASB, SEC, banking regulators and the Company's outside auditors, may change or even reverse their previous interpretations or positions on how these standards should be applied. Such changes are expected to continue. Changes in U.S. GAAP and changes in current interpretations are beyond the Company's control, can be hard to predict and could materially impact how it reports financial results and condition. In certain cases, the Company could be required to apply a new or revised guidance retroactively or apply existing guidance differently, which may result in restating prior period financial statements for material amounts. Additionally, significant changes to U.S. GAAP may require costly technology changes, additional training and personnel and other expenses that would negatively impact results of operations.

Declines in value may adversely impact the investment portfolio.

As of December 31, 2023, the Company had approximately $91.8 million, $36.1 million and $7.8 million in debt securities available for sale, debt securities held to maturity and equity investment securities, respectively. The Company may be required to record credit charges in earnings related to credit losses on its investment securities if they suffer a decline in value related to credit. Additionally, (i) if the Company intends to sell a security or (ii) it is more likely than not that it will be required to sell the security prior to recovery of its amortized cost basis, the Company will be required to recognize a charge in the statement of income equal to the full amount of the decline in fair value below amortized cost. Factors, including lack of liquidity, absence of reliable pricing information, adverse actions by regulators or unanticipated changes in the competitive environment, could have a negative effect on the investment portfolio and may result in impairment on investment securities in future periods.

Liquidity risk.

Liquidity risk is the potential that the Company will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding on a timely basis, at a reasonable cost and within acceptable risk tolerances.

Liquidity is required to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, dividends to shareholders, operating expenses and capital expenditures.

Liquidity is derived primarily from deposit growth and retention; principal and interest payments on loans; principal and interest payments on investment securities; sale, maturity and prepayment of investment securities; net cash provided from operations and access to other funding sources. Customer account balances can decrease when customers perceive alternative investments, such as fixed income securities or money market funds, as providing a better risk/return trade off or if customers are concerned about the safety of their deposits, as happened in the first quarter of 2023. If customers move money out of bank deposits and into other investments, or if customers perceive a risk in leaving their deposits with the Bank and transfer the deposits to larger institutions seen as less risky, the Company could lose a low-cost source of funds, increasing its funding costs and reducing the Company's net interest income and net income.

The Company maintains elevated wholesale funding balances, including brokered CDs, brokered money market accounts, FHLB advances and other borrowing and deposit sources. These wholesale funding balances typically result in higher funding costs compared to other sources and reduce the Company's net interest income and net income. Additionally, these sources typically are only available to the Company if the Bank maintains certain capital levels. The Company's management team monitors wholesale funding as a composition of its balance sheet via the risk management process; however, wholesale deposits may be more prone to liquidity risk.

The Company's access to funding sources in amounts adequate to finance its activities could be impaired by factors that affect the Company specifically or the financial services industry in general. Factors that could detrimentally impact access to liquidity sources include a decrease in the level of business activity due to persistent weakness, or downturn, in the economy or adverse regulatory action against the Company. The Company's ability to borrow could also be impaired by factors that are not necessarily specific to it, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

There are current proposals from the Federal Housing Finance Agency ("FHFA"), the regulatory of the Federal Home Loan Bank ("FHLB") system, to refocus on the FHLB's housing mission. This proposal would require many banks to hold at least 10% of their assets in residential mortgages in order to maintain access to FHLB funding. If these proposals change or progress, this could impact the Company's ability to borrow from the FHLB and require it to find other sources of credit, including borrowing directly from the FRB.

The Company is in competition with many other banks, including larger commercial banks which have greater resources, as well as "fintech" companies for loan and deposit customers.

The banking industry within the State of New Jersey is highly competitive. The Company's principal market area is also served by branch offices of large commercial banks and thrift institutions. In addition, the Modernization Act permits other financial entities, such as insurance companies and securities firms, to acquire or form financial institutions, thereby further increasing competition. In addition, financial technology companies, either directly or in partnership with other insured depository institutions, compete for loan and deposit customers. Similarly, larger legacy non-financial companies, such as Apple, Alphabet and Amazon, are further increasing competition to compete for loans, deposits and payments. A number of the Company's competitors have substantially greater resources than it does to expend upon advertising and marketing, and their substantially greater capitalization enables them to make much larger loans. The Company's success depends a great deal upon its judgment that large and mid-size financial institutions do not adequately serve small businesses in its principal market area and upon the Company's ability to compete favorably for such customers. In addition to competition from larger institutions, the Company also faces competition for individuals and small businesses from small community banks seeking to compete as "hometown" institutions. Most of these smaller institutions have focused their marketing efforts on the smaller end of the small business market the Company serves.

In January 2022, the Federal Reserve issued *"Money Payments: The U.S. Dollar in the Age of Digital Transformation"* which discusses a U.S. central bank digital currency ("CBDC"). While this is in the earliest of stages, if this CBDC is implemented by the Federal Reserve, it could change banking on a larger scale as Americans would be able to transact directly with the Federal Reserve.

The Company has also been active in competing for New Jersey governmental and municipal deposits. At December 31, 2023, the Company held approximately $346.3 million in governmental and municipal deposits. The governor of New Jersey has proposed that the state form and own a bank in which governmental and municipal entities would deposit their excess funds, with the state owned bank then financing small businesses and municipal projects in New Jersey. While legislation has been introduced in the state legislature, the New Jersey Public Bank Implementation Board has provided its final recommendations to the governor, including that the public bank entity should not be a depository institution but should seek funding from a diverse range of investors and non-depository investment vehicles. However, should this proposal be adopted and a state owned bank formed, it could impede the Company's ability to attract and retain governmental and municipal deposits, thereby impairing the Company's liquidity.

The nature and growth rate of our loan portfolio may expose us to increased lending risks.

Given the significant growth in our loan portfolio, many of our loans are unseasoned, meaning that they were originated relatively recently. Approximately 58.7% of our loan portfolio has been originated in the past three years. As a result, it may be difficult to predict the future performance of our loan portfolio. These loans may have delinquency or charge-off levels above our expectations, which could negatively affect our performance.

Future offerings of common stock may adversely affect the market price of the Company's stock.

In the future, if the Company's or the Bank's capital ratios fall below the prevailing regulatory required minimums, the Company or the Bank could be forced to raise additional capital by making additional offerings of common stock or preferred stock. Additional equity offerings may dilute the holdings of existing shareholders or reduce the market price of common stock, or both.

The Company cannot predict how changes in technology will impact its business.

The financial services market, including banking services, is increasingly affected by advances in technology, including developments in:

- telecommunications;
- data processing;
- artificial intelligence, ("AI");
- automation;
- Internet-based banking;
- Tele-banking;
- debit cards/smart cards

The Company's ability to compete successfully in the future will depend on whether it can anticipate and respond to technological changes. Due to the rise of AI, technological advances are occurring in the industry at an unprecedented pace. To develop these and other new technologies and protect against cyber security threats, the Company will likely have to make additional capital investments. Although the Company continually invests in new technology, it cannot assure that it will have sufficient resources or access to the necessary proprietary technology to remain competitive in the future.

The Company's information systems may experience an interruption or breach in security.

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company's customer-relationship management, general ledger, deposit, loan and other systems.

The Company is further exposed to the risk that its external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees) and to the risk that the Company's (or its vendors') business continuity and data security systems prove to be inadequate. The Company maintains a system of comprehensive policies and a control framework designed to monitor vendor risks including, among other things, (i) changes in the vendor's organizational structure or internal controls, (ii) changes in the vendor's financial condition, (iii) changes in the vendor's support for existing products and services and (iv) changes in the vendor's strategic focus. In addition, the Company maintains cyber liability insurance to mitigate against certain losses it may incur.

While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur; or, if they do occur, that they will be adequately addressed. Further cyber risk exposure will likely remain elevated in the future as a result of the Company's expansion of internet and mobile banking tools and new product roll out. The occurrence of any failures, interruptions or security breaches of the Company's information systems could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny or expose the Company to civil litigation and possible financial liability; any of which could have a material adverse effect on the Company's financial condition and results of operations.

For further information, please refer to Item 1C in this document.

The Company's business strategy could be adversely affected if it is not able to attract and retain skilled employees and manage expenses.

The Company expects to continue to experience growth in the scope of its operations and, correspondingly, in the number of its employees and customers. The Company may not be able to successfully manage its business as a result of the strain on management and operations that may result from this growth. The Company's ability to manage this growth will depend upon its ability to continue to attract, hire and retain skilled employees. The Company's success will also depend on the ability of its officers and key employees to continue to implement and improve operational and other systems, to manage multiple, concurrent customer relationships and to hire, train and manage employees. Further, given the rise of "remote" and "hybrid" working models, the Company is in competition with more companies and industries for employee retention. The Company's potential inability to retain key employees could have a material adverse effect on its financial condition and results of operations. As a community banking organization, the Company is highly reliant on key employees, including its Chief Executive Officer, Chief Financial Officer, heads of key operational areas, area managers, business development officers and loan officers. The loss of these employees could have an adverse impact on the Company's operating capacities and the ability to implement growth strategies and adversely impact the financial performance.

Hurricanes, flooding or other adverse weather events could negatively affect local economies or disrupt operations, which would have an adverse effect on the Company's business or results of operations.

Hurricanes, flooding and other weather events can disrupt the Company's operations, result in damage to its properties and negatively affect the local economies in which it operates. In addition, these weather events may result in a decline in value or destruction of properties securing loans and an increase in delinquencies, foreclosures and loan losses. The Company does maintain property insurance policies to cover certain costs associated with these events; however, it is possible that the expenses may exceed coverage, may not be covered at all or may ultimately increase costs associated with future insurance premiums.

The Company may be adversely affected by changes in U.S. federal tax laws and state and local tax laws.

The Company's business may be adversely affected by changes in tax laws if there are any increases in its federal income tax rates. Further, the Company's business may be adversely affected by changes in tax laws if there are any increases in its state and local tax rates in markets where it has locations.

Claims and litigation could result in significant expenses, losses and damage to the Company's reputation.

From time to time, as a part of the Company's normal course of business, customers, bankruptcy trustees, former customers, contractual counterparties, third parties and current and former employees may make claims and take legal action against the Company based on the actions or inactions of the Company. If such claims and legal actions are undertaken and are not resolved in a manner favorable to the Company, they may result in financial liability and/or adversely affect the market perception of the Company. Any financial liability could have a material impact on the Company's financial condition and results of operations. Any reputational damages could have a material adverse effect on the Company's business.

Failure to successfully implement the Company's growth strategies could cause it to incur substantial costs, which may not be recouped and adversely affect its future profitability.

From time to time, the Company may implement new lines of business, open new branches or offer new products and services. There are substantial risks and uncertainties associated with these efforts. The Company may invest significant time and resources, which may not be fully recouped if profitability targets are not proven feasible. External factors such as compliance with regulations, competitive alternatives and shifting customer preferences may also impact successful implementation. Failure to successfully manage these risks may have a material adverse impact on the Company's business, results of operations and financial condition.

Further, in order to continue growth, the Company may need to seek additional capital. The Company will be required to maintain its regulatory capital levels at levels higher than the minimum set by its regulators. If the Company were required to raise capital to implement growth strategies, the Company can offer no assurances that it will be able to raise capital in the future or that the terms of the capital will be beneficial to its existing shareholders. In the event that the Company is unable to raise capital in the future, the Company may not be able to continue its growth strategy.

A component of the Company's growth strategies may include merger & acquisition opportunities. Attractive merger and acquisition opportunities may not be available to the Company in the future as other banking and financial service companies, many of which have greater resources, will compete with the Company in acquiring potential target companies. This competition could increase prices of potential acquisitions that may be attractive. Additionally mergers and acquisitions are subject to various regulatory approvals. If regulatory approvals are not obtained, the Company would not be able to consummate a merger or acquisition that may be in the Company's best interests. Lastly, the Company has limited merger and acquisition experience, which may minimize the deals available or the ability to appropriately analyze and operationally execute a merger or acquisition. This may adversely impact the operating results.

Net gains on sales of mortgage and/or SBA loans are a significant component of the Company's noninterest income and could fluctuate in future periods.

Net gains on sales of mortgage and SBA loans represented a notable portion of the Company's noninterest income for the years ended December 31, 2023 and 2022, respectively. The Company's ability to sell a portion of its mortgage or SBA loan production in the secondary market is dependent upon, amongst other factors, the levels of market interest rates, consumer demand for marketable loans, the Company's sales and pricing strategies and the economy. A change in one or more of these, or other factors, could significantly impact the Company's ability to sell mortgage loans and SBA loans in the future and adversely impact the level of our noninterest income.

The Company may not be able to detect money laundering and other illegal or improper activities fully, or on a timely basis, which could expose the company to additional liability and could have a material adverse effect.

The Company is required to comply with anti-money laundering, anti-terrorism and other laws and regulations in the United States. These laws and regulations require the Company to adopt and enforce "know-your-customer" policies and procedures and to report suspicious and larger transactions to applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems, sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision.

Although the Company has policies and procedures aimed at detecting and preventing the use of its banking network for money laundering and related activities, those policies and procedures may not eliminate instances in which the Company may be used by customers to engage in illegal or improper activities. To the extent that the Company fails to fully comply with the applicable laws and regulations, banking agencies may have the authority to impose fines, other penalties and sanctions on the Company.

The Company’s ability to maintain its reputation is critical to the success of the business and the failure to do so may materially adversely impact its performance.

The Company’s reputation is one of the most valuable components of its business. As such, the Company strives to conduct its business in a manner that maintains its reputation. If the Company’s reputation is negatively impacted by the actions of an employee, certain litigations, regulatory actions, or certain financial concerns the business and therefore, the operating results may be materially adversely impacted.

The Company’s controls and procedures may fail or be circumvented, which may result in a material adverse effect on its business, results of operations and financial condition.

The Company’s management periodically reviews and updates its internal controls, policies and procedures. Any system of controls is in part based on certain assumptions and can only provide reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company and its results of operations and financial condition.

Anti-takeover provisions in corporate documents and in New Jersey corporate law may make it difficult and expensive to remove current management.

Anti-takeover provisions in corporate documents and in New Jersey law may render the removal of the existing Board of Directors and management more difficult. Consequently, it may be difficult and expensive for the shareholders to remove current management, even if current management is not performing adequately.

Item 1B. Unresolved Staff Comments: None

Item 1C. Cybersecurity Disclosures

Risk Management and Governance

Cybersecurity is a material part of Unity Bank’s business. As a technology forward financial institution offering products through multiple digital delivery channels, cybersecurity incidents could have a material effect on the Company, its results of operations and its reputation. To date, the Company has not experienced any cybersecurity incident which has had a material effect on the Company’s business strategy, results of operations or financial condition. See “Item 1A- Risk Factors – The Company cannot predict how changes in technology will impact its business”; as increased use of technology may expose us to service interruptions or breaches in security.

Cybersecurity risk is initially overseen by the management Information Technology Steering Committee (the “ITSC”). The members of this committee include the Company’s Chief Technology Officer, Chief Compliance Officer (who is also the Information Security Officer), Chief Executive Officer, Chief Financial officer and other critical executive management members. The ITSC also includes a non-voting member that is an outsourced cybersecurity expert. The ITSC includes multiple members, including the Chief Technology Officer and an outsourced consultant, who serves as the Company’s Virtual Information Security Officer.

Over his 16-year career, the Company's Chief Technology Officer has served in multiple Information Technology and Cybersecurity roles, such as Senior Engineer, responsible for implementing hardened infrastructure for both physical and cloud applications; Solutions Architect, designing infrastructures for highly regulated industries including Financial Services, Local/State Government and Healthcare; Director of Service Delivery, overseeing engineering, solutions architecture and maintains the System and Organization Controls (SOC) program prior to joining Unity Bank. During his tenure at Unity Bank, he is a member of various Risk and Cybersecurity Committees of the New Jersey Bankers Association, is a member of FS-ISAC, The Independent Community Bankers of America and our primary banking vendors advisory and risk management committees.

The Company's Chief Compliance Officer was appointed as the Company's Information Security Officer in 2016.

The Virtual Information Security Officer (vISO) has an over 18-year career in Information Technology, Cybersecurity and both Internal/External Audit experience. He presently holds a position of Partner of Herbein, COA Advisor & Audit, where he's held multiple positions within Information Technology and Cybersecurity.

The Company's Information Technology Manager has an over 25-year career in Information Technology, during which the prior 13-years have been in Information Technology, Security and Cybersecurity, working primarily in regulated industries.

In order to ensure that cybersecurity risk management is integrated into the Company's overall risk management plans, systems and processes, the ITSC and Chief Technology Officer provide reports and updates to the Board of Directors, or a Committee thereof on a quarterly basis.

The Company's cybersecurity risk mitigation program involves a combination of internal resources and the use of third parties. The Company's internal IT team performs monthly vulnerability scanning and performs an annual risk assessment based on the National Institute of Standards and Technology Cybersecurity Framework. The results are reported to the ITSC. The Company's IT and compliance staff also review potential cybersecurity threats associated with the Company's third party vendors, including performing a review of and obtaining a System of Organization Controls report from all vendors rated as "high risk" by the Company's internal vendor management program. The Company also has an internal Incident Response Plan and Team, which is charged with overseeing the Company's response to any cybersecurity incident. The team performs a table top exercise at least annually to prepare to respond in the event of any actual cybersecurity incident.

In addition to these internal resources, the Company uses a third party vendor to complete annual penetration and vulnerability testing, with the results reported to the ITSC. Finally, the Company's cybersecurity compliance program is audited by the Bank's outsourced internal auditor.

The Company also maintains insurance which may provide coverage for expenses and certain losses incurred in connection with a cybersecurity incident.

Item 2. Properties:

The Company presently conducts its business through its main office located at 64 Old Highway 22, Clinton, New Jersey and its twenty-one branch offices. The Company is currently leasing additional back office space in Clinton, New Jersey, in a building adjacent to its main office. The Company's facilities are adequate to meet its needs.

The following table sets forth certain information regarding the Company's properties from which it conducts business as of December 31, 2023.

Location	Leased or Owned	Date Leased or Acquired	Lease Expiration	2023 Annual Rental Fee
North Plainfield, NJ	Owned	1991	—	$ —
Linden, NJ	Owned	1997	—	—
Whitehouse, NJ	Owned	1998	—	—
Union, NJ	Leased	2021	2036	64,540
Scotch Plains, NJ	Owned	2004	—	—
Flemington, NJ	Owned	2005	—	—
Forks Township, PA	Leased	2006	2036	67,843
Middlesex, NJ	Owned	2007	—	—
Somerset, NJ	Leased	2012	2027	142,276
Washington, NJ	Owned	2012	—	—
Highland Park, NJ	Owned	2013	—	—
South Plainfield, NJ	Owned	2013	—	—
Edison, NJ	Owned	2013	—	—
Clinton, NJ*	Owned	2016	—	—
Somerville, NJ	Owned	2016	—	—
Emerson, NJ	Owned	2016	—	—
Phillipsburg, NJ	Leased	2017	2027	63,351
Clinton, NJ**	Leased	2018	2036	77,989
Bethlehem, PA	Leased	2018	2028	84,683
Parsippany, NJ	Owned	2023	—	—
Lakewood, NJ	Leased	2022	2037	43,200
Fort Lee, NJ	Leased	2022	2037	132,660

***Headquarters Space**
****Back Office Space**

Item 3. Legal Proceedings:

From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business. The Company currently is not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on the business, financial condition or operating results of the Company.

Item 4. Mine Safety Disclosures: N/A

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities:

(a) Market Information

The Company's Common Stock is quoted on the NASDAQ Global Market under the symbol "UNTY."

(b) Repurchase Plan

On April 27, 2023, the Board authorized a repurchase plan permitting the repurchase of up to 500 thousand shares, or approximately 5.0% of the Company's outstanding common stock, in addition to the previously approved repurchase plan authorizing the repurchase of up to 750 thousand shares of common stock. A total of 656 thousand shares were repurchased at an average price of $23.69 during 2023, of which 570 thousand shares were repurchased under the prior repurchase plan, leaving 414 thousand shares available for repurchase as of December 31, 2023. A total of 1,572 shares were repurchased at an average price of $26.49 during 2022, leaving 570 thousand shares available for repurchase as of December 31, 2022. The timing and amount of additional purchases, if any, will depend upon several factors including the Company's capital needs, the Company's liquidity position, the performance of its loan portfolio, the need for additional provisions for credit losses and the market price of the Company's stock.

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1, 2023 through March 31, 2023	337,945	$ 24.29	337,945	232,199
April 1, 2023 through June 30, 2023	225,000	22.82	225,000	507,199
July 1, 2023 through September 30, 2023	28,592	23.97	28,592	478,607
October 1, 2023 through December 31, 2023	64,860	23.43	64,860	413,747

The above table excludes stock repurchase excise taxes accrued.

Item 6. Reserved: N/A

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations:

The purpose of this analysis is to provide the reader with information relevant to understanding and assessing the Company's results of operations and financial condition for each of the past two years. In order to fully appreciate this analysis, the reader is encouraged to review the consolidated financial statements and accompanying notes thereto appearing under Item 8 of this report and statistical data presented in this document.

Overview

Unity Bancorp, Inc. (the "Parent Company") is a financial holding company incorporated in New Jersey and registered under the Bank Holding Company Act of 1956, as amended. Its wholly-owned subsidiary, Unity Bank (the "Bank" or, when consolidated with the Parent Company, the "Company") is chartered by the New Jersey Department of Banking and Insurance and commenced operations on September 13, 1991. The Bank provides a full range of commercial and retail banking services through online banking platforms and its twenty-one branch offices located in Bergen, Hunterdon, Middlesex, Morris, Ocean, Somerset, Union and Warren counties in New Jersey and Northampton County in Pennsylvania. These services include the acceptance of demand, savings and time deposits and the extension of consumer, real estate, Small Business Administration ("SBA") and other commercial credits. The Bank has multiple subsidiaries used to hold part of its investment, other real estate owned and loan portfolios.

Results of Operations

Net income totaled $39.7 million, or $3.84 per diluted share for the year ended December 31, 2023, compared to $38.5 million, or $3.59 per diluted share for the year ended December 31, 2022.

Highlights for the year include:

- Net income increased 3.3 percent to $39.7 million from $38.5 million in the prior year.
- Net income before provision for income taxes increased 3.1 percent to $53.0 million from $51.4 million in the prior year.
- Net interest income increased $4.9 million, or 5.4 percent, to $95.0 million from $90.1 million in the prior year, primarily due to additional interest income resulting from increased commercial and residential mortgage loan rates and portfolio growth.
- Net interest margin for the year ending December 31, 2023 decreased 34 basis points to 4.06 percent compared to 4.40 percent in the prior year.
- Noninterest income was $8.1 million, a 1.2 percent increase compared to $8.0 million in the prior year, primarily due to net security gains in 2023 as compared to net security losses in 2022.
- Noninterest expense totaled $47.0 million, an increase of $4.5 million when compared to $42.5 million in the prior year. The increase was primarily due to increased compensation and benefits expenses and increased deposit insurance.
- The effective tax rate decreased to 25.1 percent compared to 25.2 percent in the prior year.
- Total gross loans increased $65.5 million, or 3.1 percent from the prior year. The increase was driven by a 7.6 percent increase in commercial loans and a 4.4 percent increase in residential mortgage loans, partially offset by a 19.7 percent decrease in residential construction loans.
- Total deposits increased $136.6 million, or 7.6 percent from the prior year. The increase was primarily driven by increases in interest-bearing demand and time deposits, partially offset by decreases in noninterest-bearing demand and savings deposits.
- Total securities decreased $5.3 million, or 3.7 percent from the prior year. The decrease was primarily driven by a decrease in equity securities and debt securities classified as available for sale.
- Total borrowed funds decreased $26.6 million, or 6.9 percent from the prior year. The decrease was primarily due to core deposit growth.

The Company's performance ratios for the past two years are listed in the following table:

	For the years ended December 31,	
	2023	**2022**
Net income per common share - Basic (1)	**$ 3.89**	$ 3.66
Net income per common share - Diluted (2)	**$ 3.84**	$ 3.59
Return on average assets	**1.63 %**	1.80 %
Return on average equity (3)	**16.05 %**	17.28 %
Efficiency ratio (4)	**45.55 %**	42.69 %
Dividend payout ratio (5)	**12.50 %**	11.98 %
Equity to assets ratio (6)	**10.14 %**	10.41 %

(1) Defined as net income divided by weighted average shares outstanding.
(2) Defined as net income divided by the sum of weighted average shares and the potential dilutive impact of the exercise of outstanding options.
(3) Defined as net income divided by average shareholders' equity.
(4) The efficiency ratio is a non-GAAP measure of operational performance. It is defined as noninterest expense divided by the sum of net interest income plus noninterest income, excluding net gains and losses on securities.
(5) Defined as dividends declared per share divided by diluted net income per share.
(6) Defined as average equity divided by average total assets.

Net Interest Income

The primary source of the Company's operating income is net interest income, which is the difference between interest and dividends earned on interest-earning assets and net fees earned on loans, versus interest paid on interest-bearing liabilities. Interest-earning assets include loans to individuals and businesses, investment securities and interest-earning deposits. Interest-bearing liabilities include interest-bearing demand, savings and time deposits, FHLB advances and other borrowings.

2023 compared to 2022

During 2023, tax-equivalent net interest income amounted to $95.0 million, an increase of $4.9 million, or 5.4 percent, when compared to the same period in 2022. The net interest margin decreased 34 basis points to 4.06 percent for the year ended December 31, 2023, compared to 4.40 percent for the same period in 2022. The net interest spread was 3.32 percent for 2023, an 83 basis point decrease compared to 4.15 for the same period in 2022.

During 2023, tax-equivalent interest income was $143.5 million, an increase of $42.8 million, or 42.4 percent, when compared to the same period in the prior year. This increase was mainly driven by increases in the yield on loans, the balance of average loans, the yield securities and the yield on interest-bearing deposits.

- Of the $42.8 million increase in interest income on a tax-equivalent basis, $18.3 million was due to the increased average volume of interest-earning assets and $24.5 million was due to increased yields on average interest-earning assets.
- The average volume of interest-earning assets increased $291.9 million to $2.3 billion for 2023 compared to $2.0 billion for 2022. This was primarily due to a $329.2 million increase in average loans, with growth in all portfolios except SBA, SBA PPP and Consumer loans. The increase was complemented by a $14.7 million increase in investment securities, partially offset by a $61.2 million decrease in interest-bearing deposits.
- The yield on total interest-earning assets increased 121 basis points to 6.13 percent for the year ended December 31, 2023 when compared to 2022. The yield on the loan portfolio increased 105 basis points to 6.18 percent.

Total interest expense was $48.5 million in 2023, an increase of $37.9 million or 356.2 percent compared to 2022. This increase was primarily driven by the increases in the rate paid on time deposits, savings deposits and borrowed funds and subordinated debentures and the increased balance of average borrowed funds and subordinated debentures and time deposits:

- Of the $37.9 million increase in interest expense, $26.7 million was due to increased rates on average interest-bearing liabilities, while $11.2 million was due to the increased volume of average interest-bearing liabilities.
- The average cost of interest-bearing liabilities increased 204 basis points to 2.81 percent in 2023 when compared to 2022. The cost of interest-bearing deposits increased 180 basis points in 2023. The cost of borrowed funds and subordinated debentures increased 184 basis points in 2023.
- Interest-bearing liabilities averaged $1.7 billion in 2023, an increase of $352.3 million, compared to 2022. The increase in interest-bearing liabilities was primarily due to an increase in interest-bearing demand deposits, time deposits and borrowed funds and subordinated debentures, partially offset by a decrease in savings deposits.

Consolidated Average Balance Sheets

The following table reflects the components of net interest income, setting forth for the periods presented herein: (1) average assets, liabilities and shareholders' equity, (2) interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities, (3) average yields earned on interest-earning assets and average rates paid on interest-bearing liabilities, (4) net interest spread and (5) net interest income/margin on average interest-earning assets. Rates/yields are computed on a fully tax-equivalent basis, assuming a federal income tax rate of 21 percent.

(Dollar amounts in thousands, interest amounts and interest rates/yields on a fully tax-equivalent basis)

For the years ended December 31,	**2023**				**2022**			
	Average balance	**Interest**	**Rate/Yield**		**Average balance**	**Interest**	**Rate/Yield**	
ASSETS								
Interest-earning assets:								
Interest-bearing deposits	**$ 34,233**	**$ 1,724**	**5.04**	**%**	$ 95,427	$ 735	0.77	%
Federal Home Loan Bank ("FHLB") stock	**15,508**	**1,369**	**8.83**		6,405	396	6.18	
Securities:								
Taxable	**135,806**	**7,271**	**5.35**		121,314	4,754	3.92	
Tax-exempt	**1,698**	**76**	**4.48**		1,461	58	3.99	
Total securities (A)	**137,504**	**7,347**	**5.34**		122,775	4,812	3.92	
Loans:								
SBA loans	**61,834**	**5,489**	**8.88**		65,197	4,303	6.60	
SBA PPP loans	**2,919**	**137**	**4.69**		19,095	1,596	8.36	
Commercial loans	**1,240,783**	**76,966**	**6.20**		1,040,624	53,820	5.10	
Residential mortgage loans	**624,146**	**34,194**	**5.48**		484,923	22,395	4.62	
Consumer loans	**75,018**	**5,742**	**7.65**		77,382	4,132	5.27	
Residential construction loans	**148,520**	**10,530**	**7.09**		136,778	8,555	6.17	
Total loans (B)	**2,153,220**	**133,058**	**6.18**		1,823,999	94,801	5.13	
Total interest-earning assets	**$ 2,340,465**	**$ 143,498**	**6.13**	**%**	$ 2,048,606	$ 100,744	4.92	%
Noninterest-earning assets:								
Cash and due from banks	**22,478**				23,100			
Allowance for credit losses	**(26,149)**				(22,920)			
Other assets	**102,204**				87,930			
Total noninterest-earning assets	**98,533**				88,110			
Total assets	**$ 2,438,998**				$ 2,136,716			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Interest-bearing liabilities:								
Interest-bearing demand deposits	**$ 306,820**	**$ 5,306**	**1.73**	**%**	$ 269,789	$ 1,384	0.51	%
Savings deposits	**552,864**	**11,239**	**2.03**		674,335	3,110	0.46	
Time deposits	**561,075**	**17,340**	**3.09**		315,910	2,757	0.87	
Total interest-bearing deposits	**1,420,759**	**33,885**	**2.38**		1,260,034	7,251	0.58	
Borrowed funds and subordinated debentures	**304,419**	**14,612**	**4.80**		112,799	3,380	2.96	
Total interest-bearing liabilities	**$ 1,725,178**	**$ 48,497**	**2.81**	**%**	$ 1,372,833	$ 10,631	0.77	%
Noninterest-bearing liabilities:								
Noninterest-bearing demand deposits	**439,653**				518,244			
Other liabilities	**26,780**				23,104			
Total noninterest-bearing liabilities	**466,433**				541,348			
Total shareholders' equity	**247,387**				222,535			
Total liabilities and shareholders' equity	**$ 2,438,998**				$ 2,136,716			
Net interest spread		**$ 95,001**	**3.32**	**%**		$ 90,113	4.15	%
Tax-equivalent basis adjustment		**(4)**				(5)		
Net interest income		**$ 94,997**				$ 90,108		
Net interest margin			**4.06**	**%**			4.40	%

(A) Yields related to securities exempt from federal and state income taxes are stated on a fully tax-equivalent basis, assuming a federal tax rate of 21 percent in 2023 and 2022.

(B) The loan averages are stated net of unearned income, and the averages include loans on which the accrual of interest has been discontinued.

The rate volume table below presents an analysis of the impact on interest income and expense resulting from changes in average volume and rates over the periods presented. Changes that are not solely due to volume or rate variances have been allocated proportionally to both, based on their relative absolute values. Amounts have been computed on a tax-equivalent basis, assuming a federal income tax rate of 21 percent.

	For the years ended December 31, 2023 versus 2022 Increase (decrease) due to change in:		
(In thousands on a tax-equivalent basis)	**Volume**	**Rate**	**Net**
Interest income:			
Interest-bearing deposits	**$ (742)**	**$ 1,731**	**$ 989**
FHLB stock	**747**	**226**	**973**
Securities	**631**	**1,904**	**2,535**
Loans	**17,668**	**20,589**	**38,257**
Total interest income	**$ 18,304**	**$ 24,450**	**$ 42,754**
Interest expense:			
Demand deposits	**$ 213**	**$ 3,709**	**$ 3,922**
Savings deposits	**(654)**	**8,783**	**8,129**
Time deposits	**3,401**	**11,182**	**14,583**
Total interest-bearing deposits	**2,960**	**23,674**	**26,634**
Borrowed funds and subordinated debentures	**8,222**	**3,010**	**11,232**
Total interest expense	**11,182**	**26,684**	**37,866**
Net interest income - fully tax-equivalent	**$ 7,122**	**$ (2,234)**	**$ 4,888**
Decrease in tax-equivalent adjustment			**1**
Net interest income			**$ 4,889**

Provision for Credit Losses

The provision for credit losses for loans totaled $1.8 million for 2023, compared to $4.2 million in 2022. The provision for credit losses for loans decreased $2.4 million for the year ended 2023 primarily due to slower loan growth, as well as management's view of current economic conditions.

The provision for credit losses for off-balance sheet exposures totaled $0.1 million for the years ended December 31, 2023 and 2022.

The provision for credit losses for AFS debt security impairment was $1.3 million for the year ended December 31, 2023, compared to none for the prior year. The impairment was entirely attributable to one corporate senior debt security in the AFS portfolio. The Company owns $5 million in par value of this position and the issuing company recently restated earnings and was unprofitable during the first three quarters of 2023.

Each period's credit loss provision is the result of management's analysis of the loan portfolio and reflects changes in the size and composition of the portfolio, the level of net charge-offs, delinquencies, current economic conditions and other internal and external factors impacting the risk within the loan portfolio. Additional information may be found under the captions "Financial Condition - Asset Quality" and "Financial Condition - Allowance for Credit Losses and Reserve for Unfunded Loan Commitments." The current provision is considered appropriate under management's assessment of the adequacy of the allowance for credit losses.

Noninterest Income

The following table shows the components of noninterest income for the past two years:

(In thousands)	For the years ended December 31, 2023	2022
Branch fee income	**$ 997**	$ 1,117
Service and loan fee income	**1,928**	2,433
Gain on sale of SBA loans held for sale, net	**1,299**	954
Gain on sale of mortgage loans, net	**1,546**	1,399
BOLI income	**852**	636
Net securities gains (losses)	**7**	(1,313)
Other income	**1,513**	2,819
Total noninterest income	**$ 8,142**	$ 8,045

Noninterest income was $8.1 million for 2023, a $0.1 million increase compared to $8.0 million for 2022. This increase was primarily due to increased net unrealized gains on securities, gains on SBA loans held for sale and gains on sale of mortgage loans, net partially offset by decreased branch fee and service and loan fee income.

Noninterest Expense

The following table shows the components of noninterest expense for the past two years:

(In thousands)	For the years ended December 31, 2023	2022
Compensation and benefits	**$ 29,051**	$ 26,949
Processing and communications	**2,994**	2,848
Occupancy	**3,087**	2,963
Furniture and equipment	**2,780**	2,493
Professional services	**1,563**	1,401
Advertising	**1,436**	1,212
Loan related expenses	**918**	518
Deposit insurance	**1,715**	1,022
Director fees	**847**	916
Other expenses	**2,585**	2,136
Total noninterest expense	**$ 46,976**	$ 42,458

Noninterest expense totaled $47.0 million for the year ended December 31, 2023, an increase of $4.5 million when compared to $42.5 million in 2022. The majority of this increase is attributable to increased deposit insurance and compensation and benefits, reflecting ordinary increases, as well as increased staffing for new branches.

Income Tax Expense

For 2023, the Company reported income tax expense of $13.3 million for an effective tax rate of 25.1%, compared to an income tax expense of $13.0 million and an effective tax rate of 25.2% in 2022.

For additional information on income taxes, see Note 11 to the Consolidated Financial Statements.

Financial Condition

Total assets increased $133.6 million or 5.5 percent, to $2.6 billion at December 31, 2023, when compared to year end 2022. This increase was primarily due to increases of $65.5 million in gross loans, mostly due to commercial and residential mortgage loan growth, partially offset by decreases in residential construction, consumer and SBA loans. Total assets also included an increase of $80.0 million in cash and cash equivalents, offset by a decrease of $5.3 million in total securities.

Total deposits increased $136.6 million, due to increases of $155.7 million in time deposits, $45.1 million in brokered time deposits and $37.1 million in interest-bearing demand deposits, offset by a decrease of $26.7 million in savings deposits and $74.5 million in noninterest-bearing demand deposits. Borrowed funds decreased $26.6 million to $356.4 million at December 31, 2023.

Total shareholders' equity increased $22.2 million over year end 2022, due to earnings and an increase in common stock, offset by dividends paid and share repurchases.

These fluctuations are discussed in further detail in the sections that follow.

Securities

The Company's securities portfolio consists of available for sale ("AFS") debt securities, held to maturity ("HTM") debt securities and equity investments. Management determines the appropriate security classification of AFS and HTM at the time of purchase. The investment securities portfolio is maintained for asset-liability management purposes, as well as for liquidity and earnings purposes.

The following table provides the major components of AFS debt securities, HTM debt securities and equity investments at their carrying value as of December 31, 2023 and December 31, 2022:

(In thousands)		**December 31, 2023**		December 31, 2022
Available for sale, at fair value:				
U.S. Government sponsored entities	**$**	**16,033**	$	16,305
State and political subdivisions		**360**		613
Residential mortgage-backed securities		**14,077**		15,475
Corporate and other securities		**61,295**		63,000
Total securities available for sale	**$**	**91,765**	$	95,393
Held to maturity, at amortized cost:				
U.S. Government sponsored entities	**$**	**28,000**	$	28,000
State and political subdivisions		**1,272**		1,115
Residential mortgage-backed securities		**6,850**		6,645
Total securities held to maturity	**$**	**36,122**	$	35,760
Equity Securities, at fair value:				
Total Equity Securities	**$**	**7,802**	$	9,793

AFS debt securities are investments carried at fair value that may be sold in response to changing market and interest rate conditions or for other business purposes. Activity in this portfolio is undertaken primarily to manage liquidity and interest rate risk, to take advantage of market conditions that create economically attractive returns and as an additional source of earnings. AFS debt securities consist primarily of obligations of U.S. Government sponsored entities, state and political subdivisions, mortgage-backed securities and corporate and other securities.

AFS debt securities totaled $91.8 million at December 31, 2023, a decrease of $3.6 million or 3.8 percent, compared to $95.4 million at December 31, 2022. This net decrease was the result of:

- $4.3 million in principal payments, maturities and called bonds,
- $1.3 million of appreciation in the market value of the portfolio. At December 31, 2023, the portfolio had a net unrealized loss of $4.5 million compared to a net unrealized loss of $5.8 million at December 31, 2022. These net unrealized losses are reflected net of tax in shareholders' equity as accumulated other comprehensive loss,
- $1.3 million in allowance for credit losses and
- purchases of $0.7 million

The weighted average life of AFS debt securities, adjusted for prepayments, amounted to 5.6 years and 6.4 years at December 31, 2023 and 2022, respectively. The effective duration of AFS debt securities amounted to 1.7 and 1.9 years at December 31, 2023 and 2022, respectively.

HTM debt securities, which are carried at amortized cost, are investments for which there is the positive intent and ability to hold to maturity. The portfolio is comprised of obligations of U.S. Government sponsored entities, state and political subdivisions and mortgage-backed securities.

HTM debt securities totaled $36.1 million at December 31, 2023, an increase of $0.3 million, or 1.0 percent, compared to $35.8 million at December 31, 2022. The increase was due to:

- $0.2 million in principal accretion and
- purchases of $0.1 million

The weighted average life of HTM debt securities, adjusted for prepayments, amounted to 17.1 years and 18.0 years at December 31, 2023 and 2022, respectively. As of December 31, 2023, the fair value of HTM debt securities was $29.7 million, compared to $28.6 million at December 31, 2022. The effective duration of HTM debt securities amounted to 10.9 and 10.5 years at December 31, 2023 and 2022, respectively.

Equity securities are investments carried at fair value that may be sold in response to changing market and interest rate conditions or for other business purposes. Activity in this portfolio is undertaken primarily to manage liquidity and interest rate risk, to take advantage of market conditions that create economically attractive returns and as an additional source of earnings. Equity securities consist of Community Reinvestment Act ("CRA") investments and the equity holdings of financial institutions.

Equity securities totaled $7.8 million at December 31, 2023, a decrease of $2.0 million, or 20.3 percent, compared to $9.8 million at December 31, 2022. This net decrease was the result of:

- $2.1 million in proceeds from sales, including $0.3 million of realized gains,
- $0.3 million of net unrealized losses and
- purchases of $0.1 million

The following table provides the remaining contractual maturities and average yields, calculated on a yield-to-maturity basis, within the investment portfolios. The carrying value of securities at December 31, 2023 is distributed by contractual maturity. Mortgage-backed securities and other securities, which may have principal prepayment provisions, are distributed based on contractual maturity. Expected maturities will differ materially from contractual maturities as a result of early prepayments and calls.

	Within one year		After one through five years		After five through ten years		After ten years		Total carrying value	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
(In thousands, except percentages)										
Available for sale, at fair value:										
U.S. Government sponsored entities	$ 1,478	2.69 %	$ 14,555	3.72 %	$ —	- %	$ —	- %	$ 16,033	3.63 %
State and political subdivisions	—	-	162	1.90	—	-	198	2.75	360	2.37
Residential mortgage-backed securities	—	-	414	2.58	693	2.77	12,970	3.42	14,077	3.36
Corporate and other securities	—	-	16,792	7.61	7,262	5.45	37,241	7.59	61,295	7.34
Total debt securities available for sale	$ 1,478	2.69 %	$ 31,923	5.74 %	$ 7,955	5.22 %	$ 50,409	6.50 %	$ 91,765	6.06 %
Held to maturity, at cost:										
U.S. Government sponsored entities	$ —	- %	$ —	- %	$ 3,000	4.00 %	$ 25,000	3.48 %	$ 28,000	3.54 %
State and political subdivisions	100	7.05	—	-	—	-	1,172	5.19	1,272	5.34
Residential mortgage-backed securities	—	-	—	-	—	-	6,850	3.03	6,850	3.03
Total debt securities held for maturity	$ 100	7.05 %	$ —	- %	$ 3,000	4.00 %	$ 33,022	3.45 %	$ 36,122	3.50 %

Securities with a carrying value of $9.7 million and $0.8 million at December 31, 2023 and December 31, 2022, respectively, were pledged to secure other borrowings and for other purposes required or permitted by law. There were no securities encumbered at December 31, 2023 and December 31, 2022.

Approximately 66 percent and 63 percent of the total investment portfolio had a fixed rate of interest at December 31, 2023 and December 31, 2022, respectively.

For additional information on securities, see Note 2 to the Consolidated Financial Statements.

Loans

The loan portfolio, which represents the Company's largest asset group, is a significant source of both interest and fee income. The portfolio consists of SBA, commercial, residential mortgage, consumer and residential construction loans. Each of these segments is subject to differing levels of credit and interest rate risk.

Total loans were $2.2 billion at December 31, 2023, an increase of $65.5 million or 3.1 percent when compared to year end 2022. Commercial, residential mortgage and SBA loans held for investment increased $89.9 million, $26.4 million and $0.1 million, respectively, partially offset by decreases in residential construction, consumer and SBA PPP loans of $32.2 million, $5.5 million and $3.6 million, respectively.

The following table sets forth the classification of loans by major category, including unearned fees, deferred costs and excluding the allowance for credit losses as of December 31, 2023 and December 31, 2022:

	2023		2022	
(In thousands, except percentages)	**Amount**	**% of total**	**Amount**	**% of total**
Ending balance:				
SBA loans held for investment	**$ 38,584**	**1.8 %**	$ 38,468	1.8 %
SBA PPP loans	**2,318**	**0.1**	5,908	0.3
Commercial loans	**1,277,460**	**58.8**	1,187,543	56.4
Residential mortgage loans	**631,506**	**29.1**	605,091	28.7
Consumer loans	**72,676**	**3.4**	78,164	3.7
Residential construction loans	**131,277**	**6.0**	163,457	7.8
Total loans held for investment	**2,153,821**	**99.2**	2,078,631	98.7
SBA loans held for sale	**18,242**	**0.8**	27,928	1.3
Total loans	**$ 2,172,063**	**100.0 %**	$ 2,106,559	100.0 %

Average loans increased $329.2 million or 18.1 percent from $1.8 billion in 2022, to $2.2 billion in 2023. The increase in average loans was due to increases in average commercial, residential mortgage and residential construction. The yield on the overall loan portfolio increased 105 basis points to 6.18 percent for the year ended December 31, 2023, compared to 5.13 percent for the prior year.

SBA 7(a) loans, on which the SBA historically has provided guarantees of up to 90 percent of the principal balance, are considered a higher risk loan product for the Company than its other loan products. These loans are made to small businesses for the purposes of providing working capital and for financing the purchase of equipment, inventory or commercial real estate. Generally, an SBA 7(a) loan has a lower quality credit profile that would not allow the borrower to qualify for a traditional commercial loan, which is why the SBA provides the guarantee. These loans may have a higher loan to value ("LTV") ratio, lower debt service coverage ("DSC") ratio and/or weak personal financial guarantees. In addition, many SBA 7(a) loans are for startup businesses where there is no historical financial information. Finally, many SBA borrowers do not have an ongoing and continuous banking relationship with the Bank and work with the Bank on a single transaction. The guaranteed portion of the Company's SBA loans may be sold in the secondary market.

SBA 7(a) loans held for sale, carried at the lower of cost or market, amounted to $18.2 million at December 31, 2023, a decrease of $9.7 million from $27.9 million at December 31, 2022. SBA 7(a) loans held for investment amounted to $38.6 million at December 31, 2023, an increase of $0.1 million from $38.5 million at December 31, 2022. The yield on SBA 7(a) loans, which is generally floating and adjusts quarterly to the Prime Rate, was 8.88 percent for the year ended December 31, 2023, compared to 6.60 percent in the prior year.

The guarantee rates on SBA 7(a) loans range from 50 percent to 90 percent, with the majority of the portfolio having a guarantee rate of 75 percent at origination. The guarantee rates are determined by the SBA and can vary from year to year depending on government funding and the goals of the SBA program. Approximately $75.6 million and $72.1 million in SBA loans were sold but serviced by the Company at December 31, 2023 and December 31, 2022, respectively, and are not included on the Company's balance sheet. There is no direct relationship or correlation between the guarantee percentages and the level of charge-offs and recoveries on the Company's SBA 7(a) loans. Charge-offs taken on SBA 7(a) loans effect the unguaranteed portion of the loan. SBA loans are underwritten to the same credit standards irrespective of the guarantee percentage.

Commercial loans are generally made in the Company's marketplace for the purpose of providing working capital, financing the purchase of equipment, inventory or commercial real estate and for other business purposes. These loans amounted to $1.3 billion at December 31, 2023, an increase of $89.9 million from year end 2022. The yield on commercial loans was 6.20 percent for 2023, compared to 5.10 percent for the same period in 2022. The SBA 504 program, which consists of real estate backed commercial mortgages where the Company has the first mortgage and the SBA has the second mortgage on the property, is included in the Commercial loan portfolio. The Commercial Real Estate sub-category includes both owner occupied and non-owner occupied commercial real estate related loans.

Residential mortgage loans consist of loans secured by 1 to 4 family residential properties. These loans amounted to $631.5 million at December 31, 2023, an increase of $26.4 million from year end 2022. Sales of mortgage loans totaled $71.7 million and $74.4 million for 2023 and 2022, respectively. Approximately $23.4 million and $13.7 million in residential loans were sold but serviced by the Company at December 31, 2023 and December 31, 2022, respectively, and are not included on the Company's balance sheet. The yield on residential mortgages was 5.48 percent for 2023, compared to 4.62 percent for 2022. Residential mortgage loans maintained in portfolio are generally to individuals that do not qualify for conventional financing. In extending credit to this category of borrowers, the Bank considers other mitigating factors such as credit history, equity and liquid reserves of the borrower. As a result, the residential mortgage loan portfolio of the Bank includes fixed and adjustable rate mortgages with rates that exceed the rates on conventional fixed-rate mortgage loan products but are typically not considered high priced mortgages.

Consumer loans consist of home equity loans and loans for the purpose of financing the purchase of consumer goods, home improvements and other personal needs, and are generally secured by 1-4 family residences. These loans amounted to $72.7 million at December 31, 2023, a decrease of $5.5 million from December 31, 2022. The yield on consumer loans was 7.65 percent for 2023, compared to 5.27 percent for 2022.

Residential construction loans consist of short-term loans for the purpose of funding the costs of building a home. These loans amounted to $131.3 million at December 31, 2023, a decrease of $32.2 million from December 31, 2022. The yield on residential construction loans was 7.09 percent for 2023, compared to 6.17 percent for 2022.

There are no concentrations of loans to any borrowers or group of borrowers exceeding 10 percent of the total loan portfolio.

In the normal course of business, the Company may originate loan products whose terms could give rise to additional credit risk. Interest-only loans, loans with high LTV ratios, construction loans with payments made from interest reserves and multiple loans supported by the same collateral (e.g. home equity loans) are examples of such products. However, these products are not material to the Company's financial position and are closely managed via credit controls that mitigate their additional inherent risk. Management does not believe that these products create a concentration of credit risk in the Company's loan portfolio. The Company does not have any option adjustable rate mortgage loans.

The majority of the Company's loans are secured by real estate. Declines in the market values of real estate in the Company's trade area impact the value of the collateral securing its loans. This could lead to greater losses in the event of defaults on loans secured by real estate. At December 31, 2023 and 2022, approximately 96 percent of the Company's loan portfolio was secured by real estate.

The following table presents the maturity distribution of the loan portfolio at December 31, 2023:

	December 31, 2023				
(In thousands)	One year or less	One to five years	Five to fifteen years	Over fifteen years	Total
SBA loans	$ 226	$ 1,697	$ 16,580	$ 38,323	$ 56,826
SBA PPP loans	—	2,318	—	—	2,318
Commercial loans					
SBA 504 loans	6,365	1,046	3,415	22,843	33,669
Commercial & industrial	30,323	35,395	25,045	37,639	128,402
Commercial real estate	34,458	38,588	219,920	693,264	986,230
Commercial real estate construction	28,333	16,190	419	84,217	129,159
Residential mortgage loans	—	3,021	63,058	565,427	631,506
Consumer loans					
Home equity	2,255	1,633	12,345	50,804	67,037
Consumer other	1,053	3,854	639	93	5,639
Residential construction loans	129,437	1,349	491	—	131,277
Total	$ 232,450	$ 105,091	$ 341,912	$ 1,492,610	$ 2,172,063
Total (as a percentage of total loans)	10.7 %	4.8 %	15.8 %	68.7 %	100.0 %

The following table presents the contractual maturities after one year for fixed and adjustable rate loans within each loan category at December 31, 2023:

	Loans Maturing After One Year		
Loan Type	**Fixed Rate**	**Adjustable Rate**	**Total**
SBA loans	$ 3,764	$ 52,836	$ 56,600
SBA PPP loans	2,318	-	2,318
Commercial loans			
SBA 504 loans	-	27,304	27,304
Commercial & industrial	42,497	55,582	98,079
Commercial real estate	121,079	830,693	951,772
Commercial real estate construction	3,149	97,677	100,826
Residential mortgage loans	247,112	384,394	631,506
Consumer loans			
Home equity	11,531	53,251	64,782
Consumer other	4,577	9	4,586
Residential construction loans	1,577	263	1,840
Total	$ 437,604	$ 1,502,009	$ 1,939,613

For additional information on loans, see Note 3 to the Consolidated Financial Statements.

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Asset Quality

The following table sets forth information concerning nonperforming assets and loans past due 90 days or more and still accruing interest at December 31, 2023 and December 31, 2022:

(In thousands, except percentages)	2023	2022
Nonperforming by category (1):		
SBA loans held for investment	**$ 3,444**	$ 690
Commercial loans	**1,948**	1,582
Residential mortgage loans	**11,272**	3,361
Consumer loans	**381**	—
Residential construction loans	**2,141**	3,432
Total nonperforming loans	**$ 19,186**	$ 9,065
Total nonperforming assets	**$ 19,186**	$ 9,065
Past due 90 days or more and still accruing interest:		
Residential mortgage loans	**946**	—
Total past due 90 days or more and still accruing interest	**$ 946**	$ —
Nonperforming loans to total loans	**0.88 %**	0.43
Nonperforming assets to total assets	**0.74**	0.37

(1) Nonperforming loans include nonaccrual loans and loans that are over 90 days past due and still accruing interest.

Nonperforming loans were $19.2 million at December 31, 2023, a $10.1 million increase from $9.1 million at year end 2022. Since year end 2022, nonperforming loans in the SBA held for investment, residential mortgage, commercial and consumer loan segments increased, partially offset by a decrease in nonperforming residential construction. In addition, there was $0.9 million in loans past due 90 days or more and still accruing interest at December 31, 2023, compared to none at December 31, 2022.

The Company also monitors potential problem loans. Potential problem loans are those loans where information about possible credit problems of borrowers causes management to have doubts as to the ability of such borrowers to comply with loan repayment terms. These loans are categorized by their non-passing risk rating and performing loan status. Potential problem loans totaled $15.1 million at December 31, 2023, an increase of $0.4 million from $14.7 million at December 31, 2022.

For additional information on asset quality, see Note 3 to the Consolidated Financial Statements.

Allowance for Credit Losses and Reserve for Unfunded Loan Commitments

The allowance for credit losses totaled $25.9 million at December 31, 2023, compared to $25.2 million at December 31, 2022, with resulting allowance to total loan ratios of 1.19 percent and 1.20 percent, respectively. Net charge-offs amounted to $2.0 million for 2023, compared to $1.3 million for 2022.

The following table is a summary of the changes to the allowance for credit losses for December 31, 2023 and 2022, including net charge-offs to average loan ratios for each major loan category:

(In thousands, except percentages)	2023	2022
Balance, beginning of period	**$ 25,196**	$ 22,302
Impact of the adoption of ASU 2016-13 ("CECL")	**847**	—
Provision for credit losses for loans charged to expense	**1,832**	4,159
Less: Charge-offs		
SBA loans held for investment	**(213)**	(59)
Commercial loans	**(752)**	(1,000)
Residential mortgage loans	**(93)**	—
Consumer loans	**(578)**	(398)
Residential construction loans	**(1,000)**	—
Total charge-offs	**(2,636)**	(1,457)
Add: Recoveries		
SBA loans held for investment	**20**	33
Commercial loans	**400**	109
Residential mortgage loans	**—**	3
Consumer loans	**84**	47
Residential construction loans	**111**	—
Total recoveries	**615**	192
Net charge-offs	**(2,021)**	(1,265)
Balance, end of period	**$ 25,854**	$ 25,196
Selected loan quality ratios:		
Net charge-offs to average loan segment:		
SBA loans held for investment	**0.46 %**	0.04 %
Commercial loans	**0.03**	0.09
Residential mortgage loans	**0.01**	—
Consumer loans	**0.66**	0.45
Residential construction loans	**0.60**	—
Total loans	**0.09**	0.07
Allowance to total loans	**1.19**	1.20
Allowance to nonperforming loans	**134.75 %**	277.95 %

The following table sets forth, for each of the major lending categories, the amount of the allowance for credit losses allocated to each category and the percentage of total loans represented by such category as of December 31, 2023 and 2022. The allocated allowance is the total of identified specific and general reserves by loan category. The allocation is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of the portfolio.

	2023		2022	
(In thousands, except percentages)	Reserve amount	% of loans to total loans	Reserve amount	% of loans to total loans
Balance applicable to:				
SBA loans	**$ 1,221**	**2.7 %**	$ 875	3.4 %
Commercial loans	**15,876**	**58.8**	15,252	56.4
Residential mortgage loans	**6,529**	**29.1**	5,450	28.7
Consumer loans	**1,022**	**3.4**	992	3.7
Residential construction loans	**1,206**	**6.0**	2,627	7.8
Total loans	**$ 25,854**	**100.0 %**	$ 25,196	100.0 %

The Company maintains a reserve for unfunded loan commitments at a level that management believes is adequate to absorb estimated expected losses. Adjustments to the reserve are made through provision for credit losses and applied to the reserve which is classified as Other liabilities. At December 31, 2023, a $0.6 million commitment reserve was reported, compared to a $0.5 million commitment reserve at December 31, 2022.

See Note 4 to the accompanying Consolidated Financial Statements for more information regarding the Allowance for Credit Losses and Reserve for Unfunded Loan Commitments.

Deposits

Deposits, which include noninterest-bearing demand deposits, interest-bearing demand deposits, savings deposits and time deposits, are the primary source of the Company's funds. The Company offers a variety of products designed to attract and retain customers, with primary focus on building and expanding relationships. The Company continues to focus on establishing a comprehensive relationship with business borrowers, seeking deposits, as well as, lending relationships.

The following table shows period-end deposits and the concentration of each category of deposits for the past two years:

	2023		2022	
(In thousands, except percentages)	**Amount**	**% of total**	**Amount**	**% of total**
Ending balance:				
Noninterest-bearing demand deposits	**$ 419,636**	**21.8 %**	$ **494,184**	**27.6** %
Interest-bearing demand deposits	**313,352**	**16.3**	**276,218**	**15.5**
Savings deposits	**565,088**	**29.4**	**591,826**	**33.1**
Brokered time deposits	**199,667**	**10.4**	**154,563**	**8.7**
Time deposits	**426,397**	**22.1**	**270,737**	**15.1**
Total deposits	**$ 1,924,140**	**100.0 %**	$ **1,787,528**	**100.0** %

The following table details the maturity distribution of time deposits as of December 31, 2023 and 2022:

(In thousands)	**Three months or less**	**More than three months through six months**	**More than six months through twelve months**	**More than twelve months**	**Total**
At December 31, 2023:					
Less than $250,000	**$ 157,742**	**$ 140,052**	**$ 104,619**	**$ 88,311**	**$ 490,724**
$250,000 or more	**21,649**	**63,783**	**36,830**	**13,078**	**135,340**
At December 31, 2022:					
Less than $250,000	$ 134,611	$ 39,583	$ 35,208	$ 148,554	$ 357,956
$250,000 or more	3,528	19,787	16,509	27,520	67,344

Total deposits increased $136.6 million to $1.9 billion at December 31, 2023. This increase in deposits was due to increases of $155.7 million in time deposits, $45.1 million in brokered time deposits and $37.1 million in interest-bearing demand deposits, partially offset by a decrease of $26.7 million in savings deposits and $74.5 million in noninterest-bearing demand deposits.

The Company's deposit composition at December 31, 2023, consisted of 29.4 percent savings deposits, 21.8 percent noninterest-bearing demand deposits, 22.1 percent time deposits, 10.4 brokered time deposits and 16.3 percent interest-bearing demand deposits. The change in the composition of the portfolio from December 31, 2022 reflects a 57.5 percent increase in time deposits, 29.2 percent increase in brokered time deposits and a 13.4 percent increase in interest-bearing demand deposits, partially offset by a 4.5 percent decrease in savings deposits and a 15.1 percent decrease in noninterest-bearing demand deposits.

The following table shows average deposits and the concentration of each category of deposits for the past two years:

(In thousands, except percentages)	For the years ended December 31, 2023 Amount	2023 % of total	2022 Amount	2022 % of total
Average balance:				
Noninterest-bearing demand deposits	**$ 439,653**	**23.7 %**	$ 518,244	29.1 %
Interest-bearing demand deposits	**306,820**	**16.5**	269,789	15.2
Savings deposits	**552,864**	**29.7**	674,335	37.9
Brokered time deposits	**197,708**	**10.6**	193,355	10.9
Time deposits	**363,367**	**19.5**	122,555	6.9
Total deposits	**$ 1,860,412**	**100.0 %**	$ 1,778,278	100.0 %

As of December 31, 2023 and December 31, 2022, uninsured and uncollateralized deposits amounted to $334.5 million and $376.6 million, respectively. The following table presented uninsured time deposits by maturity date as of December 31, 2023:

(In thousands)	Three months or less	More than three months through six months	More than six months through twelve months	More than twelve months	Total
At December 31, 2023:					
Uninsured time deposits	**$ 25,638**	**$ 48,366**	**$ 13,670**	**$ 6,040**	**$ 93,714**

For additional information on deposits, see Note 6 to the Consolidated Financial Statements.

Borrowed Funds and Subordinated Debentures

As part of the Company's overall funding and liquidity management program, from time to time the Company borrows from the Federal Home Loan Bank of New York. Residential mortgages and commercial real estate loans collateralize these borrowings.

Borrowed funds and subordinated debentures totaled $366.7 million and $393.3 million at December 31, 2023 and December 31, 2022, respectively, and are broken down in the following table:

(In thousands)	December 31, 2023	December 31, 2022
FHLB borrowings:		
Non-overnight, fixed rate advances	**$ 109,438**	$ 180,000
Overnight advances	**217,000**	203,000
Puttable advances	**30,000**	—
Subordinated debentures	**10,310**	10,310
Total borrowed funds and subordinated debentures	**$ 366,748**	$ 393,310

In December 2023, the FHLB issued a $142.0 million municipal deposits letter of credit in the name of Unity Bank naming the New Jersey Department of Banking and Insurance as beneficiary, to secure municipal deposits as required under New Jersey law, compared to a letter of credit with a balance of $140.0 million as of December 31, 2022. In 2023, the FHLB issued an additional $25.0 million municipal deposits letter of credit in the name of Unity Bank naming certain townships in Pennsylvania as beneficiary, to secure municipal deposits as required under Pennsylvania law.

At December 31, 2023, the Company had $303.4 million of additional credit available at the FHLB. During 2023, the Company pledged additional collateral to the FRB discount window. At December 31, 2023, the Company had $219.9 million of additional credit available at the FRB. Pledging additional collateral in the form of 1 to 4 family residential mortgages, commercial loans and investment securities can increase the lines with the FHLB and FRB.

For the year ending December 31, 2023, average FHLB borrowings were $294.1 million with a weighted average cost of 4.73%. The maximum borrowing during the year was $423.0 million.

Subordinated Debentures

On July 24, 2006, Unity (NJ) Statutory Trust II, a statutory business trust and wholly-owned subsidiary of Unity Bancorp, Inc., issued $10.0 million of floating rate capital trust pass through securities to investors due on July 24, 2036. The subordinated debentures are redeemable in whole or part. For 2023, the floating interest rate on the subordinated debentures is the three-month CME term Secured Overnight Financing Rate ("SOFR") plus 262 basis points and reprices quarterly. For 2022, the floating interest rate on the subordinated debentures was three-month LIBOR plus 159 basis points and repriced quarterly. The floating interest rate was 7.212% at December 31, 2023 and 6.319% at December 31, 2022.

Market Risk

Market risk for the Company is primarily limited to interest rate risk, which is the impact that changes in interest rates would have on future earnings. The Company's Risk Management Committee ("RMC") manages this risk. The principal objectives of the RMC are to establish prudent risk management guidelines, evaluate and control the level of interest rate risk in balance sheet accounts, determine the level of appropriate risk given the business focus, operating environment, capital and liquidity requirements and actively manage risk within Board-approved guidelines. The RMC reviews the maturities and repricing of loans, investments, deposits and borrowings, cash flow needs, current market conditions and interest rate levels.

The following table presents the Company's EVE and NII sensitivity exposure related to an instantaneous and sustained parallel shift in market interest rate of 100, 200 and 300 bps, which were all in compliance with Board approved tolerances at December 31, 2023 and December 31, 2022:

(In thousands, except percentages)		Estimated (Decrease)/Increase in EVE			Estimated 12 mo. (Decrease)/Increase in NII		
		EVE	**Amount**	**Percent**	**NII**	**Amount**	**Percent**
December 31, 2023							
	+300	**$ 215,239**	**$ (53,748)**	**(19.98)%**	**$ 91,747**	**$ (7,977)**	**(8.00)%**
	+200	**235,749**	**(33,238)**	**(12.36)**	**94,405**	**(5,319)**	**(5.33)**
	+100	**254,242**	**(14,745)**	**(5.48)**	**96,984**	**(2,740)**	**(2.75)**
	0	**268,987**	**—**	**—**	**99,724**	**—**	**—**
	-100	**273,517**	**4,530**	**1.68**	**101,391**	**1,667**	**1.67**
	-200	**286,813**	**17,826**	**6.63**	**102,987**	**3,263**	**3.27**
	-300	**281,661**	**12,674**	**4.71**	**102,858**	**3,134**	**3.14**
December 31, 2022							
	+300	$ 269,493	$ (61,049)	(22.65)%	$ 92,822	$ (8,275)	(8.91)%
	+200	290,558	(39,984)	(13.76)	95,567	(5,530)	(5.79)
	+100	311,453	(19,089)	(6.13)	98,280	(2,817)	(2.87)
	0	330,542	—	—	101,097	—	—
	-100	346,750	16,208	4.67	102,688	1,591	1.55
	-200	352,944	22,402	6.35	101,927	830	0.81
	-300	353,361	22,819	6.46	100,183	(914)	(0.91)

Liquidity

Liquidity measures the ability to satisfy current and future cash flow needs as they become due. A bank's liquidity reflects its ability to meet loan demand, to accommodate possible outflows in deposits and to take advantage of interest rate opportunities in the marketplace. The Company's liquidity is monitored by management and the Board of Directors which reviews historical funding requirements, the current liquidity position, sources and stability of funding, marketability of assets, options for attracting additional funds and anticipated future funding needs, including the level of unfunded commitments. The goal is to maintain sufficient asset-based liquidity to cover potential funding requirements in order to minimize dependence on volatile and potentially unstable funding markets.

The principal sources of funds at the Bank are deposits, scheduled amortization and prepayments of investment and loan principal, sales and maturities of investment securities, additional borrowings and funds provided by operations. While scheduled loan payments and maturing investments are relatively predictable sources of funds, deposit inflows and outflows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Consolidated Statement of Cash Flows provides detail on the Company's sources and uses of cash, as well as an indication of the Company's ability to maintain an adequate level of liquidity. As the Consolidated Bank comprises the majority of the assets of the Company, the Consolidated Statement of Cash Flows is indicative of the Consolidated Bank's activity. At December 31, 2023, the balance of cash and cash equivalents was $194.8 million, an increase of $80.0 million from December 31, 2022. A discussion of the cash provided by and used in operating, investing and financing activities follows.

Operating activities provided $46.3 million and $42.7 million in net cash for the years ended December 31, 2023 and 2022, respectively The primary sources of funds were net income from operations and adjustments to net income, such as the provision for credit losses and depreciation and amortization.

Investing activities used $57.2 million and $541.3 million in net cash for the years ended December 31, 2023 and 2022, respectively. Cash was primarily used to originate loans, partially offset by cash inflows from investment securities.

- *Securities.* The Company's available for sale investment portfolio amounted to $91.8 million and $95.4 million at December 31, 2023 and December 31, 2022, respectively.
- *Loans*. The SBA loans held for sale portfolio amounted to $18.2 million and $27.9 million at December 31, 2023 and December 31, 2022, respectively. Sales of these loans provide an additional source of liquidity for the Company.
- *Outstanding Commitments*. The Company was committed to advance approximately $312.5 million to its borrowers as of December 31, 2023, compared to $514.8 million at December 31, 2022. At December 31, 2023, $149.3 million of these commitments expire within one year, compared to $177.7 million at December 31, 2022. The Company had $5.7 million and $5.6 million in standby letters of credit at December 31, 2023 and December 31, 2022, respectively, which are included in the commitments amount noted above. The estimated fair value of these guarantees is not significant. The Company believes it has the necessary liquidity to honor all commitments. Many of these commitments will expire and never be funded.

Financing activities provided $90.9 million and $368.6 million in net cash for the years ended December 31, 2023 and 2022, respectively, primarily due to an increase in the Company's deposits.

- *Deposits*. As of December 31, 2023, deposits included $346.3 million of Government deposits, as compared to $296.5 million at year end 2022. These deposits are generally short in duration and are very sensitive to price competition. The Company believes that the current level of these types of deposits is appropriate. Included in the portfolio were $314.4 million of deposits from seventeen municipalities with account balances in excess of $5.0 million. The withdrawal of these deposits, in whole or in part, would not create a liquidity shortfall for the Company.

- *Borrowed Funds*. Total FHLB borrowings amounted to $356.4 million and $383.0 million as of December 31, 2023 and 2022, respectively. As a member of the Federal Home Loan Bank of New York, the Company can borrow additional funds based on the market value of collateral pledged. At December 31, 2023, pledging provided an additional $537.4 million in borrowing potential from the FHLB, FRB and other sources. In addition, the Company can pledge additional collateral in the form of 1 to 4 family residential mortgages, commercial loans or investment securities to increase these lines with the FHLB and FRB.

Off-Balance-Sheet Arrangements and Contractual Obligations

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These transactions may involve elements of credit and interest rate risk in excess of the amounts recognized in the Consolidated Balance Sheet. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the borrower. As of December 31, 2023, the Bank had $256.3 million in unused lines of credit and $50.6 million in outstanding commitments to borrowers. As of December 31, 2022, the Bank had $395.7 million in unused lines of credit and $113.5 million in outstanding commitments to borrowers.

The following table shows the amounts and expected maturities or payment periods of off-balance sheet arrangements and contractual obligations as of December 31, 2023:

(In thousands)	One year or less	One to three years	Three to five years	Over five years	Total
Off-balance sheet arrangements:					
Standby letters of credit	$ 3,743	$ 30	$ 920	$ 982	$ 5,675
Contractual obligations:					
Time deposits	524,675	88,803	12,480	106	626,064
Borrowed funds and subordinated debentures	321,226	212	35,000	10,310	366,748
Total off-balance sheet arrangements and contractual obligations	$ 849,644	$ 89,045	$ 48,400	$ 11,398	$ 998,487

Standby letters of credit represent guarantees of payment issued by the Bank on behalf of a client that is used as "payment of last resort" should the client fail to fulfill a contractual commitment with a third party.

Time deposits have stated maturity dates. For additional information on time deposits, see Note 6 to the Consolidated Financial Statements.

Borrowed funds and subordinated debentures include fixed rate borrowings from the Federal Home Loan Bank and subordinated debentures. The borrowings have defined terms and under certain circumstances are callable at the option of the lender. For additional information on borrowed funds and subordinated debentures, see Note 7 to the Consolidated Financial Statements.

Capital Adequacy

A significant measure of the strength of a financial institution is its capital base. Shareholders' equity increased $22.2 million to $261.4 million at December 31, 2023, compared to $239.2 million at December 31, 2022, primarily due to net income of $39.7 million. Other increases were due to $523 thousand in other comprehensive income and $3.0 million from the issuance of common stock under employee benefit plans, net of tax. These increases were partially offset by $15.7 million in treasury stock purchased at cost and $4.7 million in dividends paid on common stock.

For additional information on shareholders' equity, see Note 10 to the Consolidated Financial Statements.

Consistent with our goal to operate as a sound and profitable financial organization, Unity Bancorp and Unity Bank actively seek to maintain our well capitalized status in accordance with regulatory standards. As of December 31, 2023, Unity Bank exceeded all capital requirements of the federal banking regulators and was considered well capitalized.

The following table presents information regarding the Bank's regulatory capital levels at December 31, 2023 and December 31, 2022. Effective December 31, 2023, the Bank opted out of the CBLR:

	Actual		Required for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2023						
Total risk-based capital (to risk-weighted assets)						
Consolidated	$ 298,293	14.43 %	$ 165,370	8.00 %	$ 206,712	10.00 %
Bank	287,206	14.02	163,911	8.00	204,889	10.00
Common equity tier 1 (to risk-weighted assets)						
Consolidated	262,454	12.70	93,020	4.50	134,363	6.50
Bank	261,584	12.76	92,200	4.50	133,178	6.50
Tier 1 capital (to risk-weighted assets)						
Consolidated	272,454	13.18	124,027	6.00	165,370	8.00
Bank	261,584	12.76	122,934	6.00	163,911	8.00
Tier 1 capital (to average total assets)						
Consolidated	272,454	11.14	97,800	4.00	122,250	5.00
Bank	261,584	10.74	97,355	4.00	121,693	5.00

As of December 31, 2022	Company	Bank
CBLR	10.88 %	10.34 %

For additional information on regulatory capital, see Note 13 to the Consolidated Financial Statements.

Forward-Looking Statements

This report contains certain forward-looking statements, either expressed or implied, which are provided to assist the reader in understanding anticipated future financial performance. These statements involve certain risks, uncertainties, estimates and assumptions by management.

Factors that may cause actual results to differ from those results expressed or implied, include, but are not limited to those listed under “Item 1A - Risk Factors” in this Annual Report; the overall economy and the interest rate environment; the ability of customers to repay their obligations; the adequacy of the allowance for credit losses; competition; significant changes in tax, accounting or regulatory practices and requirements; and technological changes. Although management has taken certain steps to mitigate the negative effect of the aforementioned items, significant unfavorable changes could severely impact the assumptions used and have an adverse effect on future profitability.

Critical Accounting Policies and Estimates

New Authoritative Accounting Guidance

See Note 1 of the Consolidated Financial Statements for a description of recent accounting pronouncements, including the dates of adoption and the anticipated effect on our results of operations and financial condition.

Allowance for Credit Losses and Unfunded Loan Commitments

Accounting Standards Update (“ASU”) 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” amends the accounting guidance on the impairment of financial instruments. The Financial Accounting Standards Board (“FASB”) issued an amendment to replace the incurred loss impairment methodology under prior accounting guidance with a new current expected credit loss (“CECL”) model. Under the new guidance, the Company is required to measure expected credit losses by utilizing forward-looking information to assess its allowance for credit losses. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. The measurement of expected credit losses under CECL methodology is applicable to financial assets measured at amortized cost, including loans and held to maturity debt securities. CECL also applies to certain off-balance sheet exposures.

The Company adopted ASU 2016-13 on January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The Company established a governance structure to implement the CECL accounting guidance and has developed a methodology and set of models to be used upon adoption. At adoption, the Company recorded an $0.8 million increase to its allowance for credit losses, related to loans. Further, the Company increased its reserve for unfunded credit commitments by $0.1 million. The reserve for unfunded credit commitments is recorded in Accrued expenses and other liabilities on the Consolidated Balance Sheet. These increases in reserves were recorded through retained earnings and was $0.6 million, net of tax.

For available for sale securities in an unrealized loss position, the Company first assesses whether it intends to sell, or is more likely than not that it will be required to sell the security before the recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income. For securities available for sale that do not meet the above criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost and adverse conditions related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of tax.

The Company elected the practical expedient of zero loss estimates for securities issued by U.S. government entities and agencies for available for sale and held to maturity debt securities. These securities are either explicitly or implicitly guaranteed by the U.S. Government, are highly rated by major agencies and have a long history of no credit losses.

For other assets within the scope of the new CECL accounting guidance, such as other held to maturity debt securities and other receivables, management noted the impact from adoption to be inconsequential. Additionally, the Company noted the adoption of CECL had no significant impact on regulatory capital ratios of the Company and/or the Bank.

For additional information on the allowance for credit losses and reserve for unfunded loan commitments, see Note 4 to the Consolidated Financial Statements.

Income Taxes

The Company accounts for income taxes according to the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates applicable to taxable income for the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities for a change in tax rates is recognized in income in the period that includes the enactment date. If tax reform results in a decline in the corporate tax rates the Company would have to write-down its deferred tax asset.

Valuation reserves are established against certain deferred tax assets when it is more likely than not that the deferred tax assets will not be realized. Increases or decreases in the valuation reserve are charged or credited to the income tax provision.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits would be recognized in income tax expense on the income statement.

For additional information on income taxes, see Note 11 to the Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk:

For information regarding Quantitative and Qualitative Disclosures about Market Risk, see Part II, Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations - Market Risk."

Item 8. Financial Statements and Supplementary Data:

Consolidated Balance Sheets

(In thousands)	December 31, 2023	December 31, 2022
ASSETS		
Cash and due from banks	**$ 20,668**	$ 19,699
Interest-bearing deposits	**174,108**	95,094
Cash and cash equivalents	**194,776**	114,793
Securities:		
Debt securities available for sale (net of allowance for credit losses of $1,283 as of December 31, 2023 and $ 0 as of December 31, 2022)	**91,765**	95,393
Debt securities held to maturity	**36,122**	35,760
Equity securities with readily determinable fair values	**7,802**	9,793
Total securities	**135,689**	140,946
Loans:		
SBA loans held for sale	**18,242**	27,928
SBA loans held for investment	**38,584**	38,468
SBA PPP loans	**2,318**	5,908
Commercial loans	**1,277,460**	1,187,543
Residential mortgage loans	**631,506**	605,091
Consumer loans	**72,676**	78,164
Residential construction loans	**131,277**	163,457
Total loans	**2,172,063**	2,106,559
Allowance for credit losses	**(25,854)**	(25,196)
Net loans	**2,146,209**	2,081,363
Premises and equipment, net	**19,567**	20,002
Bank owned life insurance ("BOLI")	**25,230**	26,776
Deferred tax assets	**12,552**	12,345
Federal Home Loan Bank ("FHLB") stock	**18,435**	19,064
Accrued interest receivable	**13,582**	13,403
Goodwill	**1,516**	1,516
Prepaid expenses and other assets	**10,951**	14,740
Total assets	**$ 2,578,507**	$ 2,444,948
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	**$ 419,636**	$ 494,184
Interest-bearing demand	**313,352**	276,218
Savings	**565,088**	591,826
Brokered time deposits	**199,667**	154,563
Time deposits	**426,397**	270,737
Total deposits	**1,924,140**	1,787,528
Borrowed funds	**356,438**	383,000
Subordinated debentures	**10,310**	10,310
Accrued interest payable	**1,924**	691
Accrued expenses and other liabilities	**24,265**	24,192
Total liabilities	**2,317,077**	2,205,721
Shareholders' equity:		
Common stock, no par value, 12,500 shares authorized, 11,424 shares issued and 10,063 shares outstanding as of December 31, 2023; 12,500 shares authorized, 11,289 shares issued and 10,584 shares outstanding as of December 31, 2022	**100,426**	97,204
Retained earnings	**191,108**	156,958
Treasury stock, at cost (1,361 shares as of December 31, 2023 and 705 shares as of December 31, 2022)	**(27,367)**	(11,675)
Accumulated other comprehensive loss	**(2,737)**	(3,260)
Total shareholders' equity	**261,430**	239,227
Total liabilities and shareholders' equity	**$ 2,578,507**	$ 2,444,948

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Income

(In thousands, except per share amounts)	For the years ended December 31, 2023	2022
INTEREST INCOME		
Interest-bearing deposits	$ 1,724	$ 735
FHLB stock	1,369	396
Securities:		
Taxable	7,271	4,754
Tax-exempt	72	53
Total securities	7,343	4,807
Loans:		
SBA loans	5,489	4,303
SBA PPP loans	137	1,596
Commercial loans	76,966	53,820
Residential mortgage loans	34,194	22,395
Consumer loans	5,742	4,132
Residential construction loans	10,530	8,555
Total loans	133,058	94,801
Total interest income	143,494	100,739
INTEREST EXPENSE		
Interest-bearing demand deposits	5,306	1,384
Savings deposits	11,239	3,110
Time deposits	17,340	2,757
Borrowed funds and subordinated debentures	14,612	3,380
Total interest expense	48,497	10,631
Net interest income	94,997	90,108
Provision for credit losses, loans	1,832	4,159
Provision for credit losses, off-balance sheet	53	115
Provision for impairment losses, AFS securities	1,283	—
Net interest income after provision for credit losses	91,829	85,834
NONINTEREST INCOME		
Branch fee income	997	1,117
Service and loan fee income	1,928	2,433
Gain on sale of SBA loans held for sale, net	1,299	954
Gain on sale of mortgage loans, net	1,546	1,399
BOLI income	852	636
Net securities gains (losses)	7	(1,313)
Other income	1,513	2,819
Total noninterest income	8,142	8,045
NONINTEREST EXPENSE		
Compensation and benefits	29,051	26,949
Processing and communications	2,994	2,848
Occupancy	3,087	2,963
Furniture and equipment	2,780	2,493
Professional services	1,563	1,401
Advertising	1,436	1,212
Loan related expenses	918	518
Deposit insurance	1,715	1,022
Director fees	847	916
Other expenses	2,585	2,136
Total noninterest expense	46,976	42,458
Income before provision for income taxes	52,995	51,421
Provision for income taxes	13,288	12,964
Net income	$ 39,707	$ 38,457
Net income per common share - Basic	$ 3.89	$ 3.66
Net income per common share - Diluted	$ 3.84	$ 3.59
Weighted average common shares outstanding – Basic	10,207	10,508
Weighted average common shares outstanding – Diluted	10,338	10,705

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Comprehensive Income

(In thousands)	For the year ended December 31, 2023 Before tax amount	Income tax expense (benefit)	Net of tax amount
Net income	**$ 52,995**	**13,288**	**$ 39,707**
Other comprehensive income			
Investment securities available for sale:			
Unrealized holding gains on securities arising during the period	**1,153**	**283**	**870**
Less: reclassification adjustment for losses on securities included in net income	**(136)**	**(33)**	**(103)**
Total unrealized gains on securities available for sale	**1,289**	**316**	**973**
Net unrealized losses from cash flow hedges:			
Unrealized holding losses on cashflow hedges arising during the period	**(1,518)**	**(433)**	**(1,085)**
Less: reclassification adjustment for losses on cashflow hedges included in net income	**(899)**	**(264)**	**(635)**
Total unrealized losses on cash flow hedges	**(619)**	**(169)**	**(450)**
Total other comprehensive income	**670**	**147**	**523**
Total comprehensive income	**$ 53,665**	**$ 13,435**	**$ 40,230**

(In thousands)	For the year ended December 31, 2022 Before tax amount	Income tax expense (benefit)	Net of tax amount
Net income	$ 51,421	12,964	$ 38,457
Other comprehensive income			
Debt securities available for sale:			
Unrealized holding losses on securities arising during the period	(5,833)	(1,439)	(4,394)
Total unrealized losses on securities available for sale	(5,833)	(1,439)	(4,394)
Net unrealized gains from cash flow hedges:			
Unrealized holding gains on cash flow hedges arising during the period	2,184	618	1,566
Less: reclassification adjustment for gains on cashflow hedges included in net income	1,055	301	754
Total unrealized gains on cash flow hedges	1,129	317	812
Total other comprehensive losses	(4,704)	(1,122)	(3,582)
Total comprehensive income	$ 46,717	$ 11,842	$ 34,875

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Changes in Shareholders' Equity

(In thousands, except per share amounts)	Common stock Shares	Common stock Amount	Retained earnings	Accumulated other comprehensive (loss) income	Treasury stock	Total Shareholders' equity
Balance, December 31, 2021	10,391	$ 94,003	$ 123,037	$ 322	$(11,633)	$ 205,729
Net income	—	—	38,457	—	—	38,457
Other comprehensive loss, net of tax	—	—	—	(3,582)	—	(3,582)
Dividends on common stock ($ 0.43 per share)	—	163	(4,536)	—	—	(4,373)
Share-based compensation (1)	195	3,038	—	—	—	3,038
Treasury stock purchased, at cost	(2)	—	—	—	(42)	(42)
Balance, December 31, 2022	10,584	97,204	156,958	(3,260)	(11,675)	239,227
Net income	—	—	**39,707**	—	**—**	**39,707**
Other comprehensive income, net of tax	—	—	—	**523**	**—**	**523**
Dividends on common stock ($ 0.48 per share)	**7**	**187**	**(4,908)**	—	**—**	**(4,721)**
Effect of adopting Accounting Standards Update ("ASU") No. 2016-13 ("CECL") (2)	—	**—**	**(649)**	—	**—**	**(649)**
Share-based compensation (1)	**128**	**3,035**	—	—	**—**	**3,035**
Treasury stock purchased, at cost	**(656)**	**—**	—	—	**(15,692)**	**(15,692)**
Balance, December 31, 2023	**10,063**	**$ 100,426**	**$ 191,108**	**$ (2,737)**	**$(27,367)**	**$ 261,430**

(1) Includes the issuance of common stock under employee benefit plans, which includes nonqualified stock options and restricted stock expense related entries, employee option exercises and the tax benefit of options exercised.
(2) See further disclosure surrounding CECL transition in Note 1 to the Consolidated Financial Statements.

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

(In thousands)	For the twelve months ended December 31, 2023	2022
OPERATING ACTIVITIES:		
Net income	**$ 39,707**	$ 38,457
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses, loans	**1,832**	4,159
Provision for credit losses, AFS securities	**1,283**	—
Net amortization of purchase premiums and discounts on securities	**(264)**	13
Depreciation and amortization, net	**2,383**	2,756
SBA PPP deferred fees and costs	**(92)**	(1,413)
Deferred income tax benefit	**(87)**	(1,205)
Net securities realized gains	**(345)**	—
Stock compensation expense	**1,751**	1,681
Gain on sale of mortgage loans, net	**(1,546)**	(1,399)
Gain on sale of SBA loans held for sale, net	**(1,299)**	(954)
BOLI income	**(852)**	(636)
Net change in other assets and liabilities	**4,438**	1,210
Net cash provided by operating activities	**46,909**	42,669
INVESTING ACTIVITIES:		
Purchases of securities held to maturity	**(100)**	(26,748)
Purchase of equity securities	**(126)**	(2,539)
Purchases of securities available for sale	**(650)**	(49,349)
Proceeds from sale of (purchases of) FHLB stock, at cost	**629**	(15,514)
Maturities and principal payments on debt securities held to maturity	**—**	5,339
Maturities and principal payments on debt securities available for sale	**4,286**	4,514
Proceeds from sales of equity securities	**2,166**	—
Net decrease in SBA PPP loans	**3,682**	41,955
Net increase in loans	**(69,177)**	(497,927)
Proceeds from BOLI	**2,398**	468
Purchases of premises and equipment, net	**(955)**	(1,482)
Net cash used in investing activities	**(57,847)**	(541,283)
FINANCING ACTIVITIES:		
Net increase in deposits	**136,612**	28,647
(Repayments of) proceeds from short-term borrowings, net	**(66,000)**	343,000
Proceeds from long-term borrowings, net	**39,438**	—
Proceeds from exercise of stock options, net of withheld taxes	**1,284**	1,357
Cash dividends on common stock	**(4,721)**	(4,373)
Purchase of treasury stock	**(15,692)**	(42)
Net cash provided by financing activities	**90,921**	368,589
Increase (decrease) in cash and cash equivalents	**79,983**	(130,025)
Cash and cash equivalents, beginning of period	**114,793**	244,818
Cash and cash equivalents, end of period	**$ 194,776**	$ 114,793
SUPPLEMENTAL DISCLOSURES		
Cash:		
Interest paid	**$ 47,264**	$ 10,069
Income taxes paid	**13,216**	13,929
Noncash investing activities:		
Establishment of lease liability and right-of-use asset, net of terminations	**—**	1,238
Capitalization of servicing rights	**576**	152
Transfer of loans to OREO	**251**	—

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Overview

The accompanying Consolidated Financial Statements include the accounts of Unity Bancorp, Inc. (the “Parent Company”) and its wholly-owned subsidiary, Unity Bank (the “Bank” or when consolidated with the Parent Company, the “Company”). All significant intercompany balances and transactions have been eliminated in consolidation.

Unity Bancorp, Inc. is a bank holding company incorporated in New Jersey and registered under the Bank Holding Company Act of 1956, as amended. Its wholly-owned subsidiary, the Bank, is chartered by the New Jersey Department of Banking and Insurance. The Bank provides a full range of commercial and retail banking services through twenty-one branch offices located in Bergen, Hunterdon, Middlesex, Morris, Ocean, Somerset, Union and Warren counties in New Jersey and Northampton County in Pennsylvania. These services include the acceptance of demand, savings and time deposits and the extension of consumer, real estate, Small Business Administration (“SBA”) and other commercial credits.

Unity Investment Services, Inc. is a wholly-owned subsidiary of Unity Bank and is used to hold and administer part of the Bank’s investment portfolio. Unity Investment Services, Inc. has one subsidiary, Unity Delaware Investment 2, Inc., which has one subsidiary, Unity NJ REIT, Inc., which was formed in 2013 to hold real estate related loans.

The Company has a wholly-owned subsidiary: Unity (NJ) Statutory Trust II. For additional information on Unity (NJ) Statutory Trust II, see Note 7 to the Consolidated Financial Statements. In 2023, the Company dissolved Unity Risk Management, Inc. which was the Company’s captive insurance company that insured risks to the Bank not insured by the traditional commercial insurance market.

Use of Estimates in the Preparation of Financial Statements

In preparing the consolidated financial statements in conformity with U.S. GAAP, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the Consolidated Balance Sheet and Income Statement for the periods indicated. Amounts requiring the use of significant estimates include the allowance for credit losses, valuation of deferred tax and servicing assets, the valuation of securities and the determination of impairment for securities and fair value disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks and interest-bearing deposits.

Restrictions on Cash

In addition, the Company’s contract with its current electronic funds transfer (“EFT”) provider requires a predetermined balance be maintained in a settlement account controlled by the provider equal to the Company’s average daily net settlement position multiplied by four days. The required balance was $ 262 thousand as of December 31, 2023 and 2022, respectively. This balance can be adjusted periodically to reflect actual transaction volume and seasonal factors.

Securities

The Company classifies its securities into three categories, debt securities available for sale, debt securities held to maturity and equity securities with readily determinable fair values ("equity securities").

Debt securities that are classified as available for sale are stated at fair value. Unrealized gains and losses on securities available for sale are excluded from results of operations and are reported as other comprehensive income, a separate component of shareholders' equity, net of taxes. Debt securities classified as available for sale include debt securities that may be sold in response to changes in interest rates, changes in prepayment risks, for asset/liability management purposes or liquidity needs. The cost of debt securities sold is determined on a specific identification basis. Gains and losses on sales of debt securities are recognized in the Consolidated Statements of Income on a trade date basis.

Debt securities are classified as held to maturity based on management's intent and ability to hold them to maturity. Such debt securities are stated at cost, adjusted for unamortized purchase premiums and discounts.

For debt securities, purchase discounts are amortized using the interest method over the stated terms of the securities, where purchase premiums are amortized through the earliest call date.

Equity securities are investments carried at fair value that may be sold in response to changing market and interest rate conditions or for other business purposes. Activity in this portfolio is undertaken primarily to manage liquidity and interest rate risk, to take advantage of market conditions that create economically attractive returns and as an additional source of earnings. Periodic net gains and losses on equity investments are recognized in the income statement as realized gains and losses.

For additional information on securities, see Note 2 to the Consolidated Financial Statements.

Allowance for Credit Losses - Securities

The Company has a process in place to identify debt securities that could potentially incur credit impairment. This process involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues. Management evaluates securities for impairment at least on a quarterly basis and more frequently when economic or market concern warrants such evaluation. This evaluation considers relevant facts and circumstances in evaluating whether there is credit or interest rate-related impairment of a security.

The CECL standard requires credit losses on both held to maturity and available for sale securities to be recognized through a valuation allowance, ACL, instead of as a direct write-down to the amortized cost basis of the security. Management assesses its intent to sell and whether it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered impaired where management has no intent to sell and the Company has no requirement to sell prior to recovery of its amortized cost basis, the amount of the impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings as provision expense and is the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and is recognized in other comprehensive income. For debt securities where management has the intent to sell, the amount of the impairment is reflected in earnings as realized losses.

The present value of expected future cash flows is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The methodology and assumptions for establishing the best estimate cash flows vary depending on the type of security. The asset-backed securities cash flow estimates are based on bond specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds and structural support, including subordination and guarantees. The corporate bond cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using bond specific facts and circumstances including timing, security interests and loss severity. The Company elected the practical expedient of zero loss estimates for securities issued by U.S. government entities and agencies for AFS and HTM securities. These securities are either explicitly or implicitly guaranteed by the U.S. Government, are highly rated by major agencies and have a long history of no credit losses.

The Company considers a debt security to be past due in terms of payment based on its contractual terms. As debt security may be placed on nonaccrual, with interest no longer recognized, when collectability of principal or interest is doubtful. As of December 31,2023, there were no nonaccrual or past due held-to-maturity and available for sale debt securities.

The Company elected the practical expedient of zero loss estimates for securities issued by U.S. government entities and agencies for available for sale and held to maturity debt securities. These securities are either explicitly or implicitly guaranteed by the U.S. Government, are highly rated by major agencies and have a long history of no credit losses.
A security may be partially or fully charged off against the allowance if it is determined to be uncollectible. Recoveries of previously charged-off available for sale securities are recognized when received, while recoveries on held to maturity securities are recognized when expected.

For additional information on the allowance for credit losses, see Note 4 to the Consolidated Financial Statements.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

During the normal course of business, the Company may transfer a portion of a financial asset, for example, a participation loan or the government guaranteed portion of a loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

Loans

Loans Held for Sale

Loans held for sale represent the guaranteed portion of certain SBA loans, other than loans originated under the Paycheck Protection Program, that the Company has elected to hold for sale and are reflected at the lower of aggregate cost or market value. The Company originates loans to customers under an SBA program that historically has provided for SBA guarantees of up to 90 percent of each loan. The Company may sell the guaranteed portion of its SBA loans to a third party and retains the servicing, holding the nonguaranteed portion in its portfolio. The net amount of loan origination fees on loans sold is included in the carrying value and in the gain or loss on the sale. When sales of SBA loans do occur, the premium received on the sale and the present value of future cash flows of the servicing assets are recognized in income. All criteria for sale accounting must be met in order for the loan sales to occur; see details under the “Transfers of Financial Assets” heading above.

Servicing assets represent the estimated fair value of retained servicing rights, net of servicing costs, at the time loans are sold. Servicing assets are amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on stratifying the underlying financial assets by date of origination and term. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment, if temporary, would generally be reported as a valuation allowance.

Serviced loans sold to others are not included in the accompanying Consolidated Balance Sheets. Income and fees collected for loan servicing are credited to noninterest income when earned, net of amortization on the related servicing assets.

For additional information on servicing assets, see Note 3 to the Consolidated Financial Statements.

Loans Held for Investment

Loans held for investment are stated at the unpaid principal balance, net of unearned discounts, deferred loan origination fees and costs and net charge-offs. In accordance with the level yield method, loan origination fees, net of direct loan origination costs, are deferred and recognized over the estimated life of the related loans as an adjustment to the loan yield. Interest is credited to operations primarily based upon the principal balance outstanding.

Loans are reported as past due when either interest or principal is unpaid in the following circumstances: fixed payment loans when the borrower is in arrears for two or more monthly payments; open end credit for two or more billing cycles; and single payment notes if interest or principal remains unpaid for 30 days or more.

Nonperforming loans consist of loans that are not accruing interest as a result of principal or interest being delinquent for a period of 90 days or more or when the ability to collect principal and interest according to the contractual terms is in doubt (nonaccrual loans). When a loan is classified as nonaccrual, interest accruals are discontinued and all past due interest previously recognized as income is reversed and charged against current period earnings. Generally, until the loan becomes current, any payments received from the borrower are applied to outstanding principal until such time as management determines that the financial condition of the borrower and other factors merit recognition of a portion of such payments as interest income. Loans may be returned to an accrual status when the ability to collect is reasonably assured or when the loan is brought current as to principal and interest.

Loans are charged off when collection is sufficiently questionable and when the Company can no longer justify maintaining the loan as an asset on the balance sheet. Loans qualify for charge-off when, after thorough analysis, all possible sources of repayment are insufficient. These include: 1) potential future cash flows, 2) value of collateral, and/or 3) strength of co-makers and guarantors. All unsecured loans are charged off upon the establishment of the loan's nonaccrual status. Additionally, all loans classified as a loss or that portion of the loan classified as a loss is charged off, subject to government guarantee. All loan charge-offs are approved by executive management and the Board of Directors.

For additional information on loans, see Note 3 to the Consolidated Financial Statements.

Allowance for Credit Losses for Loans and Reserve for Unfunded Loan Commitments

Effective January 1, 2023, the Company adopted the provisions of ASC 326 and modified its accounting policy for the allowance for credit losses on loans. The allowance for credit losses represents the estimated amount considered necessary to cover lifetime expected credit losses inherent in financial assets at the balance sheet date. The measurement of expected credit losses is applicable to loans receivable and securities measured at amortized cost. It also applies to off-balance sheet credit exposures such as loan commitments and unused lines of credit. The allowance is established through a provision for credit losses that is charged against income. The methodology for determining the allowance for credit losses is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the forecasted economic environment that could result in changes to the amount of the recorded allowance for credit losses.

The allowance for credit losses is reported separately as a contra-asset on the Consolidated Balance Sheet. The expected credit losses for unfunded lending commitments and unfunded loan commitments is reported on the Consolidated Balance Sheet in other liabilities.

The allowance for credit losses on loans is deducted from the amortized cost basis of the loan to present the net amount expected to be collected. Expected losses are evaluated and calculated on a collective, or pooled, basis for those loans which share similar risk characteristics. At each reporting period, the Company evaluates whether loans within a pool continue to exhibit similar risk characteristics. If the risk characteristics of a loan change, such that they are no longer similar to other loans in the pool, the Company will evaluate the loan with a different pool of loans that share similar risk characteristics. If the loan does not share risk characteristics with other loans, the Company will evaluate the loan on an individual basis. Loans are charged off against the allowance for credit losses when the Company believes the balances to be uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off or expected to be charged off.

The Company has chosen to segment its portfolio consistent with the manner in which it manages credit risk. Such segments include SBA, Commercial, Residential mortgage, Consumer and Residential construction. The Commercial segment is further bifurcated into SBA 504, Commercial & industrial, Commercial real estate and Commercial real estate construction. The Consumer segment is further bifurcated into Home equity and Consumer other. For most segments the Company calculates estimated credit losses using a weighted average remaining maturity methodology.

The Company estimates the allowance for credit losses on loans via a quantitative analysis which considers relevant available information from internal and external sources related to past events and current conditions, as well as the incorporation of reasonable and supportable forecasts. The Company evaluates a variety of factors including third party economic forecasts, industry trends and other available published economic information in arriving at its forecasts. After the reasonable and supportable forecast period, the Company reverts, after four quarters, on a straight-line basis, to the historical average economic variables. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate.

Also included in the allowance for credit losses on loans are qualitative reserves to cover losses that are expected but, in the Company's assessment, may not be adequately represented in the quantitative analysis or the forecasts described above. Factors that the Company considers include changes in lending policies and procedures, business conditions, the nature and size of the portfolio, portfolio concentrations and the volume and severity of past due loans and non-accrual loans.

On a case-by-case basis, the Company may conclude that a loan should be evaluated on an individual basis based on its disparate risk characteristics. When the Company determines that a loan no longer shares similar risk characteristics with other loans in the portfolio, the allowance will be determined on an individual basis using the present value of expected cash flows or, for collateral-dependent loans, the fair value of the collateral as of the reporting date, less estimated selling costs, as applicable. If the fair value of the collateral is less than the amortized cost basis of the loan, the Company will charge off the difference between the fair value of the collateral, less costs to sell at the reporting date and the amortized cost basis of the loan.

The Company is required to include unfunded commitments that are expected to be funded in the future within the allowance calculation, other than those that are unconditionally cancelable. To arrive at that reserve, the reserve percentage for each applicable segment is applied to the unused portion of the expected commitment balance and is multiplied by the expected funding rate. To determine the expected funding rate, the Company uses a historical utilization rate for each segment. As noted above, the allowance for credit losses on unfunded loan commitments is included in other liabilities on the Consolidated Balance Sheet.

Prior to January 1, 2023

As further noted in the *New Accounting Pronouncements Adopted in 2023* section, on January 1, 2023, the Company adopted ASU 2016-13 (Topic 326), which replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (or CECL) methodology.

Prior to the adoption of ASC 326, the ACL on loans and leases was maintained at a level that the Company believed was adequate to provide for probable loan losses as of the balance sheet date. The level of the allowance was based on management's evaluation of probable losses in the loan portfolio, after consideration of prevailing economic conditions in the Company's market area, the volume and composition of the loan portfolio and historical loan loss experience. The allowance for loan losses consists of specific reserves for individually impaired credits, reserves for nonimpaired loans based on historical loss factors adjusted for general economic factors and other qualitative risk factors such as changes in delinquency trends, industry concentrations or local/national economic trends. This risk assessment process was performed at least quarterly and, as adjustments become necessary, they were realized in the periods in which they become known.

For additional information on the allowance for credit losses and reserve for unfunded loan commitments, see Note 4 to the Consolidated Financial Statements.

Premises and Equipment, net

Land is carried at cost. All other fixed assets are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful life of buildings is not to exceed 30 years ; furniture and fixtures is generally 10 years or less, and equipment is 3 to 5 years . Leasehold improvements are depreciated over the life of the underlying lease.

For additional information on premises and equipment, see Note 5 to the Consolidated Financial Statements.

Bank Owned Life Insurance

The Company purchased life insurance policies on certain members of management. Bank owned life insurance is recorded at its cash surrender value or the amount that can be realized and the appreciation and death benefits from Bank owned life insurance are not subject to income tax.

Federal Home Loan Bank ("FHLB") Stock

Federal law requires a member institution of the Federal Home Loan Bank system to hold stock of its district FHLB according to a predetermined formula. The stock is carried at cost. Management reviews the stock for impairment based on the ultimate recoverability of the cost basis in the stock. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. Management considers such criteria as the significance of the decline in net assets, if any, of the FHLB, the length of time this situation has persisted, commitments by the FHLB to make payments required by law or regulation, the impact of legislative and regulatory changes on the customer base of the FHLB and the liquidity position of the FHLB.

Accrued Interest Receivable

Accrued interest receivable consists of amounts earned on investments and loans. The Company recognizes accrued interest receivable as it is earned. The Company is using the practical expedient to exclude accrued interest receivable from credit loss measurement.

Other Real Estate Owned

Other real estate owned ("OREO") is recorded at the fair value, less estimated costs to sell at the date of acquisition, with a charge to the allowance for credit losses for any excess of the loan carrying value over such amount. Subsequently, OREO is carried at the lower of cost or fair value, as determined by current appraisals. Certain costs that increase the value or extend the useful life in preparing properties for sale are capitalized to the extent that the appraisal amount exceeds the carrying value and expenses of holding foreclosed properties are charged to operations as incurred.

Goodwill

The Company accounts for goodwill and other intangible assets in accordance *with FASB ASC Topic 350, "Intangibles – Goodwill and Other,"* which allows an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. Based on a qualitative assessment, management determined that the Company's recorded goodwill totaling $ 1.5 million, which resulted from the 2005 acquisition of its Phillipsburg, New Jersey branch, is not impaired as of December 31, 2023.

Reclassification

Certain reclassifications have been made in the consolidated financial statements to conform to the current year presentation. Such reclassifications had no impact on net income or stockholders' equity as previously reported.

Appraisals

All appraisals must be performed in accordance with the Uniform Standards of Professional Appraisal Practice ("USPAP"). Appraisals are certified to the Company and performed by appraisers on the Company's approved list of appraisers. Evaluations are completed by a person independent of Company management. The content of the appraisal depends on the complexity and location of the property.

Derivative Instruments and Hedging Activities

The Company utilizes derivative instruments in the form of interest rate swaps to hedge its exposure to interest rate risk in conjunction with its overall asset and liability risk management process. In accordance with accounting requirements, the Company formally designates all of its hedging relationships as either fair value hedges or cash flow hedges. The Company's derivative instruments currently consist of cash flow hedges.

The Company recognizes all derivative instruments at fair value as either Other assets or Other liabilities on the Consolidated Balance Sheet and the related cash flows in the Operating Activities section of the Consolidated Statement of Cash Flows.

For derivatives designated cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows), the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings.

Those derivative financial instruments that do not meet the hedging criteria discussed below would be classified as undesignated derivatives and would be recorded at fair value with changes in fair value recorded in income.

The Company discontinues hedge accounting when (a) it determines that a derivative is no longer effective in offsetting changes in cash flows of a hedged item; (b) the derivative expires or is sold, terminated or exercised; (c) probability exists that the forecasted transaction will no longer occur; or (d) management determines that designating the derivative as a hedging instrument is no longer appropriate. In all cases in which hedge accounting is discontinued and a derivative remains outstanding, the Company will carry the derivative at fair value in the Consolidated Financial Statements, recognizing changes in fair value in current period income in the consolidated statement of income.

For additional information on derivative instruments and hedging activities, see Note 7 to the Consolidated Financial Statements.

Income Taxes

The Company follows Financial Accounting Standards Board Accounting Standards Codification *("FASB ASC") Topic 740, "Income Taxes,"* which prescribes a threshold for the financial statement recognition of income taxes and provides criteria for the measurement of tax positions taken or expected to be taken in a tax return. ASC 740 also includes guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates applicable to taxable income for the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation reserves are established against certain deferred tax assets when it is more likely than not that the deferred tax assets will not be realized. Increases or decreases in the valuation reserve are charged or credited to the income tax provision.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are recognized in income tax expense on the income statement.

For additional information on income taxes, see Note 11 to the Consolidated Financial Statements.

Net Income Per Share

Basic net income per common share is calculated as net income available to common shareholders divided by the weighted average common shares outstanding during the reporting period.

Diluted net income per common share is computed similarly to that of basic net income per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, principally stock options, were issued during the reporting period utilizing the treasury stock method. However, when a net loss rather than net income is recognized, diluted earnings per share equals basic earnings per share.

For additional information on net income per share, see Note 12 to the Consolidated Financial Statements.

Stock-Based Compensation

The Company accounts for its stock-based compensation awards in accordance with *FASB ASC Topic 718, "Compensation – Stock Compensation,"* which requires recognition of compensation expense related to stock-based compensation awards over the period during which an employee is required to provide service for the award. Compensation expense is equal to the fair value of the award, net of estimated forfeitures, and is recognized over the vesting period of such awards.

For additional information on the Company's stock-based compensation, see Note 14 to the Consolidated Financial Statements.

Fair Value

The Company follows *FASB ASC Topic 820, "Fair Value Measurement and Disclosures,"* which provides a framework for measuring fair value under generally accepted accounting principles.

For additional information on the fair value of the Company's financial instruments, see Note 15 to the Consolidated Financial Statements.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of the change in unrealized gains (losses) on securities available for sale and derivative related items that were reported as a component of shareholders' equity, net of tax.

For additional information on other comprehensive income (loss), see Note 9 to the Consolidated Financial Statements.

Dividend Restrictions

Banking regulations require maintaining certain capital levels that may limit the dividends paid by the Bank to the holding company or by the holding company to the shareholders.

Operating Segments

While management monitors the revenue streams of its various products and services, operating results and financial performance are evaluated on a company-wide basis. The Company's management uses consolidated results to make operating and strategic decisions. Accordingly, there is only one reportable segment.

Revenue Recognition

ASC 606, Revenue from Contracts with Customers ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, derivatives and investment securities, as well as revenue related to mortgage servicing activities, as these activities are subject to other GAAP discussed elsewhere within the Company's disclosures. Descriptions of the Company's revenue-generating activities that are within the scope of ASC 606, which are presented in its income statements as components of non-interest income are as follows:

- Branch fee income - these represent general service fees for monthly account maintenance and activity- or transaction based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when the Company's performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payments for such performance obligations are generally received at the time the performance obligations are satisfied.
- Other non-interest income primarily includes items such as letter of credit fees, bank owned life insurance income, dividends on FHLB and FRB stock and other general operating income, none of which are subject to the requirements of ASC 606.

Recent Accounting Pronouncements

ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures” requires public entities to disclose information about their reportable segments’ significant expenses on an interim and annual basis. Under ASU 2023-07, public entities must disclose significant expense categories and amounts for each reportable segment, where significant expense categories are defined as those that are regularly reported to an entity’s chief operating decision-maker and included in a segment’s reported measures of profit or loss. Additionally, public entities must disclose the amount of other segment items and a description of its composition.

ASU 2023-07 is effective for fiscal years beginning after December 15, 2023. As the Company has only one reportable segment, ASU 2023-07is not expected to have a significant impact on the Company’s consolidated financial statements.

ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures” requires entities to improve the transparency of certain income tax related disclosures, including the rate reconciliation and taxes paid disclosures. This ASU is effective for public business entities for the annual periods beginning after December 15, 2024. ASU 2023-09 is not expected to have a significant impact on the Company’s consolidated financial statements.

New Accounting Guidance Adopted in 2023

ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments” amends the accounting guidance regarding the impairment of financial instruments. The FASB issued this guidance to replace the incurred loss impairment methodology with a new current expected credit loss (“CECL”) model. Under the new guidance, the Company will be required to measure expected credit losses by utilizing forward-looking information to assess its allowance for credit losses. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. The measurement of expected credit losses under CECL methodology is applicable to financial assets measured at amortized cost, including loans and held to maturity debt securities. CECL also applies to certain off-balance sheet exposures.

The Company adopted the new CECL accounting guidance effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The Company established a governance structure to implement the CECL accounting guidance and developed a methodology and set of models to be used upon adoption. At December 31, 2022, the Company’s loan portfolio totaled, $ 2.1 billion with a corresponding allowance for loan losses of $ 25.2 million under then-current GAAP. Based on the Company’s day one CECL model results that it performed alongside the then-current process, the Company saw adoption of the new guidance resulting in an increase to the allowance for credit losses, including the reserve for off-balance sheet credit exposure (recorded in other liabilities) of $ 0.9 million.

For other assets within the scope of the new CECL accounting guidance, such as held to maturity debt securities and other receivables, management determined that the impact from adoption was inconsequential.

ASU 2022-01, “Derivatives and Hedging (Topic 815)”: ASU 2022-01 was issued to clarify the guidance in ACS 815 on fair value hedge accounting of interest rate risk for portfolios and financial assets. Among other things, the amended guidance established the “last-of-layer” method for making the fair value hedge accounting for these portfolios more accessible and renamed that method the “portfolio layer” method. ASU 2022-01 was effective January 1, 2023 and did not have a significant impact on the Company’s consolidated financial statements.

ASU 2022-02, “Financial Instruments – Credit Losses (Topic 326)”: eliminates the guidance on troubled debt restructurings (“TDRs”) and requires entities to evaluate all loan modifications to determine if they result in a new loan or a continuation of the existing loan. ASU 2022-02 requires that entities disclose if they result in a new loan or a continuation of the existing loan. ASU 2022-02 also requires that entities disclose current-period gross charge-offs by year of origination for loans and leases. The Company saw inconsequential impact of the adoption of ASU 2022-02 on its consolidated financial statements and the accompanying footnotes disclose the new requirements.

2. Securities

This table provides the major components of debt securities available for sale (“AFS”), held to maturity (“HTM”) and equity securities with readily determinable fair values ("equity securities") at amortized cost and estimated fair value at December 31, 2023 and December 31, 2022:

(In thousands)	December 31, 2023 Amortized cost	Gross unrealized gains	Gross unrealized losses	Allowance for credit losses	Estimated fair value
Available for sale:					
U.S. Government sponsored entities	$ 16,490	$ —	$ (457)	$ —	$ 16,033
State and political subdivisions	388	—	(28)	—	360
Residential mortgage-backed securities	15,473	30	(1,426)	—	14,077
Corporate and other securities	65,203	251	(2,876)	(1,283)	61,295
Total debt securities available for sale	$ 97,554	$ 281	$ (4,787)	$ (1,283)	$ 91,765
Held to maturity:					
U.S. Government sponsored entities	$ 28,000	$ —	$ (4,419)	$ —	$ 23,581
State and political subdivisions	1,272	90	—	—	1,362
Residential mortgage-backed securities	6,850	—	(2,137)	—	4,713
Total debt securities held to maturity	$ 36,122	$ 90	$ (6,556)	$ —	$ 29,656
Equity securities:					
Total equity securities	$ 9,050	$ 99	$ (1,347)	$ —	$ 7,802

(In thousands)	December 31, 2022 Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available for sale:				
U.S. Government sponsored entities	$ 16,961	$ —	$ (656)	$ 16,305
State and political subdivisions	635	—	(22)	613
Residential mortgage-backed securities	17,097	32	(1,654)	15,475
Corporate and other securities	66,495	106	(3,601)	63,000
Total debt securities available for sale	$ 101,188	$ 138	$ (5,933)	$ 95,393
Held to maturity:				
U.S. Government sponsored entities	$ 28,000	$ —	$ (5,310)	$ 22,690
State and political subdivisions	1,115	67	—	1,182
Residential mortgage-backed securities	6,645	—	(1,939)	4,706
Total debt securities held to maturity	$ 35,760	$ 67	$ (7,249)	$ 28,578
Equity securities:				
Total equity securities	$ 10,703	$ 356	$ (1,266)	$ 9,793

For the year ended December 31, 2023, the provision for credit loss on AFS debt securities was $ 1.3 million, compared to no provision for the year ended December 31, 2022.

The following table summarizes the amortized cost of held to maturity debt securities by external credit rating at December 31, 2023 and 2022:

(In thousands)	AAA/AA/A rated	BBB rated	Non-investment grade rated	Non-rated	Total
December 31, 2023					
U.S. Government sponsored entities	**$ 28,000**	**$ —**	**$ —**	**$ —**	**$ 28,000**
State and political subdivisions	**1,172**	**—**	**—**	**100**	**1,272**
Residential mortgage-backed securities	**6,850**	**—**	**—**	**—**	**6,850**
Total	**$ 36,022**	**$ —**	**$ —**	**$ 100**	**$ 36,122**
December 31, 2022					
U.S. Government sponsored entities	$ 28,000	$ —	$ —	$ —	$ 28,000
State and political subdivisions	1,115	—	—	—	1,115
Residential mortgage-backed securities	6,645	—	—	—	6,645
Total	$ 35,760	$ —	$ —	$ —	$ 35,760

This table provides the remaining contractual maturities within the investment portfolios. The carrying value of securities at December 31, 2023 is distributed by contractual maturity. Securities, which may have principal prepayment provisions, are distributed based on contractual maturity. Expected maturities will differ materially from contractual maturities as a result of early prepayments and calls.

(In thousands)	Amortized cost	Fair value
Available for sale, at fair value:		
Due in one year	$ 1,490	$ 1,478
Due after one year through five years	33,779	31,509
Due after five years through ten years	7,980	7,262
Due after ten years	38,832	37,439
Residential mortgage-backed securities	15,473	14,077
Total	$ 97,554	$ 91,765
Held to maturity, at amortized cost:		
Due in one year	$ 100	$ 100
Due after one year through five years	—	—
Due after five years through ten years	3,000	2,920
Due after ten years	26,172	21,923
Residential mortgage-backed securities	6,850	4,713
Total	$ 36,122	$ 29,656

The number of securities in an unrealized loss position as of December 31, 2023 totaled 98 , compared to 102 at December 31, 2022. This decrease is primarily due to market interest rate fluctuations.

As of December 31, 2023, the company had accrued interest receivable of $ 1.5 million relating to debt securities, compared to $ 1.0 million at December 31, 2022.

At the year-end 2023 and 2022, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10 % of shareholders' equity.

The fair value of securities with unrealized losses by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2023 and December 31, 2022 are as follows:

	December 31, 2023					
	Less than 12 months		12 months and greater		Total	
(In thousands)	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss
Available for sale:						
U.S. Government sponsored entities	$ —	$ —	$ 16,033	$ (457)	$ 16,033	$ (457)
State and political subdivisions	—	—	360	(28)	360	(28)
Residential mortgage-backed securities	—	—	13,949	(1,426)	13,949	(1,426)
Corporate and other securities	—	—	54,827	(2,876)	54,827	(2,876)
Total temporarily impaired securities	$ —	$ —	$ 85,169	$(4,787)	$ 85,169	$(4,787)
Held to maturity:						
U.S. Government sponsored entities	$ —	$ —	$ 23,581	$(4,419)	$ 23,581	$(4,419)
Residential mortgage-backed securities	—	—	4,713	(2,137)	4,713	(2,137)
Total temporarily impaired securities	$ —	$ —	$ 28,294	$(6,556)	$ 28,294	$(6,556)

	December 31, 2022					
	Less than 12 months		12 months and greater		Total	
(In thousands)	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss
Available for sale:						
U.S. Government sponsored entities	$ 15,817	$ (622)	$ 1,432	$ (34)	$ 17,249	$ (656)
State and political subdivisions	160	(5)	253	(17)	413	(22)
Residential mortgage-backed securities	14,023	(1,448)	1,311	(206)	15,334	(1,654)
Corporate and other securities	23,445	(966)	31,948	(2,635)	55,393	(3,601)
Total temporarily impaired securities	$ 53,445	$(3,041)	$ 34,944	$(2,892)	$ 88,389	$(5,933)
Held to maturity:						
U.S. Government sponsored entities	$ 15,659	$(2,341)	$ 7,031	$(2,969)	$ 22,690	$(5,310)
Residential mortgage-backed securities	4,707	(1,939)	—	—	4,707	(1,939)
Total temporarily impaired securities	$ 20,366	$(4,280)	$ 7,031	$(2,969)	$ 27,397	$(7,249)

Unrealized losses in each of the categories presented in the tables above were primarily driven by market interest rate fluctuations.

Realized Gains and Losses

There were no available for sale or held to maturity gross realized gains or losses relating to sales in 2023 or 2022.

Pledged Securities

Securities with a carrying value of $ 9.7 million and $ 0.8 million at December 31, 2023 and December 31, 2022, respectively, were pledged to secure other borrowings and for other purposes required or permitted by law.

Equity Securities

Included in this category are Community Reinvestment Act ("CRA") investments and the Company's current other equity holdings of financial institutions. Equity securities are defined to include (a) preferred, common and other ownership interests in entities including partnerships, joint ventures and limited liability companies and (b) rights to acquire or dispose of ownership interests in entities at fixed or determinable prices.

The following is a summary of the gains and losses recognized in net income on equity securities for the past two years:

	For the year ended December 31,	
(In thousands)	**2023**	**2022**
Net unrealized losses recognized during the period on equity securities	**$ (338)**	$ (1,313)
Net gains recognized during the period on equity securities sold during the period	**345**	—
Gains (losses) recognized during the reporting period on equity securities	**$ 7**	$ (1,313)

3. Loans

The following table sets forth the classification of loans by class, including unearned fees, deferred costs and excluding the allowance for credit losses for the past two years:

(In thousands)	**December 31, 2023**	**December 31, 2022**
SBA loans held for investment	**$ 38,584**	$ 38,468
SBA PPP loans	**2,318**	5,908
Commercial loans		
SBA 504 loans	**33,669**	35,077
Commercial & industrial	**128,402**	117,566
Commercial real estate	**986,230**	903,126
Commercial real estate construction	**129,159**	131,774
Residential mortgage loans	**631,506**	605,091
Consumer loans		
Home equity	**67,037**	68,310
Consumer other	**5,639**	9,854
Residential construction loans	**131,277**	163,457
Total loans held for investment	**$ 2,153,821**	$ 2,078,631
SBA loans held for sale	**18,242**	27,928
Total loans	**$ 2,172,063**	$ 2,106,559

Loans are made to individuals and commercial entities. Specific loan terms vary as to interest rate, repayment and collateral requirements based on the type of loan requested and the credit worthiness of the prospective borrower. Credit risk tends to be geographically concentrated in that a majority of the loan customers are located in the markets serviced by the Bank. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type. A description of the Company's different loan segments follows:

SBA Loans: SBA 7(a) loans, on which the SBA has historically provided guarantees of up to 90 percent of the principal balance, are considered a higher risk loan product for the Company than its other loan products. The guaranteed portion of the Company's SBA loans is generally sold in the secondary market with the nonguaranteed portion held in the portfolio as a loan held for investment. SBA loans are for the purpose of providing working capital, business acquisitions, financing the purchase of equipment, inventory or commercial real estate and for other business purposes. Loans are guaranteed by the businesses' major owners. SBA loans are made based primarily on the historical and projected cash flow of the business and secondarily on the underlying collateral provided.

Loans held for sale represent the guaranteed portion of SBA loans and are reflected at the lower of aggregate cost or market value. When sales of SBA loans do occur, the premium received on the sale and the present value of future cash flows of the servicing assets are recognized in income. All criteria for sale accounting must be met in order for the loan sales to occur.

Servicing assets represent the estimated fair value of retained servicing rights, net of servicing costs, at the time loans are sold. Servicing assets are amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on stratifying the underlying financial assets by date of origination and term. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions.

Serviced loans sold to others are not included in the accompanying Consolidated Balance Sheets. Income and fees collected for loan servicing are credited to noninterest income when earned, net of amortization on the related servicing assets.
Commercial Loans: Commercial credit is extended primarily to middle market and small business customers. Commercial loans are generally made in the Company's market place for the purpose of providing working capital, financing the purchase of equipment, inventory or commercial real estate and for other business purposes. The SBA 504 program consists of real estate backed commercial mortgages where the Company has the first mortgage and the SBA has the second mortgage on the property. Loans are generally guaranteed in full or for a meaningful amount by the businesses' major owners. Commercial loans are made based primarily on the historical and projected cash flow of the business and secondarily on the underlying collateral provided.

Residential Mortgage, Consumer and Residential Construction Loans: The Company originates mortgage and consumer loans including principally residential real estate, home equity lines and loans and residential construction lines. The Company originates qualified mortgages which are generally sold in the secondary market and nonqualified mortgages which are generally held for investment. Each loan type is evaluated on debt to income, type of collateral, loan to collateral value, credit history and Company relationship with the borrower.

Inherent in the lending function is credit risk, which is the possibility a borrower may not perform in accordance with the contractual terms of their loan. A borrower's inability to pay their obligations according to the contractual terms can create the risk of past due loans and, ultimately, credit losses, especially on collateral deficient loans. The Company minimizes its credit risk by loan diversification and adhering to credit administration policies and procedures. Due diligence on loans begins when the Company initiates contact regarding a loan with a borrower. Documentation, including a borrower's credit history, materials establishing the value and liquidity of potential collateral, the purpose of the loan, the source of funds for repayment of the loan and other factors, are analyzed before a loan is submitted for approval. The loan portfolio is then subject to on-going internal reviews for credit quality, as well as independent credit reviews by an outside firm.

The Company's extension of credit is governed by the Credit Risk Policy which was established to control the quality of the Company's loans. These policies and procedures are reviewed and approved by the Board of Directors on a regular basis.

Credit Ratings

The Company places all SBA and commercial loans into various credit risk rating categories based on an assessment of the expected ability of the borrowers to properly service their debt. The assessment considers numerous factors including, but not limited to, current financial information on the borrower, historical payment experience, strength of any guarantor, nature of and value of any collateral, acceptability of the loan structure and documentation, relevant public information and current economic trends. This credit risk rating analysis is performed when the loan is initially underwritten and then annually based on set criteria in the loan policy.

The Company uses the following regulatory definitions for criticized and classified risk ratings:

Pass: Risk ratings of 1 through 6 are used for loans that are performing, as they meet, and are expected to continue to meet, all of the terms and conditions set forth in the original loan documentation, and are generally current on principal and interest payments. These performing loans are termed “Pass”.

Special Mention: These loans have a potential weakness that deserves management’s close attention. If left uncorrected, the potential weaknesses may result in deterioration of the repayment prospects for the loans or of the institution’s credit position at some future date.

Substandard: These loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Loss: These loans have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable, based on currently existing facts, conditions and values. Once a borrower is deemed incapable of repayment of unsecured debt, the loan is termed a “Loss” and charged off immediately, subject to government guarantee.

For residential mortgage, consumer and residential construction loans, management uses performing versus nonperforming as the best indicator of credit quality. Nonperforming loans consist of loans that are not accruing interest (nonaccrual loans) as a result of principal or interest being delinquent for a period of 90 days or more or when the ability to collect principal and interest according to the contractual terms is in doubt. These credit quality indicators are updated on an ongoing basis, as a loan is placed on nonaccrual status as soon as management believes there is sufficient doubt as to the ultimate ability to collect interest on a loan.

The following table shows the internal loan classification risk by loan portfolio classification by origination year as of December 31, 2023:

	Term Loans Amortized Cost Basis by Origination Year							
(In thousands)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018 and Earlier**	**Revolving Loans Amortized Cost Basis**	**Total**
SBA loans held for investment								
Risk Rating:								
Pass	$ 1,938	$ 5,339	$ 4,723	$ 6,083	$ 2,634	$ 10,996	$ -	$ 31,713
Special Mention	-	1,765	356	510	-	31	-	2,662
Substandard	-	1,256	2,186	190	-	577	-	4,209
Total SBA loans held for investment	$ 1,938	$ 8,360	$ 7,265	$ 6,783	$ 2,634	$ 11,604	$ -	$ 38,584
SBA loans held for investment								
Current-period gross writeoffs	$ -	$ 100	$ -	$ -	$ 113	$ -	$ -	$ 213
SBA PPP loans								
Risk Rating:								
Pass	$ -	$ -	$ 2,318	$ -	$ -	$ -	$ -	$ 2,318
Total SBA PPP loans	$ -	$ -	$ 2,318	$ -	$ -	$ -	$ -	$ 2,318
Commercial loans								
Risk Rating:								
Pass	$139,622	$343,755	$181,419	$128,165	$101,274	$271,469	$ 96,988	$1,262,692
Special Mention	-	-	1,815	-	1,570	7,423	395	11,203
Substandard	-	-	59	14	288	3,204	-	3,565
Total commercial loans	$139,622	$343,755	$183,293	$128,179	$103,132	$282,096	$ 97,383	$1,277,460
Commercial loans								
Current-period gross writeoffs	$ -	$ -	$ 150	$ -	$ 350	$ 252	$ -	$ 752
Residential mortgage loans								
Risk Rating:								
Performing	$102,892	$253,919	$ 72,586	$ 51,999	$ 30,482	$109,302	$ -	$ 621,180
Nonperforming	-	2,964	2,714	1,054	945	2,649	-	10,326
Total residential mortgage loans	$102,892	$256,883	$ 75,300	$ 53,053	$ 31,427	$111,951	$ -	$ 631,506
Residential mortgage loans								
Current-period gross writeoffs	$ -	$ -	$ 25	$ -	$ -	$ 68	$ -	$ 93
Consumer loans								
Risk Rating:								
Performing	$ 3,428	$ 4,777	$ 3,681	$ 670	$ 2,481	$ 7,507	$ 49,751	$ 72,295
Nonperforming	-	-	-	125	-	256	-	381
Total consumer loans	$ 3,428	$ 4,777	$ 3,681	$ 795	$ 2,481	$ 7,763	$ 49,751	$ 72,676
Consumer loans								
Current-period gross writeoffs	$ -	$ 26	$ 552	$ -	$ -	$ -	$ -	$ 578
Residential construction loans								
Risk Rating:								
Performing	$ 28,827	$ 72,257	$ 25,395	$ 1,418	$ 491	$ 748	$ -	$ 129,136
Nonperforming	-	-	-	547	-	1,594	-	2,141
Total residential construction loans	$ 28,827	$ 72,257	$ 25,395	$ 1,965	$ 491	$ 2,342	$ -	$ 131,277
Residential construction								
Current-period gross writeoffs	$ -	$ -	$ -	$ -	$ -	$ 600	$ 400	$ 1,000
Total loans held for investment	$276,707	$686,031	$297,252	$190,775	$140,165	$415,756	$ 147,134	$2,153,821

The tables below detail the Company's loan portfolio by class according to their credit quality indicators discussed in the paragraphs above as of December 31, 2022:

	December 31, 2022			
	SBA & Commercial loans - Internal risk ratings			
(In thousands)	Pass	Special mention	Substandard	Total
SBA loans held for investment	$ 37,163	$ 558	$ 747	$ 38,468
SBA PPP loans	5,908	—	—	5,908
Commercial loans				
SBA 504 loans	35,077	—	—	35,077
Commercial & industrial	110,107	6,220	1,239	117,566
Commercial real estate	894,110	6,228	2,788	903,126
Commercial real estate construction	131,774	—	—	131,774
Total commercial loans	1,171,068	12,448	4,027	1,187,543
Total commercial loans and SBA loans held for investment	$ 1,214,139	$ 13,006	$ 4,774	$ 1,231,919

	Residential mortgage, Consumer & Residential construction loans - Performing/Nonperforming		
(In thousands)	Performing	Nonperforming	Total
Residential mortgage loans	$ 601,730	$ 3,361	$ 605,091
Consumer loans			
Home equity	68,310	—	68,310
Consumer other	9,854	—	9,854
Total consumer loans	78,164	—	78,164
Residential construction loans	160,025	3,432	163,457
Total residential mortgage, consumer and residential construction loans	$ 839,919	$ 6,793	$ 846,712

Nonaccrual and Past Due Loans

Nonaccrual loans consist of loans that are not accruing interest as a result of principal or interest being delinquent for a period of 90 days or more or when the ability to collect principal and interest according to the contractual terms is in doubt. When a loan is classified as nonaccrual, interest accruals are discontinued and all past due interest previously recognized as income is reversed and charged against current period earnings. Generally, until the loan becomes current, any payments received from the borrower are applied to outstanding principal until such time as management determines that the financial condition of the borrower and other factors merit recognition of a portion of such payments as interest income. Loans may be returned to an accrual status when the ability to collect is reasonably assured or when the loan is brought current as to principal and interest. The risk of loss is difficult to quantify and is subject to fluctuations in collateral values, general economic conditions and other factors. The Company values its collateral through the use of appraisals, broker price opinions and knowledge of its local market.

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The following tables set forth an aging analysis of past due and nonaccrual loans as of December 31, 2023 and December 31, 2022:

	December 31, 2023						
(In thousands)	30-59 days past due	60-89 days past due	90+ days and still accruing	Nonaccrual	Total past due (1)	Current	Total loans
SBA loans held for investment	**$ 551**	**$ 185**	**$ —**	**$ 3,444**	**$ 4,180**	**$ 34,404**	**$ 38,584**
Commercial loans							
SBA 504 loans	**—**	**—**	**—**	**—**	**—**	**33,669**	**33,669**
Commercial & industrial	**288**	**78**	**—**	**283**	**649**	**127,753**	**128,402**
Commercial real estate	**1,732**	**—**	**—**	**1,665**	**3,397**	**982,833**	**986,230**
Commercial real estate construction	**—**	**—**	**—**	**—**	**—**	**129,159**	**129,159**
Residential mortgage loans	**8,719**	**1,378**	**946**	**10,326**	**21,369**	**610,137**	**631,506**
Consumer loans							
Home equity	**14**	**—**	**—**	**381**	**395**	**66,642**	**67,037**
Consumer other	**28**	**55**	**—**	**—**	**83**	**5,556**	**5,639**
Residential construction loans	**2,580**	**—**	**—**	**2,141**	**4,721**	**126,556**	**131,277**
Total loans held for investment	**13,912**	**1,696**	**946**	**18,240**	**34,794**	**2,116,709**	**2,151,503**
SBA loans held for sale	**—**	**—**	**—**	**—**	**—**	**18,242**	**18,242**
Total loans, excluding SBA PPP	**$ 13,912**	**$ 1,696**	**$ 946**	**$ 18,240**	**$ 34,794**	**$ 2,134,951**	**$ 2,169,745**

(1) At December 31, 2023, the Company had no SBA PPP loans past due.

	December 31, 2022						
(In thousands)	30-59 days past due	60-89 days past due	90+ days and still accruing	Nonaccrual	Total past due (2)	Current	Total loans
SBA loans held for investment	$ —	$ 576	$ —	$ 690	$ 1,266	$ 37,202	$ 38,468
Commercial loans							
SBA 504 loans	—	—	—	—	—	35,077	35,077
Commercial & industrial	198	300	—	777	1,275	116,291	117,566
Commercial real estate	22	188	—	805	1,015	902,111	903,126
Commercial real estate construction	—	—	—	—	—	131,774	131,774
Residential mortgage loans	—	982	—	3,361	4,343	600,748	605,091
Consumer loans							
Home equity	—	—	—	—	—	68,310	68,310
Consumer other	18	7	—	—	25	9,829	9,854
Residential construction loans	—	—	—	3,432	3,432	160,025	163,457
Total loans held for investment	238	2,053	—	9,065	11,356	2,061,367	2,072,723
SBA loans held for sale	2,195	—	—	—	2,195	25,733	27,928
Total loans, excluding SBA PPP	$ 2,433	$ 2,053	$ —	$ 9,065	$ 13,551	$ 2,087,100	$ 2,100,651

(2) At December 31, 2022, the Company had $ 1.4 million of SBA PPP loans past due.

As of December 31, 2023, the company had accrued interest receivable of $ 11.7 million relating to loans receivable.

Individually Evaluated Loans

The Company has defined individually evaluated loans to be all nonperforming loans. Management individually evaluates a loan when, based on current information and events, it is determined that the Company will not be able to collect all amounts due according to the loan contract.

The following tables provide detail on the Company's loans individually evaluated in the Company's CECL evaluation with the associated allowance amount, if applicable, as of December 31, 2023 and December 31, 2022:

	December 31, 2023		
(In thousands)	Unpaid principal balance	Recorded investment	Allowance for Credit Losses Allocated
With no related allowance:			
SBA loans held for investment	$ 2,264	$ 2,186	$ —
Commercial loans			
Commercial real estate	2,734	1,607	—
Total commercial loans	2,734	1,607	—
Residential mortgage loans	7,146	7,121	—
Consumer loans			
Home equity	390	388	—
Total consumer loans	390	388	—
Residential construction loans	2,757	2,141	—
Total individually evaluated loans with no related allowance	15,291	13,443	—
With an allowance:			
SBA loans held for investment	1,383	1,258	348
Commercial loans			
Commercial & industrial	638	283	283
Commercial real estate	209	58	58
Total commercial loans	847	341	341
Residential mortgage loans	4,182	4,151	306
Total individually evaluated loans with a related allowance	6,412	5,750	995
Total individually evaluated loans:			
SBA loans held for investment	3,647	3,444	348
Commercial loans			
Commercial & industrial	638	283	283
Commercial real estate	2,943	1,665	58
Total commercial loans	3,581	1,948	341
Residential mortgage loans	11,328	11,272	306
Consumer loans			
Home equity	390	388	—
Total consumer loans	390	388	—
Residential construction loans	2,757	2,141	—
Total individually evaluated loans	$ 21,703	$ 19,193	$ 995

(In thousands)	December 31, 2022 Unpaid principal balance	Recorded investment	Allowance for Loan Losses Allocated
With no related allowance:			
SBA loans held for investment	$ 687	$ 399	$ —
Commercial loans			
Commercial & industrial	10	10	—
Commercial real estate	3,169	2,219	—
Total commercial loans	3,179	2,229	—
Residential mortgage loans	2,054	2,022	—
Total impaired loans with no related allowance	5,920	4,650	—
With an allowance:			
SBA loans held for investment	316	291	115
Commercial loans			
Commercial & industrial	2,022	872	516
Total commercial loans	2,022	872	516
Residential mortgage loans	1,345	1,339	36
Residential construction loans	3,432	3,432	1,112
Total impaired loans with a related allowance	7,115	5,934	1,779
Total impaired loans:			
SBA loans held for investment	1,003	690	115
Commercial loans			
Commercial & industrial	2,032	882	516
Commercial real estate	3,169	2,219	—
Total commercial loans	5,201	3,101	516
Residential mortgage loans	3,399	3,361	36
Residential construction loans	3,432	3,432	1,112
Total impaired loans	$ 13,035	$ 10,584	$ 1,779

The Company did not recognize interest income on nonaccrual loans for the year ended December 31, 2023 and recognized $ 371 thousand for the year ended December 31, 2022.

Other Loan Information

Servicing Assets:

Loans sold to others and serviced by the Company are not included in the accompanying Consolidated Balance Sheets. The total amount of such loans serviced, but owned by third party investors, amounted to approximately $ 99.0 million and $ 85.8 million at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, the carrying value of servicing assets was $ 0.9 million and $ 0.7 million, respectively, and is included in Other assets. A summary of the changes in the related servicing assets for the past two years follows:

(In thousands)	For the years ended December 31, 2023	2022
Balance, beginning of year	**$ 691**	$ 1,013
Servicing assets capitalized	**576**	152
Amortization of expense, net	**(386)**	(474)
Balance, end of year	**$ 881**	$ 691

In addition, the Company had a $ 600 thousand and $ 641 thousand in discounts related to the retained portion of unsold SBA loans at December 31, 2023 and 2022, respectively. These discounts are amortized to income over the same period of the balance of the loans sold.

Officer and Director Loans:

In the ordinary course of business, the Company may extend credit to officers, directors or their associates. These loans are subject to the Company's normal lending policy. An analysis of such loans, all of which are current as to principal and interest payments, is as follows:

(In thousands)	**December 31, 2023**	December 31, 2022
Balance, beginning of year	**$ 8,124**	$ 11,502
New loans and advances	**788**	—
Loan repayments	**(953)**	(784)
Loans removed	**(65)**	(2,594)
Balance, end of year	**$ 7,894**	$ 8,124

Loan Portfolio Collateral:

The majority of the Company's loans are secured by real estate. Declines in the market values of real estate in the Company's trade area impact the value of the collateral securing its loans. This could lead to greater losses in the event of defaults on loans secured by real estate. At December 31, 2023 and December 31, 2022, approximately 96 % of the Company's loan portfolio was secured by real estate.

Modifications

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a weighted-average remaining maturity model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

The following table shows the amortized cost basis at the end of the reporting period of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of gross loans and type of concession granted (numbers in thousands) at December 31, 2023:

(In thousands)	Principal Forgiveness	Payment Delay	Term Extension
SBA loans held for investment	$ 9	$ —	$ —
Commercial loans			
Commercial & industrial	—	—	835
Commercial real estate	—	1,290	732
Consumer loans			
Home equity	—	—	103
Balance, end of year	$ 9	$ 1,290	$ 1,670

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount. N o loans that were modified during the year ended December 31, 2023 had a payment default during the period and all loans were current as of December 31, 2023.

4. Allowance for Credit Losses and Reserve for Unfunded Loan Commitments

Allowance for Credit Losses

The Company has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses inherent in the loan portfolio. At a minimum, the adequacy of the allowance for credit losses is reviewed by management on a quarterly basis. The allowance is increased by provisions charged to expense and is reduced by net charge-offs. For purposes of determining the allowance for credit losses, the Company has segmented the loans in its portfolio by loan type. Loans are segmented into the following pools: SBA, commercial, residential mortgages, consumer and residential construction loans. Certain portfolio segments are further broken down into classes based on the associated risks within those segments and the type of collateral underlying each loan. Commercial loans are divided into the following four classes: commercial real estate, commercial real estate construction, commercial & industrial and SBA 504. Consumer loans are divided into two classes as follows: home equity and other.

The standardized methodology used to assess the adequacy of the allowance includes the allocation of specific and general reserves. The same standard methodology is used, regardless of loan type. Specific reserves are evaluated for individually evaluated loans. The general reserve is set based upon a representative average historical net charge-off rate adjusted for the following environmental factors: delinquency and impairment trends, charge-off and recovery trends, volume and loan term trends, changes in risk and underwriting policy trends, staffing and experience changes, national and local economic trends, industry conditions and credit concentration changes. Within the historical net charge-off rate, the Company weights the data dating back to 2015 on a straight line basis and projects the losses on a weighted average remaining maturity basis for each segment. All of the environmental factors are ranked and assigned a basis points value based on the following scale: low, low moderate, moderate, high moderate and high risk. Each environmental factor is evaluated separately for each class of loans and risk weighted based on its individual characteristics. The Company also elected an economic overlay as part of its methodology which incorporates the probability of recession based upon the Federal Reserve NYFYPROB Index.

- For SBA 7(a) and commercial loans, the estimate of loss based on pools of loans with similar characteristics is made through the use of a standardized loan grading system that is applied on an individual loan level and updated on a continuous basis. The loan grading system incorporates reviews of the financial performance of the borrower, including cash flow, debt-service coverage ratio, earnings power, debt level and equity position, in conjunction with an assessment of the borrower’s industry and future prospects. It also incorporates analysis of the type of collateral and the relative loan to value ratio.

- For residential mortgage, consumer and residential construction loans, the estimate of loss is based on pools of loans with similar characteristics. Factors such as delinquency status and type of collateral are evaluated. Factors are updated frequently to capture the recent behavioral characteristics of the subject portfolios, as well as any changes in loss mitigation or credit origination strategies, and adjustments to the reserve factors are made as needed.

According to the Company's policy, a loss ("charge-off") is to be recognized and charged to the allowance for credit losses as soon as a loan is recognized as uncollectable. All credits which are 90 days past due must be analyzed for the Company's ability to collect on the credit. Once a loss is known to exist, the charge-off approval process is immediately expedited. This charge-off policy is followed for all loan types.

The allocated allowance is the total of identified specific and general reserves by loan category. The allocation is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of the portfolio.

The following tables detail the activity in the allowance for credit losses by portfolio segment for the past two years:

	For the year ended December 31, 2023					
(In thousands)	**SBA**	**Commercial**	**Residential**	**Consumer**	**Residential Construction**	**Total**
Balance, beginning of period	**$ 875**	**$ 15,254**	**$ 5,450**	**$ 990**	**$ 2,627**	**$ 25,196**
Impact of adoption of ASU 2016-13 ("CECL")	**163**	**171**	**376**	**101**	**36**	**847**
Charge-offs	**(213)**	**(752)**	**(93)**	**(578)**	**(1,000)**	**(2,636)**
Recoveries	**20**	**400**	**—**	**84**	**111**	**615**
Net charge-offs	**(193)**	**(352)**	**(93)**	**(494)**	**(889)**	**(2,021)**
Provision for (credit to) credit losses charged to expense	**376**	**803**	**796**	**425**	**(568)**	**1,832**
Balance, end of period	**$ 1,221**	**$ 15,876**	**$ 6,529**	**$ 1,022**	**$ 1,206**	**$ 25,854**

	For the year ended December 31, 2022					
(In thousands)	**SBA**	**Commercial**	**Residential**	**Consumer**	**Residential Construction**	**Total**
Balance, beginning of period	$ 1,074	$ 15,053	$ 4,114	$ 671	$ 1,390	$ 22,302
Charge-offs	(59)	(1,000)	—	(398)	—	(1,457)
Recoveries	33	109	3	47	—	192
Net (charge-offs) recoveries	(26)	(891)	3	(351)	—	(1,265)
(Credit to) provision for loan losses charged to expense	(173)	1,092	1,333	670	1,237	4,159
Balance, end of period	$ 875	$ 15,254	$ 5,450	$ 990	$ 2,627	$ 25,196

The following tables present loans and related allowance for credit losses, by portfolio segment, as of December 31 st for the past two years:

(In thousands)	SBA, Held for Investment	Commercial	Residential	Consumer	Residential Construction	Total
	December 31, 2023					
Allowance for credit losses ending balance:						
Individually evaluated for impairment	**$ 348**	**$ 341**	**$ 306**	**$ —**	**$ —**	**$ 995**
Collectively evaluated for impairment	**873**	**15,535**	**6,223**	**1,022**	**1,206**	**24,859**
Total	**$ 1,221**	**$ 15,876**	**$ 6,529**	**$ 1,022**	**$ 1,206**	**$ 25,854**
Loan ending balances:						
Individually evaluated for impairment	**$ 3,444**	**$ 1,948**	**$ 11,272**	**$ 388**	**$ 2,141**	**$ 19,193**
Collectively evaluated for impairment	**37,458**	**1,275,512**	**620,234**	**72,288**	**129,136**	**2,134,628**
Total loans held for investment	**$ 40,902**	**$ 1,277,460**	**$ 631,506**	**$ 72,676**	**$ 131,277**	**$ 2,153,821**

(In thousands)	SBA	Commercial	Residential	Consumer	Residential Construction	Total
	December 31, 2022					
Allowance for loan losses ending balance:						
Individually evaluated for impairment	$ 115	$ 516	$ 36	$ —	$ 1,112	$ 1,779
Collectively evaluated for impairment	760	14,738	5,414	990	1,515	23,417
Total	$ 875	$ 15,254	$ 5,450	$ 990	$ 2,627	$ 25,196
Loan ending balances:						
Individually evaluated for impairment	$ 690	$ 3,101	$ 3,361	$ —	$ 3,432	$ 10,584
Collectively evaluated for impairment	71,614	1,184,442	601,730	78,164	160,025	2,095,975
Total	$ 72,304	$ 1,187,543	$ 605,091	$ 78,164	$ 163,457	$ 2,106,559

The Company allocated an additional reserve for loans with a substandard rating, not otherwise considered for specific reserves. At December 31, 2023 and 2022, all loans individually evaluated for credit losses were secured by residential and commercial real estate.

The provision for credit losses for loans decreased $ 2.4 million for the year ended 2023 primarily due to slower loan growth, as well as management's view of current economic conditions.

Reserve for Unfunded Loan Commitments

The Company is required to include unfunded commitments that are expected to be funded in the future within the allowance calculation, other than those that are unconditionally cancelable. To arrive at that reserve, the reserve percentage for each applicable segment is applied to the unused portion of the expected commitment balance and is multiplied by the expected funding rate. To determine the expected funding rate, the Company uses a historical utilization rate for each segment. As noted above, the allowance for credit losses on unfunded loan commitments is included in Other liabilities on the Consolidated Balance Sheet. At December 31, 2023, a $ 0.6 million commitment reserve was reported, compared to a $ 0.5 million commitment reserve at December 31, 2022.

Reserve for AFS Debt Security Impairment

The Company maintains a reserve for credit losses on AFS debt securities. Adjustments to the reserve are made through provision for credit losses and applied to the reserve which is classified in “Debt securities available for sale” on the balance sheet. At December 31, 2023, a $ 1.3 million reserve was reported, compared to none at December 31, 2022.

5. Premises and Equipment

The detail of premises and equipment as of December 31 st for the past two years is as follows:

(In thousands)	December 31, 2023	December 31, 2022
Land and buildings	**$ 24,582**	$ 24,547
Furniture, fixtures and equipment	**13,322**	12,540
Leasehold improvements	**3,205**	3,108
Gross premises and equipment	**41,109**	40,195
Less: Accumulated depreciation	**(21,542)**	(20,193)
Net premises and equipment	**$ 19,567**	$ 20,002

Amounts charged to noninterest expense for depreciation of premises and equipment amounted to $ 1.4 million in 2023 and 2022, respectively.

6. Deposits

The following table details the maturity distribution of time deposits as of December 31 st for the past two years:

(In thousands)	Three months or less	More than three months through six months	More than six months through twelve months	More than twelve months	Total
At December 31, 2023:					
Less than $250,000	**$ 157,742**	**$ 140,052**	**$ 104,619**	**$ 88,311**	**$ 490,724**
$250,000 or more	**21,649**	**63,783**	**36,830**	**13,078**	**135,340**
At December 31, 2022:					
Less than $250,000	$ 134,611	$ 39,583	$ 35,208	$ 148,554	$ 357,956
$250,000 or more	3,528	19,787	16,509	27,520	67,344

The following table presents the expected maturities of time deposits over the next five years:

(In thousands)	2024	2025	2026	2027	2028	Thereafter	Total
Balance maturing	$ 524,675	$ 71,703	$ 17,100	$ 11,007	$ 1,473	$ 106	$ 626,064

Time deposits with balances of $250 thousand or more totaled $ 135.3 million and $ 67.3 million at December 31, 2023 and 2022, respectively.

Deposits from principal officers, directors, and their affiliates at year-end 2023 and 2022 were $ 33.0 million and $ 27.8 million, respectively.

7. Borrowed Funds, Subordinated Debentures and Derivatives

The following table presents the period-end and weighted average rate for borrowed funds and subordinated debentures as of the past two year end dates:

	2023		2022	
(In thousands)	Amount	Rate	Amount	Rate
FHLB borrowings:				
Non-overnight, fixed rate advances	**$ 109,438**	**3.86 %**	$ 180,000	3.96 %
Overnight advances	**217,000**	**5.61**	203,000	4.61
Puttable advances	**30,000**	**3.91**	—	—
Subordinated debentures:	**$ 10,310**	**7.21** %	$ 10,310	6.32 %

The following table presents borrowed funds and subordinated debentures by maturity or call date over the next five years:

(In thousands)	2024	2025	2026	2027	2028	Thereafter	Total
FHLB borrowings:							
Non-overnight, fixed rate advances	$ 104,226	$ 212	$ —	$ —	$ 5,000	$ —	$ 109,438
Overnight advances	217,000	—	—	—	—	—	217,000
Puttable advances	30,000	—	—	—	—	—	30,000
Subordinated debentures:	—	—	—	—	—	10,310	10,310
Total borrowings	$ —	$ —	$ —	$ —	$ 5,000	$ 10,310	$ 366,748

Subordinated Debentures

At December 31, 2023 and 2022, the Company was a party in the following subordinated debenture transactions:

- On July 24, 2006, Unity (NJ) Statutory Trust II, a statutory business trust and wholly-owned subsidiary of Unity Bancorp, Inc., issued $ 10.0 million of floating rate capital trust pass through securities to investors due on July 24, 2036. The subordinated debentures are redeemable in whole or part, prior to maturity but after July 24, 2011. For 2023, the floating interest rate on the subordinated debentures is the three-month CME term SOFR plus 262 basis points and reprices quarterly. For 2022, the floating interest rate on the subordinated debentures was three-month LIBOR plus 159 basis points and repriced quarterly. The floating interest rate was 7.212 % at December 31, 2023 and 6.319 % at December 31, 2022.
- In connection with the formation of the statutory business trust, the trust also issued $ 465 thousand of common equity securities to the Company, which together with the proceeds stated above were used to purchase the subordinated debentures, under the same terms and conditions. At December 31, 2023 and 2022, $ 310 thousand of the common equity securities remained.

The capital securities in the above transaction have preference over the common securities with respect to liquidation and other distributions and qualify as Tier 1 capital. Under the terms of the Dodd-Frank Wall Street Reform and Consumer Protection Act, these securities will continue to qualify as Tier 1 capital as the Company has less than $10 billion in assets. In accordance with *FASB ASC Topic 810, "Consolidation,"* the Company does not consolidate the accounts and related activity of Unity (NJ) Statutory Trust II because it is not the primary beneficiary. The additional capital from this transaction was used to bolster the Company's capital ratios and for general corporate purposes, including among other things, capital contributions to the Bank.

The Company has the ability to defer interest payments on the subordinated debentures for up to 5 years without being in default. Due to the redemption provisions of these securities, the expected maturity could differ from the contractual maturity.

Derivative Financial Instruments and Hedging Activities

Derivative Financial Instruments

The Company has derivative financial instruments in the form of interest rate swap agreements, which derive their value from underlying interest rates. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments and the value of the derivatives are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instrument, is reflected on the Company's Consolidated Balance Sheet as Other assets or Other liabilities.

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to any derivative agreement. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations. The Company deals only with primary dealers.

Derivative instruments are generally either negotiated OTC contracts or standardized contracts executed on a recognized exchange. Negotiated OTC derivative contracts are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, amount, exercise prices and maturity.

Risk Management Policies – Hedging Instruments

The primary focus of the Company's asset/liability management program is to monitor the sensitivity of the Company's net portfolio value and net income under varying interest rate scenarios to take steps to control its risks. On a quarterly basis, the Company evaluates the effectiveness of entering into any derivative agreement by measuring the cost of such an agreement in relation to the reduction in net portfolio value and net income volatility within an assumed range of interest rates.

Interest Rate Risk Management – Cash Flow Hedging Instruments

The Company has variable rate debt as a source of funds for use in the Company's lending and investment activities and for other general business purposes. These debt obligations expose the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. Management believes it is prudent to limit the variability of a portion of its interest payments and, therefore hedges its variable interest rate payments. To meet this objective, management enters into interest rate swap agreements whereby the Company receives variable interest rate payments and makes fixed interest rate payments during the contract period.

At December 31, 2023, and 2022 the Company had no cash collateral pledged for these derivatives. A summary of the Company's outstanding interest rate swap agreements used to hedge variable rate debt at December 31, 2023 and 2022, respectively is as follows:

(Dollars in thousands)	**December 31, 2023**	**December 31, 2022**
Notional amount	**$ 20,000**	$ **20,000**
Fair value	**$ 918**	$ **1,537**
Weighted average pay rate	**0.83 %**	**0.83** %
Weighted average receive rate	**5.27 %**	**1.50** %
Weighted average maturity in years	**1.57**	**2.57**
Number of contracts	**1**	**1**

During the twelve months ended December 31, 2023 the Company received variable rate SOFR payments from and paid fixed rates in accordance with its interest rate swap agreements. In 2022, the Company utilized LIBOR. The unrealized gains relating to interest rate swaps are recorded as a derivative asset and are included in Prepaid expenses and other assets in the Company's Consolidated Balance Sheet. The unrealized losses are recorded as a derivative liability and are included in Accrued expenses and other liabilities. Changes in the fair value of interest rate swaps designated as hedging instruments of the variability of cash flows associated with long-term debt are reported in other comprehensive income. The amount included in accumulated other comprehensive income would be reclassified to current earnings should the hedges no longer be considered effective. The Company expects the hedges to remain fully effective during the remaining terms of the swaps.

The following table presents the net (losses) gains recorded in other comprehensive income and the Consolidated Financial statements relating to the cash flow derivative instruments at December 31, 2023 and 2022, respectively:

	For the years ended December 31,	
(In thousands)	**2023**	**2022**
(Loss) gain recognized in OCI		
Gross of tax	**$ (619)**	$ 2,184
Net of tax	**(450)**	1,566
(Loss) gain reclassified from AOCI into net income		
Gross of tax	**(899)**	1,055
Net of tax	**(635)**	754

8. Leases and Commitments

Leases

Operating leases in which the Company is the lessee and the term is greater than 12 months, are recorded as right of use ("ROU") assets and lease liabilities, and are included in Prepaid expenses and other assets and Accrued expenses and other liabilities, respectively, on the Bank's Consolidated Balance Sheets. The Bank does not currently have any finance leases in which it is the lessee.

Operating lease ROU assets represent the Bank's right to use an underlying asset during the lease term and operating lease liabilities represent its obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents the Bank's incremental borrowing rate. The borrowing rate for each lease is unique based on the lease term. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term, and is recorded in Occupancy expense in the Consolidated Statements of Income.

The Bank's leases relate primarily to bank branches, office space and equipment with remaining lease terms of generally 1 to 10 years . Certain lease arrangements contain extension options which typically range from 1 to 5 years at the then fair market rental rates. Extension options which are reasonably certain to be exercised are included in the calculation of the ROU asset and lease liability.

Certain real estate leases have lease payments that adjust based on annual changes in the Consumer Price Index ("CPI"). The leases that are dependent upon CPI are initially measured using the index or rate at the commencement date and are included in the measurement of the lease liability.

Operating lease ROU assets totaled $ 5.2 million at December 31, 2023, compared to $ 5.6 million at December 31, 2022.
As of December 31, 2023, operating lease liabilities totaled $ 5.3 million, compared to $ 5.6 million at December 31, 2022.

The table below summarizes the Company's net lease cost:

(In thousands)	For the years ended December 31, 2023	2022
Operating lease cost	**$ 777**	$ 724
Net lease cost	**$ 777**	$ 724

The table below summarizes the cash and non-cash activities associated with the Company's leases:

(In thousands)	For the years ended December 31, 2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 742**	$ 700
ROU assets obtained in exchange for new operating lease liabilities	**$ —**	$ 1,749

As of December 31, 2023, the Company had no lease terminations. In 2022, the Company terminated one lease. This decreased both the ROU asset and lease liability by $ 0.5 million.

The table below summarizes other information related to the Company's operating leases:

	December 31, 2023	December 31, 2022
Weighted average remaining lease term in years	**10.20**	10.77
Weighted average discount rate	**3.04 %**	3.21 %

The table below summarizes the maturity of remaining lease liabilities:

(In thousands)	December 31, 2023
2024	$ 711
2025	703
2026	717
2027	673
2028	436
2029 and thereafter	2,831
Total lease payments	$ 6,071
Less: Interest	(734)
Present value of lease liabilities	$ 5,337

As of December 31, 2023 the Company had not entered into any material leases that have not yet commenced.

Commitments to Borrowers

Commitments to extend credit are legally binding loan commitments with set expiration dates. They are intended to be disbursed, subject to certain conditions, upon the request of the borrower. The Company was committed to advance approximately $ 312.5 million to its borrowers as of December 31, 2023, compared to $ 514.8 million at December 31, 2022. At December 31, 2023, $ 149.3 million of these commitments expire within one year, compared to $ 177.7 million a year earlier. At December 31, 2023, the Company had $ 5.7 million in standby letters of credit, compared to $ 5.6 million at December 31, 2022. The estimated fair value of these guarantees is not significant. The Company believes it has the necessary liquidity to honor all commitments.

Litigation

The Company may, in the ordinary course of business, become a party to litigation involving collection matters, contract claims and other legal proceedings relating to the conduct of its business. In the best judgment of management, based upon consultation with counsel, the consolidated financial position and results of operations of the Company will not be affected materially by the final outcome of any pending legal proceedings or other contingent liabilities and commitments.

9. Accumulated Other Comprehensive (Loss) Income

The following tables shows the changes in other comprehensive (loss) income for the past two years:

	For the year ended December 31, 2023		
(In thousands)	**Net unrealized (losses) gains on securities**	**Net unrealized gains (losses) from cash flow hedges**	**Accumulated other comprehensive (loss) income**
Balance, beginning of period	**$ (4,381)**	**$ 1,121**	**$ (3,260)**
Other comprehensive income (loss) before reclassifications	**870**	**(1,085)**	**(215)**
Less amounts reclassified from accumulated other comprehensive loss	**(103)**	**(635)**	**(738)**
Period change	**973**	**(450)**	**523**
Balance, end of period	**$ (3,408)**	**$ 671**	**$ (2,737)**

	For the year ended December 31, 2022		
(In thousands)	**Net unrealized gains (losses) on securities**	**Net unrealized gains from cash flow hedges**	**Accumulated other comprehensive income (loss)**
Balance, beginning of period	$ 29	$ 293	$ 322
Other comprehensive (loss) income before reclassifications	(5,447)	1,582	(3,865)
Less amounts reclassified from accumulated other comprehensive (loss) income	(1,037)	754	(283)
Period change	(4,410)	828	(3,582)
Balance, end of period	$ (4,381)	$ 1,121	$ (3,260)

10. Shareholders' Equity

Repurchase Plan

On April 27, 2023, the Board authorized a repurchase plan of up to 500 thousand shares, or approximately 5.0 % of the Company's outstanding common stock. This plan is in addition to the previously approved repurchase plan, under which the Company was authorized to purchase up to 750 thousand outstanding shares of common stock. A total of 656 thousand shares were repurchased at an average price of $ 23.69 during 2023, of which 570 thousand shares were repurchased under the prior repurchase plan, leaving 414 thousand shares available for repurchase. A total of 1,572 shares were repurchased at an average price of $ 26.49 during 2022, leaving 570 thousand shares available for repurchase as of December 31, 2022. The timing and amount of additional purchases, if any, will depend upon several factors including the Company's capital needs, the performance of its loan portfolio, the need for additional provisions for credit losses and the market price of the Company's stock.

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1, 2023 through March 31, 2023	337,945	$ 24.29	337,945	232,199
April 1, 2023 through June 30, 2023	225,000	22.82	225,000	507,199
July 1, 2023 through September 30, 2023	28,592	23.97	28,592	478,607
October 1, 2023 through December 31, 2023	64,860	23.43	64,860	413,747

11. Income Taxes

The components of the provision for income taxes for the past two years are as follows:

(In thousands)	For the years ended December 31, 2023	2022
Federal - current provision	**$ 10,625**	$ 10,354
Federal - deferred benefit	**(285)**	(1,103)
Total federal provision	**10,340**	9,251
State - current provision	**2,750**	3,815
State - deferred benefit	**198**	(102)
Total state provision	**2,948**	3,713
Total provision for income taxes	**$ 13,288**	$ 12,964

Reconciliation between the reported income tax provision and the amount computed by multiplying income before taxes by the statutory Federal income tax rate for the past two years is as follows:

(In thousands, except percentages)	For the years ended December 31, 2023	2022
Federal income tax provision at statutory rate of 21%	**$ 11,129**	$ 10,798
(Decreases) increases resulting from:		
Stock option and restricted stock	**(52)**	(297)
Bank owned life insurance	**(179)**	(134)
Tax-exempt income	**(3)**	(4)
Meals and entertainment	**64**	10
Captive insurance premium	**(244)**	(306)
State income taxes, net of federal benefit	**2,329**	2,933
Other	**244**	(36)
Provision for income taxes	**$ 13,288**	$ 12,964
Effective tax rate	**25.1 %**	25.2 %

Deferred income taxes are provided for temporary differences between the financial reporting basis and the tax basis of the Company’s assets and liabilities. The components of the net deferred tax asset at December 31, 2023 and 2022 are as follows:

(In thousands)	December 31, 2023	December 31, 2022
Deferred tax assets:		
Allowance for credit losses	**$ 6,940**	$ 6,871
SERP	**1,669**	1,575
Stock-based compensation	**1,070**	1,133
Deferred compensation	**1,329**	1,183
Depreciation	**674**	648
Deferred loan fees and costs, net	**—**	408
Net unrealized securities losses	**1,759**	1,652
Commitment reserve	**172**	147
Net other deferred tax assets	**698**	154
Gross deferred tax assets	**14,311**	13,771
Deferred tax liabilities:		
Goodwill	**418**	432
Prepaid insurance	**—**	478
Deferred servicing fees	**74**	47
REIT deferral	**929**	376
Bond accretion	**49**	30
Deferred loan fees and costs, net	**35**	—
Interest rate swaps	**253**	63
Gross deferred tax liabilities	**1,758**	1,426
Net deferred tax asset	**$ 12,553**	$ 12,345

The Company computes deferred income taxes under the asset and liability method. Deferred income taxes are recognized for tax consequences of “temporary differences” by applying enacted statutory tax rates to differences between the financial reporting and the tax basis of existing assets and liabilities. A deferred tax liability is recognized for all temporary differences that will result in future taxable income. A deferred tax asset is recognized for all temporary differences that will result in future tax deductions subject to reduction of the asset by a valuation allowance.

Included as a component of deferred tax assets is an income tax expense (benefit) related to unrealized gains (losses) on securities available for sale and interest rate swaps. The after-tax component of each of these is included in other comprehensive income (loss) in shareholders’ equity. The after-tax component related to securities available for sale was an unrealized loss of $ 3.4 million in 2023, compared to unrealized loss of $ 4.4 million in 2022. The after tax component related to the interest rate swaps was an unrealized gain of $ 0.7 million for 2023, compared to an unrealized gain of $ 1.1 million for 2022.

The Company follows *FASB ASC Topic 740, “Income Taxes,”* which prescribes a threshold for the financial statement recognition of income taxes and provides criteria for the measurement of tax positions taken or expected to be taken in a tax return. ASC 740 also includes guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition of income taxes. The Company accrued penalties related to income taxes during the year ended December 31, 2023 relating to prior tax years. The Company did not recognize or accrue any interest or penalties related to income taxes during the years ended December 31, 2022. The Company does not have an accrual for uncertain tax positions as of December 31, 2023 or 2022, as deductions taken or benefits accrued are based on widely understood administrative practices and procedures and are based on clear and unambiguous tax law. Tax returns for all years 2020 and thereafter are subject to future examination by tax authorities.

12. Net Income per Share

The following is a reconciliation of the calculation of basic and diluted net income per share for the past two years:

(In thousands, except per share amounts)	For the years ended December 31, 2023	2022
Net income	**$ 39,707**	$ 38,457
Weighted average common shares outstanding - Basic	**10,207**	10,508
Plus: Potential dilutive common stock equivalents	**131**	197
Weighted average common shares outstanding - Diluted	**10,338**	10,705
Net income per common share - Basic	**$ 3.89**	$ 3.66
Net income per common share - Diluted	**3.84**	3.59
Stock options and common stock excluded from the income per share calculation as their effect would have been anti-dilutive	**—**	1,364

13. Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's Consolidated Financial Statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's and consolidated Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

The minimum capital level requirements include: (i) a Tier 1 leverage ratio of 4% (ii) common equity Tier 1 capital ratio of 4.5%; (iii) a Tier 1 capital ratio of 6%; and (iv) a total capital ratio of 8% for all institutions. The Bank and the consolidated Company are also required to maintain a "capital conservation buffer" of 2.5 % above the regulatory minimum capital ratios which results in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0 %; (ii) a Tier 1 capital ratio of 8.5 %; and (iii) a total capital ratio of 10.5 %. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions.

The following table shows information regarding the Company's and the Bank's regulatory capital levels at December 31, 2023 and at December 31, 2022, as if the Company were subject to consolidated capital requirements. However, due to a Federal Reserve policy applicable to bank holding companies with less than $3 billion in consolidated assets, the Company is not subject to consolidated capital requirements:

	Actual		Required for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
As of December 31, 2023						
Total risk-based capital (to risk-weighted assets)						
Consolidated	**$ 298,293**	**14.43 %**	**$ 165,370**	**8.00 %**	**$ 206,712**	**10.00 %**
Bank	**287,206**	**14.02**	**163,911**	**8.00**	**204,889**	**10.00**
Common equity tier 1 (to risk-weighted assets)						
Consolidated	**262,454**	**12.70**	**93,020**	**4.50**	**134,363**	**6.50**
Bank	**261,584**	**12.76**	**92,200**	**4.50**	**133,178**	**6.50**
Tier 1 capital (to risk-weighted assets)						
Consolidated	**272,454**	**13.18**	**124,027**	**6.00**	**165,370**	**8.00**
Bank	**261,584**	**12.76**	**122,934**	**6.00**	**163,911**	**8.00**
Tier 1 capital (to average total assets)						
Consolidated	**272,454**	**11.14**	**97,800**	**4.00**	**122,250**	**5.00**
Bank	**261,584**	**10.74**	**97,355**	**4.00**	**121,693**	**5.00**

As of December 31, 2022	Company	Bank
CBLR (1)	**10.88** %	**10.34** %

(1) The Bank elected to cease being subject to the CBLR effective December 31, 2023 and to report its capital ratios using standard regulatory measures.

14. Employee Benefit Plans

Stock Option Plans

The Company has maintained option plans and maintains an equity incentive plan, which allow for the grant of options to officers, employees and members of the Board of Directors. Grants of options under the Company's plans generally vest over 3 years and must be exercised within 10 years of the date of grant. Transactions under the Company's stock option plans for 2023 and 2022 are summarized in the following table:

	Shares	Weighted average exercise price	Weighted average remaining contractual life in years	Aggregate intrinsic value
Outstanding at December 31, 2021	688,533	$ 17.56	6.6	$ 5,986,666
Options granted	—	—		
Options exercised	(115,538)	14.70		
Options forfeited	(13,496)	19.75		
Options expired	—	—		
Outstanding at December 31, 2022	559,499	$ 18.09	5.9	$ 5,168,740
Options granted	**—**	**—**		
Options exercised	**(87,701)**	**19.03**		
Options forfeited	**(666)**	**18.64**		
Options expired	**—**	**—**		
Outstanding at December 31, 2023	**471,132**	**$ 17.92**	**4.9**	**$ 5,500,080**
Exercisable at December 31, 2023	**441,469**	**$ 17.83**	**4.8**	**$ 5,192,100**

On May 5, 2023, the Company adopted the 2023 Equity Compensation Plan providing for grants of up to 500,000 shares to be allocated between incentive and non-qualified stock options, restricted stock awards, performance units and deferred stock. The Plan, along with the 2019 Equity Compensation Plan adopted on April 25, 2019, replaced all previously approved and established equity plans then currently in effect. As of December 31, 2023, 281,500 options and 267,900 shares of restricted stock have been awarded from the plans. In addition, 16,162 unvested options and 15,250 unvested shares of restricted stock were cancelled and returned to the plans, leaving 482,012 shares available for future grants.

There were no options granted during 2023 and 2022.

Upon exercise, the Company issues shares from its authorized but unissued common stock to satisfy the options. The following table presents information about options exercised during 2023 and 2022:

	For the years ended December 31, 2023	2022
Number of options exercised	**87,701**	115,538
Total intrinsic value of options exercised	**$ 607,936**	$ 1,614,421
Cash received from options exercised	**1,669,237**	1,698,357
Tax deduction realized from options	**182,898**	485,698

The following table summarizes information about stock options outstanding at December 31, 2023:

	Options outstanding			Options exercisable	
Range of exercise prices	Options outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price	Options exercisable	Weighted average exercise price
$ 7.25 - 16.51	127,423	3.2	$ 12.07	127,423	$ 12.07
16.52 - 19.26	114,498	5.6	18.02	101,168	18.09
19.27 - 20.88	127,411	5.6	20.33	111,078	20.30
20.89 - 22.57	101,800	5.5	22.09	101,800	22.09
Total	471,132	4.9	$ 17.92	441,469	$ 17.83

FASB ASC Topic 718, "Compensation - Stock Compensation," requires an entity to recognize the fair value of equity awards as compensation expense over the period during which an employee is required to provide service in exchange for such an award (vesting period). Compensation expense related to stock options and the related income tax benefit for the years ended December 31, 2023 and 2022 are detailed in the following table:

	For the years ended December 31,	
	2023	2022
Compensation expense	**$ 312**	$ 567
Income tax benefit	**90**	164

As of December 31, 2023, unrecognized compensation costs related to nonvested share-based compensation arrangements granted under the Company's stock option plans totaled approximately $ 3 3 thousand. That cost is expected to be recognized over a weighted average period of 0.2 years.

Restricted Stock Awards

Restricted stock is issued under the Company's active Equity Compensation plans to reward employees and directors and to retain them by distributing stock over a period of time. Restricted stock awards granted to date vest over a period of 4 years and are recognized as compensation to the recipient over the vesting period. The awards are recorded at fair market value at the time of grant and amortized into salary expense on a straight line basis over the vesting period. The following table summarizes nonvested restricted stock activity for the year ended December 31, 2023:

	Shares	Average grant date fair value
Nonvested restricted stock at December 31, 2022	164,570	$ 24.77
Granted	**58,500**	**22.93**
Cancelled	**(2,850)**	**26.70**
Vested	**(55,586)**	**23.66**
Nonvested restricted stock at December 31, 2023	**164,634**	**24.46**

Restricted stock awards granted during the years ended December 31, 2023 and 2022 were as follows:

	For the years ended December 31,	
	2023	2022
Number of shares granted	**58,500**	97,700
Average grant date fair value	**$ 22.93**	$ 27.48

Compensation expense related to the restricted stock for the years ended December 31, 2023 and 2022, is detailed in the following table:

	For the years ended December 31,	
	2023	**2022**
Compensation expense	**$ 1,439**	$ 1,114
Income tax benefit	**416**	320

As of December 31, 2023, there was approximately $ 3.1 million of unrecognized compensation cost related to nonvested restricted stock awards granted under the Company's stock incentive plans. That cost is expected to be recognized over a weighted average period of 2.5 years.

401(k) Savings Plan

The Bank has a 401(k) savings plan covering substantially all employees. Under the 401(k) plan, an employee can contribute up to 75 percent of their salary on a tax deferred basis. The Bank may also make discretionary contributions to the 401(k) plan. The Bank contributed $ 846 thousand and $ 790 thousand to the Plan in 2023 and 2022 respectively.

Deferred Compensation Plan

The Company has a deferred compensation plan for Directors and eligible management. Directors of the Company have the option to elect to defer up to 100 percent of their respective retainer and Board of Director fees, and each eligible member of management has the option to elect to defer up to 100 percent of their total compensation. Director and executive deferred compensation totaled $ 1.0 million in 2023 and $ 674 thousand in 2022, and the interest paid on deferred balances totaled $ 422 thousand in 2023 and $ 162 thousand in 2022. The deferred balances distributed totaled $ 724 thousand in 2023 and $ 14 thousand in 2022. The total deferred balances included in the Company's Consolidated Balance Sheet was $ 4.8 million and $ 4.1 million as of December 31, 2023 and 2022, respectively.

Benefit Plans

In addition to the 401(k) savings plan which covers substantially all employees, in 2015 the Company established an unfunded supplemental defined benefit plan to provide additional retirement benefits for the President and Chief Executive Officer ("CEO") and unfunded, non-qualified deferred retirement plans for certain other key executives.

On June 4, 2015, the Company approved the Supplemental Executive Retirement Plan ("SERP") pursuant to which the President and CEO is entitled to receive certain supplemental nonqualified retirement benefits. The retirement benefit under the SERP is an amount equal to sixty percent (60 %) of the average of the President and CEO's base salary for the thirty-six (36) months immediately preceding the executive's separation from service after age 66, adjusted annually thereafter by a percentage equal to the Consumer Price Index as reported by the U.S. Bureau of Labor Statistics for All Urban Consumers (CPI-U). The total benefit is to be made payable in fifteen annual installments. The future payments are estimated to total $ 7.3 million. A discount rate of four percent (4 %) was used to calculate the present value of the benefit obligation.

The President and CEO commenced vesting in this retirement benefit on January 1, 2014, and it will vest an additional three percent (3 %) each year until fully vested on January 1, 2024.

N o contributions or payments have been made for the year 2023 or 2022. The following table summarizes the components of the net periodic pension cost of the defined benefit plan recognized during the years ended December 31, 2023 and 2022:

	For the years ended December 31,	
(In thousands)	**2023**	**2022**
Service cost	**$ 224**	$ 150
Interest cost	**203**	186
Amortization of prior service cost	**—**	—
Net periodic benefit cost	**$ 427**	$ 336

The following table summarizes the changes in benefit obligations of the defined benefit plan recognized during the years ended December 31, 2023 and 2022:

	For the years ended December 31,	
(In thousands)	**2023**	**2022**
Benefit obligation, beginning of year	**$ 4,857**	$ 4,521
Service cost	**224**	150
Interest cost	**203**	186
Benefit obligation, end of period	**$ 5,284**	$ 4,857

On October 22, 2015, the Company entered into an Executive Incentive Retirement Plan (the “EIRP”) with key executive officers other than the President and CEO. The EIRP has an effective date of January 1, 2015.

The EIRP is an unfunded, nonqualified deferred compensation plan. For any EIRP Year, a guaranteed annual Deferral Award percentage of seven and one half percent (7.5 %) of the participant’s annual base salary shall be credited to each Participant’s Deferred Benefit Account. A discretionary annual Deferral Award equal to seven and one half percent (7.5 %) of the participant’s annual base salary may be credited to the Participant’s account in addition to the guaranteed Deferral Award, if the Bank exceeds the benchmarks set forth in the Annual Executive Bonus Matrix. The total Deferral Award shall never exceed fifteen percent (1 5 %) of the participant’s base salary for any given Plan Year. Each Participant shall be one hundred percent (100 %) vested in all Deferral Awards as of the date they are awarded.

As of December 31, 2023, the Company had total expenses related to the EIRP of $ 132 thousand, compared to $ 142 thousand in 2022. The EIRP is reflected on the Company’s Consolidated Balance Sheet as Accrued expenses.

Certain members of senior management are also enrolled in a split-dollar life insurance plan with a post retirement death benefit of $ 250 thousand. Total expenses related to this plan were $ 5 thousand in 2023 and $ 22 thousand in 2022. Additionally, $ 55 thousand of prior period expense was reversed during 2022. This was related to adjustments made to the members of management participating in the plan.

15. Fair Value

Fair Value Measurement

The Company follows *FASB ASC Topic 820, “Fair Value Measurement and Disclosures,”* which requires additional disclosures about the Company’s assets and liabilities that are measured at fair value. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Company utilizes techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed as follows:

Level 1 Inputs

- Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Generally, this includes debt and equity securities and derivative contracts that are traded in an active exchange market (i.e. New York Stock Exchange), as well as certain U.S. Treasury, U.S. Government and sponsored entity agency mortgage-backed securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Inputs

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable, either directly or indirectly, for the term of the asset or liability (i.e., interest rates, yield curves, credit risks, prepayment speeds or volatilities) or “market corroborated inputs.”
- Generally, this includes U.S. Government and sponsored entity mortgage-backed securities, corporate debt securities and derivative contracts.

Level 3 Inputs

- Prices or valuation techniques that require inputs that are both unobservable (i.e. supported by little or no market activity) and that are significant to the fair value of the assets or liabilities.
- These assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Fair Value on a Recurring Basis

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis:

Debt Securities Available for Sale

The fair value of available for sale ("AFS") debt securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers (Level 1). If listed prices or quotes are not available, fair value is based upon quoted market prices for similar or identical assets or other observable inputs (Level 2) or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3).

As of December 31, 2023, the fair value of the Company’s AFS debt securities portfolio was $ 91.8 million. The portfolio contains residential mortgage-backed securities, most of which, are guaranteed by the Government National Mortgage Association (“GNMA”), the Federal National Mortgage Association (“FNMA”) or the Federal Home Loan Mortgage Corporation (“FHLMC”). The underlying loans for these securities are residential mortgages that are geographically dispersed throughout the United States.

Most of the Company’s AFS debt securities were classified as Level 2 assets at December 31, 2023. The valuation of AFS debt securities using Level 2 inputs was primarily determined using the market approach, which uses quoted prices for similar assets or liabilities in active markets and all other relevant information. It includes model pricing, defined as valuing securities based upon their relationship with other benchmark securities.

Included in the Company's AFS debt securities are certain corporate bonds which are classified as Level 3 assets at December 31, 2023. The valuation of these corporate bonds is determined using broker quotes, third-party vendor prices, or other valuation techniques, such as discounted cash flow techniques. Market inputs used in the other valuation techniques or underlying third-party vendor prices or broker quotes include benchmark and government bond yield curves, credit spreads, and trade execution data.

The following table presents a reconciliation of the Level 3 available for sale debt securities measured at fair value on a recurring basis for the years ended December 31, 2023 and 2022:

	Collateralized Debt Obligations	
(In thousands)	**2023**	**2022**
Balance of Recurring Level 3 assets at January 1	**$ 4,675**	$ 5,074
Activity		
Losses in other comprehensive income	**(413)**	(399)
Transfers into Level 3	**3,717**	—
Balance of recurring Level 3 assets at December 31	**$ 7,979**	$ 4,675

Equity Securities with Readily Determinable Fair Values

The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers (Level 1). If listed prices or quotes are not available, fair value is based upon quoted market prices for similar or identical assets or other observable inputs (Level 2) or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3).

As of December 31, 2023, the fair value of the Company's equity securities portfolio was $ 7.8 million.

All of the Company's equity securities were classified as Level 1 assets at December 31, 2023. The valuation of securities using Level 1 inputs was primarily determined by active markets with readily determinable fair value using quoted market prices.

There were no changes in the inputs or methodologies used to determine fair value during the period ended December 31, 2023, as compared to the period ended December 31, 2022.

Interest Rate Swap Agreements

The fair value of interest rate swap agreements is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers (Level 1). If listed prices or quotes are not available, fair value is based upon quoted market prices for similar or identical assets or other observable inputs (Level 2) or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3).

The Company's derivative instruments are classified as Level 2 assets, as the readily observable market inputs to these models are validated to external sources, such as industry pricing services, or are corroborated through recent trades, dealer quotes, yield curves, implied volatility or other market-related data.

The tables below present the balances of assets measured at fair value on a recurring basis as of December 31 st for the past two years:

	Fair Value Measurements at December 31, 2023 Using			
(In thousands)	Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Assets:				
Debt securities available for sale:				
U.S. Government sponsored entities	**$ 16,033**	**$ —**	**$ 16,033**	**$ —**
State and political subdivisions	**360**	**—**	**360**	**—**
Residential mortgage-backed securities	**14,077**	**—**	**14,077**	**—**
Corporate and other securities	**61,295**	**—**	**53,316**	**7,979**
Total debt securities available for sale	**$ 91,765**	**$ —**	**$ 83,786**	**$ 7,979**
Equity securities with readily determinable fair values	**$ 7,802**	**$ 7,802**	**$ —**	**$ —**
Total equity securities	**$ 7,802**	**$ 7,802**	**$ —**	**$ —**
Interest rate swap agreements	**$ 918**	**$ —**	**$ 918**	**$ —**
Total swap agreements	**$ 918**	**$ —**	**$ 918**	**$ —**

	Fair value Measurements at December 31, 2022 Using			
(In thousands)	Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Assets:				
Debt securities available for sale:				
U.S. Government sponsored entities	$ 16,305	$ —	$ 16,305	$ —
State and political subdivisions	613	—	613	—
Residential mortgage-backed securities	15,475	—	15,475	—
Corporate and other securities	63,000	—	58,325	4,675
Total debt securities available for sale	$ 95,393	$ —	$ 90,718	$ 4,675
Equity securities with readily determinable fair values	$ 9,793	$ —	$ 9,793	$ —
Total equity securities	$ 9,793	$ —	$ 9,793	$ —
Interest rate swap agreements	$ 1,537	$ —	$ 1,537	$ —
Total swap agreements	$ 1,537	$ —	$ 1,537	$ —

Fair Value on a Nonrecurring Basis

The following tables present the assets and liabilities subject to fair value adjustments on a non-recurring basis carried on the balance sheet by caption and by level within the hierarchy (as described above):

(In thousands)	Fair Value Measurements at December 31, 2023 Using Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a non-recurring basis:				
Financial assets:				
Collateral-dependent loans	**$ 4,755**	**$ —**	**$ —**	**$ 4,755**

(In thousands)	Fair Value Measurements at December 31, 2022 Using Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a non-recurring basis:				
Financial assets:				
Collateral-dependent loans	$ 8,803	$ —	$ —	$ 8,803

Certain assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following is a description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis:

Collateral-Dependent Loans

Fair value is determined based on the fair value of the collateral. Partially charged-off loans are measured for impairment based upon a third-party appraisal for collateral-dependent loans. When an updated appraisal is received for a nonperforming loan, the value on the appraisal may be discounted. If there is a deficiency in the value after the Company applies these discounts, management applies a specific reserve and the loan remains in nonaccrual status. The receipt of an updated appraisal would not qualify as a reason to put a loan back into accruing status. The Company removes loans from nonaccrual status generally when the ability to collect is reasonably assured or when the loan is brought current as to principal and interest. Charge-offs are determined based upon the loss that management believes the Company will incur after evaluating collateral for impairment based upon the valuation methods described above and the ability of the borrower to pay any deficiency.

The valuation allowance for individually evaluated loans is included in the allowance for credit losses in the Consolidated Balance Sheets. At December 31, 2023, the valuation allowance for individually evaluated loans was $ 1.0 million, a decrease of $ 0.8 million from $ 1.8 million at December 31, 2022.

Fair Value of Financial Instruments

FASB ASC Topic 825, “Financial Instruments,” requires the disclosure of the estimated fair value of certain financial instruments, including those financial instruments for which the Company did not elect the fair value option. These estimated fair values as of December 31, 2023 and December 31, 2022 have been determined using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop estimates of fair value. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange. The use of alternative market assumptions and estimation methodologies could have had a material effect on these estimates of fair value. The methodology for estimating the fair value of financial assets and liabilities that are measured on a recurring or nonrecurring basis are discussed above.

The following methods and assumptions were used to estimate the fair value of other financial instruments for which it is practicable to estimate that value:

Securities

The fair value of securities is based upon quoted market prices for similar or identical assets or other observable inputs (Level 2) or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3).

SBA Loans Held for Sale

The fair value of SBA loans held for sale is estimated by using a market approach that includes significant other observable inputs.

Loans

The fair value of loans is estimated by discounting the future cash flows using current market rates that reflect the interest rate risk inherent in the loan, except for previously discussed individually evaluated loans.

Deposit Liabilities

The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date (i.e. carrying value). The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using current market rates.

Borrowed Funds and Subordinated Debentures

The fair value of borrowings is estimated by discounting the projected future cash flows using current market rates.

The table below presents the carrying amount and estimated fair values of the Company's financial instruments (not presented previously) presented as of December 31st for the past two years:

	December 31, 2023			
(In thousands)	Carrying amount	Level 1	Level 2	Level 3
Financial assets:				
Debt securities held to maturity	**$ 36,122**	**$ —**	**$ 29,656**	**$ —**
SBA loans held for sale	**18,242**	**—**	**19,175**	**—**
Loans, net of allowance for credit losses	**2,127,967**	**—**	**2,027,084**	**4,755**
Financial liabilities:				
Deposits	**1,924,140**	**—**	**1,915,022**	**—**
Borrowed funds and subordinated debentures	**366,748**	**—**	**365,879**	**—**

	December 31, 2022			
(In thousands)	Carrying amount	Level 1	Level 2	Level 3
Financial assets:				
Debt securities held to maturity	$ 35,760	$ —	$ 28,578	$ —
SBA loans held for sale	27,928	—	30,141	—
Loans, net of allowance for credit losses	2,053,435	—	1,981,207	8,803
Financial liabilities:				
Deposits	1,787,528	—	1,772,270	—
Borrowed funds and subordinated debentures	393,310	—	391,312	—

Limitations

Fair value estimates are made at a point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-statement of condition financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the effect of fair value estimates have not been considered in the above estimates.

16. Condensed Financial Statements of Unity Bancorp, Inc.

(Parent Company Only)

Balance Sheets

(In thousands)	December 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	**$ 1,410**	$ 2,225
Debit securities, available for sale	**1,478**	—
Equity securities	**3,559**	5,697
Investment in subsidiaries	**260,879**	239,255
Premises and equipment, net	**3,480**	3,594
Other assets	**1,303**	972
Total assets	**$ 272,109**	$ 251,743
LIABILITIES AND SHAREHOLDERS' EQUITY		
Loan due to subsidiary bank	**$ —**	$ 2,002
Other liabilities	**369**	204
Subordinated debentures	**10,310**	10,310
Shareholders' equity	**261,430**	239,227
Total liabilities and shareholders' equity	**$ 272,109**	$ 251,743

Statements of Income

(In thousands)	For the year ended December 31, 2023	2022
Dividend from Bank	**$ 15,188**	$ 4,510
Dividend from Nonbank subsidiary	**1,235**	1,100
Gain on sales of securities	**345**	—
Other income	**760**	734
Total income	**17,528**	6,344
Interest expenses	**695**	349
Market value depreciation on equity securities	**444**	885
Other expenses	**265**	252
Total expenses	**1,404**	1,486
Income before provision for income taxes and equity in undistributed net income of subsidiary	**16,124**	4,858
Benefit for income taxes	**(114)**	(231)
Income before equity in undistributed net income of subsidiary	**16,238**	5,089
Equity in undistributed net income of subsidiaries	**23,469**	33,368
Net income	**$ 39,707**	$ 38,457

Statements of Cash Flows

(In thousands)	For the year ended December 31, 2023	2022
OPERATING ACTIVITIES		
Net income	**$ 39,707**	$ 38,457
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	**(23,469)**	(33,368)
Gain on sales of securities	**(345)**	—
Net change in other assets and other liabilities	**349**	153
Net cash provided by operating activities	**16,242**	5,242
INVESTING ACTIVITIES		
Purchases of securities	**(126)**	(1,539)
Proceeds from business divestitures	**2,034**	—
Proceeds from sales of securities	**2,166**	—
Net cash provided by (used in) investing activities	**4,074**	(1,539)
FINANCING ACTIVITIES		
Proceeds from exercise of stock based compensation, net of taxes	**1,284**	1,357
Repayment of advances from subsidiaries	**(2,002)**	(105)
Purchase of treasury stock	**(15,692)**	(42)
Cash dividends paid on common stock	**(4,721)**	(4,373)
Net cash used in financing activities	**(21,131)**	(3,163)
(Decrease) increase in cash and cash equivalents	**(815)**	540
Cash and cash equivalents, beginning of period	**2,225**	1,685
Cash and cash equivalents, end of period	**$ 1,410**	$ 2,225
SUPPLEMENTAL DISCLOSURES		
Interest paid	**$ 786**	$ 436

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Unity Bancorp, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Unity Bancorp, Inc. and its subsidiaries (the Company) as of December 31, 2023, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year ended December 31, 2023, and the related notes to the consolidated financial statements (collectively, the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the year ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 and our report dated March 7, 2024 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January, 1, 2023 upon the adoption of Accounting Standards Codification Topic 326, *Financial Instruments – Credit Losses* (ASC 326).

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses – Collectively Evaluated Loans

As described in Notes 1, 3 and 4 to the financial statements, the Company has recorded an allowance for credit losses (ACL) in the amount of $25.9 million as of December 31, 2023, representing management's estimate of credit losses over the remaining expected life of the Company's loan portfolio as of that date. Upon adoption of ASC 326 on January 1, 2023, the Company recorded a cumulative effect adjustment to opening retained earnings which increased the ACL, including the reserve for off-balance sheet credit exposure (recorded in other liabilities) by $0.9 million, net of $0.3 million of related deferred income tax effects. Management determined these amounts, and corresponding provision for credit loss expense, pursuant to the application of Accounting Standards Codification Topic 326, *Financial Instruments – Credit Losses*.

The Company's methodology to determine its allowance for credit losses incorporates quantitative and qualitative assessments of its historical losses, current loan portfolio and economic conditions, the application of forecasted economic conditions, and related modeling. We determined that performing procedures relating to the qualitative and forecasted components of the Company's methodology is a critical audit matter.

The principal considerations for our determination are (i) the application of significant judgment and estimation on the part of management, which in turn led to a high degree of auditor judgment and subjectivity in performing procedures and evaluating audit evidence obtained, and (ii) significant audit effort was necessary in evaluating management's methodology, significant assumptions and calculations.

How the Critical Audit Matter was addressed in the Audit

Following are some of the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the collectively evaluated ACL, including controls over the following:

- Model validation of the model for appropriateness of model usage along with recalculation of model results.
- Completeness and accuracy of loan data.
- Mathematical accuracy of the calculation.
- Development of qualitative adjustments to model results.
- Evaluation of the reasonableness and relevance of management's assumptions including general qualitative factors and economic forecasts.

Addressing the matters above involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures also included, among others, reviewing the Company's model oversight ensuring appropriate recalculation of the model used along with management's review of model validation results, testing various assumptions used in the calculation, testing management's process for determining the qualitative reserve component, evaluating the appropriateness of management's methodology relating to the qualitative reserve component and testing the completeness and accuracy of data utilized by management.

/s/ Wolf & Company, P.C.

Boston, Massachusetts
March 7, 2024

We have served as the Company's auditor since 2023.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Unity Bancorp, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Unity Bancorp, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company and our report dated March 7, 2024 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Wolf & Company, P.C.

Boston, Massachusetts
March 7, 2024

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors
Unity Bancorp, Inc. and Subsidiaries

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheet of Unity Bancorp, Inc. and Subsidiaries (the Company) as of December 31, 2022, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows, for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter
The critical audit matter communicated below is a matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosures to which it relates.

Allowance for Loan Losses – Qualitative Factors

The allowance for loan losses as of December 31, 2022, was $25.2 million. As described in Notes 1 and 4 to the consolidated financial statements, the allowance for loan losses is established through a provision for loan losses and represents an amount which, in management's judgment, will be adequate to absorb losses on existing loans. The allowance consists of specific and general components in the amounts of $1.8 million and $23.4 million, respectively. Specific reserves are made for individual impaired loans, which have been defined to include all nonperforming loans and troubled debt restructurings. The general reserve is set based upon a historical net charge-off rate adjusted for the following environmental factors: delinquency and impairment trends, charge-off and recovery trends, changes in the volume of restructured loans, volume and loan term trends, changes in risk and underwriting policy trends, staffing and experience changes, national and local economic trends, industry conditions and credit concentration changes. The evaluation of the qualitative factors requires a significant amount of judgment by management and involves a high degree of subjectivity.

We identified the qualitative factor component of the allowance for loan losses as a critical audit matter as auditing the underlying qualitative factors required significant auditor judgment as amounts determined by management rely on analysis that is highly subjective and includes significant estimation uncertainty.

Our audit procedures related to the qualitative factors included the following, among others:

- We obtained an understanding of the relevant controls related to management's assessment and review of the qualitative factors, and tested such controls for design and operating effectiveness, including controls over management's establishment, review and approval of the qualitative factors and the data used in determining the qualitative factors.
- We obtained an understanding of how management developed the estimates and related assumptions, including:
    - Testing completeness and accuracy of key data inputs used in forming assumptions or calculations and testing the reliability of the underlying data on which these factors are based by comparing information to source documents and external information sources.
    - Evaluating the reasonableness of the qualitative factor established by management, including the directional consistency and magnitude, as compared to the underlying internal or external information sources.

/s/ RSM US LLP

We have served as the Company's auditor from 2007 to 2023.

New York, New York
March 10, 2023

Supplementary Data (Unaudited)

Quarterly Financial Information

The following quarterly financial information for the years ended December 31, 2023 and 2022 is unaudited. However, in the opinion of management, all adjustments, which include normal recurring adjustments necessary to present fairly the results of operations for the periods, are reflected.

	2023			
(In thousands, except per share data)	**December 31**	**September 30**	**June 30**	**March 31**
Total interest income	**$ 37,758**	**$ 36,990**	**$ 35,392**	**$ 33,354**
Total interest expense	**13,727**	**13,457**	**11,870**	**9,443**
Net interest income	**24,031**	**23,533**	**23,522**	**23,911**
Provision for credit losses	**1,811**	**556**	**693**	**108**
Net interest income after provision for credit losses	**22,220**	**22,977**	**22,829**	**23,803**
Total noninterest income	**2,568**	**2,043**	**2,115**	**1,416**
Total noninterest expense	**11,740**	**11,973**	**11,835**	**11,428**
Income before provision for income taxes	**13,048**	**13,047**	**13,109**	**13,791**
Provision for income taxes	**3,278**	**3,097**	**3,409**	**3,504**
Net income	**$ 9,770**	**$ 9,950**	**$ 9,700**	**$ 10,287**
Net income per common share - Basic	**$ 0.97**	**$ 0.98**	**$ 0.96**	**$ 0.98**
Net income per common share - Diluted	**0.96**	**0.97**	**0.95**	**0.96**

	2022			
(In thousands, except per share data)	**December 31**	**September 30**	**June 30**	**March 31**
Total interest income	$ 30,325	$ 26,224	$ 23,071	$ 21,119
Total interest expense	5,616	2,486	1,314	1,215
Net interest income	24,709	23,738	21,757	19,904
Provision for loan losses	1,652	1,526	1,235	(139)
Net interest income after provision for loan losses	23,057	22,212	20,522	20,043
Total noninterest income	1,946	1,110	2,750	2,239
Total noninterest expense	11,369	10,055	10,663	10,371
Income before provision for income taxes	13,634	13,267	12,609	11,911
Provision for income taxes	3,678	3,325	3,158	2,803
Net income	$ 9,956	$ 9,942	$ 9,451	$ 9,108
Net income per common share - Basic	$ 0.94	$ 0.94	$ 0.90	$ 0.87
Net income per common share - Diluted	0.93	0.93	0.88	0.85

Supplementary Data (Unaudited)

(In thousands, except percentages)	At or for the years ended December 31, 2023	2022
Selected Results of Operations		
Interest income	**$ 143,494**	$ 100,739
Interest expense	**48,497**	10,631
Net interest income	**94,997**	90,108
Provision for credit losses	**3,168**	4,274
Noninterest income	**8,142**	8,045
Noninterest expense	**46,976**	42,458
Provision for income taxes	**13,288**	12,964
Net income	**39,707**	38,457
Per Share Data		
Net income per common share - Basic	**$ 3.89**	$ 3.66
Net income per common share - Diluted	**3.84**	3.59
Book value per common share	**25.98**	22.60
Market value per common share	**29.59**	27.33
Cash dividends declared on common shares	**0.48**	0.43
Selected Balance Sheet Data		
Assets	**$ 2,578,507**	$ 2,444,948
Loans	**2,172,063**	2,106,559
Allowance for credit losses	**(25,854)**	(25,196)
Securities	**135,689**	140,946
Deposits	**1,924,140**	1,787,528
Borrowed funds and subordinated debentures	**366,748**	393,310
Shareholders' equity	**261,430**	239,227
Common shares outstanding	**10,063**	10,584
Performance Ratios		
Return on average assets	**1.63 %**	1.80 %
Return on average equity	**16.05**	17.28
Average equity to average assets	**10.14**	10.41
Efficiency ratio (1)	**45.55**	42.69
Dividend payout (2)	**12.50**	11.98
Net interest spread	**3.32**	4.15
Net interest margin	**4.06**	4.40
Asset Quality Ratios		
Allowance for credit losses to loans	**1.19 %**	1.20 %
Allowance for credit losses to nonperforming loans	**134.75**	277.95
Nonperforming loans to total loans	**0.88**	0.43
Nonperforming assets to total loans and OREO	**0.88**	0.43
Nonperforming assets to total assets	**0.74**	0.37
Net charge-offs to average loans	**0.09**	0.05
Capital Ratios - Company		
CBLR	**N/A %**	10.88 %
Leverage Ratio	**11.14**	N/A
Common Equity Tier 1 risk-based capital ratio	**12.70**	N/A
Tier 1 risk-based capital ratio	**13.18**	N/A
Total risk-based capital ratio	**14.43**	N/A
Capital Ratios - Bank		
CBLR	**N/A %**	10.34 %
Leverage Ratio	**10.75**	N/A
Common Equity Tier 1 risk-based capital ratio	**12.77**	N/A
Tier 1 risk-based capital ratio	**12.77**	N/A
Total risk-based capital ratio	**14.02**	N/A

(1) Selected Consolidated Financial Data The efficiency ratio is a non-GAAP measure of operational performance. It is defined as noninterest expense divided by the sum of net interest income plus noninterest income, excluding net gains and losses on securities.
(2) Defined as dividends declared per share divided by diluted net income per share.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure:

None.

Item 9A. Controls and Procedures:

(a) Evaluation of disclosure controls and procedures:

Based on their evaluation, as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the “Exchange Act”)) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

(b) Management’s Report on Internal Control Over Financial Reporting:

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of the principal executive officer and the principal financial officer, management conducted an evaluation of the effectiveness of our control over financial reporting based on the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on our evaluation under the framework, management has concluded that our internal controls over financial reporting were effective as of December 31, 2023.

(c) Changes in internal controls:

There were not any significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Item 9B. Other Information:

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance; Compliance with Section 16(a) of the Exchange Act:

The information concerning the directors and executive officers of the Company under the caption “Election of Directors,” and the information under the captions, “Compliance with Section 16(a) of the Securities Exchange Act of 1934,” and "Governance of the Company," in the Proxy Statement for the Company’s 2024 Annual Meeting of Shareholders, is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the Securities and Exchange Commission no later than April 29, 2024.

The following table sets forth certain information as of December 31, 2023, regarding each executive officer of the Company who is not also a director.

Name, Age and Position	Officer Since	Principal Occupation During Past Five Years
George Boyan, 42, Chief Financial Officer and Executive Vice President of the Company and Bank	2021	Previously, Mr. Boyan had served as First Senior Vice President, Treasurer & Controller with Bank Leumi USA since January 2014. He also served as President of Leumi Investment Services, since October 2018.
Vincent Geraci, 56, Director of Mortgage Lending and First Senior Vice President of the Company and Bank.	2010	Mr. Geraci joined the bank in 2010 as the Director of Mortgage Lending.
James Donovan, 60, Chief Lending Officer and Senior Vice President of the Company and Bank	2022	Previously, Mr. Donovan had served as Group Vice President, Pennsylvania Market Manager Business Banking for M&T Bank since 2005. He
James Davies, 32, Controller and Senior Vice President of the Company and Bank	2022	Previously, Mr. Davies worked at Bank Leumi USA and its successor Valley Bank in various capacities since April 2016, including Co-Controller. He also served as the Chief Financial Officer of Leumi Investment Services since December 2020.
Daniel Sharabba, 35, Senior Retail Officer and Senior Vice President of the Company and Bank	2023	Previously, Mr. Sharabba served as Vice President, Regional Manager with Citizens Bank since March 2021. He also served as Vice
Minsu Kim, 31, Chief Credit Officer and Senior Vice President of the Company and the Bank	2023	Previously, Mr. Kim served as Vice President, Commercial Loan Officer at Unity Bank from 2018 to 2022.
David Bove, 38, Chief Technology Officer and Senior Vice President of the Company and Bank	2015	Mr. Bove joined the bank in 2015 as Chief Technology Officer.

Item 11. Executive Compensation:

The information concerning executive compensation under the caption, “Executive Compensation,” in the Proxy Statement for the Company’s 2024 Annual Meeting of Shareholders, is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the Securities and Exchange Commission no later than April 29, 2024.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters:

The information concerning the security ownership of certain beneficial owners and management under the caption, “Security Ownership of Certain Beneficial Owners and Management,” in the Proxy Statement for the Company’s 2024 Annual Meeting of Shareholders is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the Securities and Exchange Commission no later than April 29, 2024.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information with respect to the equity securities that are authorized for issuance under the Company's equity compensation plans as of December 31, 2023.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted-average exercise price of outstanding options, warrants and rights (B)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (A)) (C) (1)
Equity compensation plans approved by security holders (stock options)	471,132	$ 17.92	482,012
Equity compensation plans approved by security holders (Restricted stock plan)	164,634	—	—
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	635,766	$ 17.92	482,012

(1) Represents securities available for issuance under the Company's active Equity Compensation Plans to be allocated between incentive and non-qualified stock options, restricted stock awards, performance units and deferred stock.

Item 13. Certain Relationships and Related Transactions and Director Independence:

The information concerning certain relationships and related transactions under the caption, "Interest of Management and Others in Certain Transactions; Review, Approval or Ratification of Transactions with Related Persons," in the Proxy Statement for the Company's 2024 Annual Meeting of Shareholders is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the Securities and Exchange Commission no later than April 29, 2024.

Item 14. Principal Accountant Fees and Services:

The information concerning principal accountant fees and services, as well as related pre-approval policies, under the caption, "Independent Registered Public Accounting Firm," in the Proxy Statement for the Company's 2024 Annual Meeting of Shareholders is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the Securities and Exchange Commission no later than April 29, 2024.

PART IV

Item 15. Exhibits and Financial Statement Schedules:

a) DOCUMENTS:

1. The following Consolidated Financial Statements and Supplementary Data of the Company and subsidiaries are filed as part of this annual report:

    - Consolidated Balance Sheets as of December 31, 2023 and 2022
    - Consolidated Statements of Income for the years ended December 31, 2023 and 2022
    - Consolidated Statements of Comprehensive Income for the years ended December 31, 2023 and 2022
    - Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2023 and 2022
    - Consolidated Statements of Cash Flows for the years ended December 31, 2023 and 2022
    - Notes to Consolidated Financial Statements
    - Report of Independent Registered Public Accounting Firm

2. All Financial Statement Schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or related notes.

b) EXHIBITS:

Exhibit Number	Description of Exhibits
3(i)	Certificate of Incorporation of the Company, as amended (1)
3(ii)	Bylaws of the Company (2)
4(i)	Form of Stock Certificate (2)
4(vi)	Description of the Registrant's Securities
10(i)	Amended and Restated Employment Agreement dated June 4, 2015 with James A. Hughes (7), as amended by Amendment Agreement dates February, 6 2020 (12)
10(vi)	2015 Stock Option Plan (6)
10(vii)	Amended and Restated Supplemental Executive Retirement Plan dated October 25, 2018 with James A. Hughes (10)
10(viii)	Executive Incentive Retirement Plan dated October 22, 2015 (8)
10(ix)	2017 Stock Option Plan (9)
10(x)	2019 Equity Compensation Plan (11)
10(xi)	Form of Indemnification Agreement entered into on January 23, 2020 by and among the Registrant, Unity Bank and each of their respective Directors (13)
10(xii)	Joinder Agreement with Executive Vice President and Chief Financial Officer George Boyan dated February 24, 2022 (14), as amended by Amendment Agreement dated November 10, 2022 (15)
10(xiii)	Change in Control Agreement for SVP, Chief Lending Officer James Donovan (16)
10(xiv)	Change in Control Agreement for SVP, Controller James Davies
10(xv)	Separation Agreement and General Release Agreement with Janice Bolomey (17)
10(xvi)	2023 Equity Compensation Plan
10(xvii)	Deferred Compensation Plan
10(xviii)	Change in Control Agreement for FSVP, Director of Mortgage Lending Vincent Geraci
10(xix)	Change in Control Agreement for SVP, Chief Credit Officer Minsu Kim
10(xx)	Change in Control Agreement for SVP, Chief Technology Officer David Bove
10(xxi)	Compensation Recoupment Policy
21	Subsidiaries of the Registrant
23.1	Consent of RSM US LLP
23.2	Consent of Wolf & Company, PC
31.1	Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of President, Chief Executive Officer, and Chief Financial Officer pursuant to Section 906
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definitions Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained as Exhibit 101)

(1) Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on July 22, 2002 and incorporated by reference herein.
(2) Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed February 24, 2017.
(3) Previously filed with the Securities and Exchange Commission as an Exhibit to Form S-8 filed on May 26, 2011 and incorporated by reference herein.
(4) Previously filed with the Securities and Exchange Commission as an Exhibit to Form S-8 filed on July 12, 2013 and incorporated by reference herein.
(5) Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed October 10, 2017.

(6) Previously filed with the Securities and Exchange Commission as an Exhibit to Form S-8 filed on May 22, 2015 and incorporated by reference herein.
(7) Previously filed with the Securities and Exchange Commission as an Exhibit to Form 8-K filed on June 5, 2015 and incorporated by reference herein.
(8) Previously filed with the Securities and Exchange Commission as an Exhibit to Form 8-K filed on October 27, 2015 and incorporated by reference herein.
(9) Previously filed with the Securities and Exchange Commission as an Exhibit to Form S-8 filed on May 22, 2017 and incorporated by reference herein.
(10) Previously filed with the Securities and Exchange Commission as an Exhibit to Form 8-K filed on October 30, 2018 and incorporated by reference herein.
(11) Previously filed with the Securities and Exchange Commission as an Exhibit to Form S-8 filed on June 4, 2019 and incorporated by reference herein.
(12) Previously filed with the Securities and Exchange Commission as an Exhibit to Form 8-K filed on February 6, 2020 and incorporated by reference herein.
(13) Previously filed with the Securities and Exchange Commission as an Exhibit to Form 8-K filed on January 28, 2020 and incorporated by reference herein.
(14) Incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 24, 2022.
(15) Previously filed with the Securities and Exchange Commission as an Exhibit to Form 8-K filed on November 10, 2022 and incorporated herein.
(16) Previously filed with the Securities and Exchange Commission as an Exhibit to Form 10-Q filed on November 8, 2023 and incorporated herein.
(17) Incorporated by reference from exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 25, 2023.

c) Not applicable

Item 16. Form 10-K Summary:

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITY BANCORP, INC.

By: /s/ George Boyan
George Boyan
Executive Vice President and Chief Financial Officer

Date: March 7, 2024

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ David D. Dallas David D. Dallas	Chairman of the Board and Director	March 7, 2024
/s/ James A. Hughes James A. Hughes	President, Chief Executive Officer and Director	March 7, 2024
/s/ George Boyan George Boyan	Executive Vice President and Chief Financial Officer	March 7, 2024
/s/ Aaron Tucker Aaron Tucker	Vice Chairman of the Board and Director	March 7, 2024
/s/ Dr. Mark S. Brody Dr. Mark S. Brody	Director	March 7, 2024
/s/ Wayne Courtright Wayne Courtright	Director	March 7, 2024
/s/ Robert H. Dallas, II Robert H. Dallas, II	Director	March 7, 2024
/s/ Dr. Mary E. Gross Dr. Mary E. Gross	Director	March 7, 2024
/s/ Peter E. Maricondo Peter E. Maricondo	Director	March 7, 2024
/s/ Raj Patel Raj Patel	Director	March 7, 2024
/s/ Donald E. Souders, Jr. Donald E. Souders, Jr.	Director	March 7, 2024

CHANGE IN CONTROL AGREEMENT

CHANGE IN CONTROL AGREEMENT (this "**Agreement**") made as of this 25 day of October, 2023, by and among **UNITY BANK**, a New Jersey state bank with its principal place of business located at 64 Old Highway 22, Clinton, New Jersey 08809 (the "**Bank**"), **UNITY BANCORP, INC.** a New Jersey corporation with its principal place of business located at 64 Old Highway 22, Clinton, New Jersey 08809 ("**Unity**", and collectively with the Bank, the "**Employer**"), and James Davies, an individual, residing at28 W. Third Street, Unit 2337, South Orange, NJ 07079. (the "**Executive**").

WITNESSETH:

WHEREAS, Executive holds the position of Senior Vice President, Controller; and

WHEREAS, in connection this position, Employer and Executive wish to enter into this Agreement;

NOW, THEREFORE, in consideration of the mutual promises and undertakings herein contained, the parties hereto, intending to be legally bound, agree as follows:

Termination. Executive may be terminated at any time, without prejudice to Executive's right to compensation or benefits pursuant to any benefit plan or policy of Employer.

Change in Control

For purposes of this Agreement, a "Change in Control" shall mean:

a reorganization, merger, consolidation or sale of all or substantially all of the assets of Unity or a similar transaction in which Unity is not the resulting entity; or

individuals who constitute the Incumbent Board (as herein defined) of Unity cease for any reason to constitute a majority thereof; or

the occurrence of an event of a nature that would be required to be reported in response to Item 1.01 of the Current Report on Form 8-K, as then in effect, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); or

Without limitation, a "change in control" shall be deemed to have occurred at such time as any "person" (as the term is used in Section 13(d) and 14(d) of the Exchange Act) other than Unity or the trustees or any administrator of any employee stock ownership plan and trust, or any other employee benefit plans, established by Employer from time-to-time is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly, of securities of Unity representing 35% or more of Unity's outstanding securities ordinarily having the right to vote at the election of directors; or

A proxy statement soliciting proxies from stockholders of Unity is disseminated by someone other than the current management of Unity, seeking stockholder approval of a plan of reorganization, merger or consolidation of Unity or similar transaction with one or more corporations as a result of which the outstanding shares of the class of securities then subject to the plan or transaction are exchanged or converted into cash or property or securities not issued by Unity, and the proponent of such proxy statement shall have obtained the vote required to approve such proposal; or

A tender offer is made for 35% or more of the voting securities of Unity and shareholders owning beneficially or of record 35% or more of the outstanding securities of Unity have tendered or offered to sell their shares pursuant to such tender and such tendered shares have been accepted by the tender offeror.

For these purposes, "Incumbent Board" means the Board of Directors of Unity on the date hereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by members or stockholders was approved by the same nominating committee serving under an Incumbent Board, shall be considered as if he were a member of the Incumbent Board.

Upon the occurrence of a Change in Control, and, in connection with such Change in Control, if Executive's employment with Employer and/or its successors is terminated within 9 months of such Change in Control, regardless of whether such termination is by Employer or its successor, through Executive's resignation of employment with Employer or its successor with or without good cause, or Executive's failure to accept an offer of employment with any successor to Employer, Executive shall be entitled to receive a payment equal to 9 months of the Executive's Base Salary plus an additional payment equal to
9 twelfths (9/12ths) of the cash bonus received by the Executive for the Employer's preceding fiscal year. Such payment shall be made to Executive in a single lump sum payment and shall be made in accordance with Section 17 hereof. In addition to the foregoing, Executive shall, during the 9 months following the termination of Executive’s employment be entitled to receive from Employer or its successor, hospital, health, medical and life insurance benefits on the terms and at the same cost to Executive as Executive was receiving such benefits upon the date of termination of Executive's employment. Notwithstanding the preceding sentence, in the event the Executive obtains new employment during any period that the Employer is obligated to provide hospital, health, medical and life insurance benefits hereunder and such new employment provides for hospital, health, medical and life insurance benefits in a manner substantially similar to the benefits to be provided by Employer hereunder, Employer may permanently terminate the duplicative benefits it is obligated to provide hereunder. It is understood and agreed that Executive must provide Employer with notice of such employment obtained while such benefits are being provided. Notwithstanding the forgoing, upon a Change in Control, Executive shall not have the right to receive the payments provided for above due to the Executive's resignation of employment with Employer or its successor or Executive's failure to accept an offer of employment with any successor to Employer if, following such transaction, (i) a majority of the individuals constituting the Board of the resulting entity are members of the Incumbent Board and (ii) a majority of the "senior officer positions" of the resulting entity are held by individuals who held "senior officer positions" with the Employer prior to such transaction.

For purposes hereof, the “senior officer positions” shall include such of the following positions as the Employer shall separately maintain prior to any such transaction: the Chairman, Chief Executive Officer, President, Chief Financial Officer, Senior Lending Officer.

Upon the occurrence of a Change in Control, subject to paragraph (d) hereof, the vesting period for any unvested stock options or unvested awards of Unity common stock previously granted to Executive shall accelerate and become fully vested on the date of the Change in Control.

For purposes of this Agreement, a “Significant Acquisition” shall mean an acquisition of another entity by Unity (either by way of merger, purchase of substantially all assets of such other entity or purchase of all outstanding shares of securities of such other entity) pursuant to which: (i) Unity shall, as all or part of the consideration for such acquisition, issue to the shareholders of such other entity, such number of voting securities as shall equal 35% or more of the then outstanding voting Unity securities (measured prior to the consummated Significant Acquisition); and (ii) in the case of a merger, Unity shall be the surviving entity.

If Executive’s employment with Employer is terminated within 9 month of the consummation of a Significant Acquisition, regardless of whether such termination is by Employer or through Executive’s resignation of employment with Employer, Executive shall be entitled to receive a payment equal to 9 months of the Executive’s Base Salary, plus an additional payment equal to 9 twelfths (9/12ths) of the cash bonus received by the Executive for the Employer's preceding fiscal year. Such payment shall, be made to Executive in a single lump sum payment to be made in accordance with Section 17 hereof. In addition to the foregoing, Executive shall, during the 9 (months following the termination of his/her employment be entitled to receive from Employer or its successor, hospital, health, medical and life insurance benefits on the terms and at the same cost to Executive as Executive was receiving such benefits upon the date of termination of Executive’s employment. Notwithstanding the preceding sentence, in the event the Executive obtains new employment during any period that the Employer is obligated to provide hospital, health, medical and life insurance benefits hereunder and such new employment provides for hospital, health, medical and life insurance benefits in a manner substantially similar to the benefits to be provided by Employer hereunder, Employer may permanently terminate the duplicate benefits it is obligated to provide hereunder. It is understood and agreed that Executive must provide Employer with Notice of such employment obtained while such benefits are being provided. In the event Executive becomes entitled to receive the amount due under this paragraph (e), subject to paragraph (f) hereof, the unvested stock options or unvested awards of Unity common stock previously granted to Executive shall accelerate and become fully vested on the date of Executive’s termination of employment. It is hereby understood and agreed that payments that may become due to the Executive under this sub-paragraph (e) shall be in lieu of, and not in addition to, any payments the Executive may be entitled to under Section 2(b) hereof.

Notwithstanding anything contained in this Section 2 above, in the event all compensation to be provided to Executive conditioned upon the occurrence of a Change in Control, whether under this Agreement or in connection with any other agreement or benefit plan of the Employer to which Executive is a party or in which he participates, exceeds 2.99 times the Executive's Base Amount, as that term is defined under Section 280G of the Internal Revenue Code and regulations of the Internal Revenue Service promulgated thereunder, the total compensation to be paid to the Executive shall be reduced to an amount that is $1.00 less than 2.99 times the Executive's Base Amount. Executive shall have the right to determine which benefits to which he would otherwise be entitled shall be reduced.

<u>No Guaranty of Employment.</u> Nothing in this Agreement shall be construed to guarantee the employment of the Executive. Executive shall remain an "employee at will" of Employer at all times during the term of this Agreement.

<u>Notices.</u> Any and all notices, demands or requests required or permitted to be given under this Agreement shall be given in writing and sent: (i) by registered or certified U.S. mail, return receipt requested; (ii) by hand; (iii) by overnight courier; or (iv) by telecopier addressed to the parties hereto at their addresses set forth above or such other addresses as they may from time-to time designate by written notice, given in accordance with the terms of this Section 4, together with copies thereof as follows:

In the case of the Executive, to the address set forth on the first page hereof or to such other address as Executive shall provide in writing to the Employer for the provisions of notice hereunder.

In the case of Employer, to the address set forth on the first page hereof, with a copy to:

Windels Marx Lane & Mittendorf, LLP
Attn: Robert A Schwartz, Esq.
120 Albany Street Plaza
New Brunswick, NJ 08901
Telecopier No. (732) 846-8877

Notice given as provided in this Section4 shall be deemed effective: (i) on the date hand delivered; (ii) on the first business day following the sending thereof by overnight courier; (iii) on the seventh calendar day (or, if it is not a business day, then the next succeeding business day thereafter) after the depositing thereof into the exclusive custody of the U.S. Postal Service; or (iv) on the date telecopied.

Term. Notwithstanding any provision of this Agreement, the term of this Agreement shall immediately end upon: (i) the Bank or Unity entering into a Memorandum of Understanding with the Federal Deposit Insurance Corporation ("**FDIC**") or the New Jersey Department of Banking and Insurance ("**NJDBI**"); (ii) a cease-and-desist order being issued with respect to the Bank or Unity by the FDIC or the NJDBI; or (iii) receipt by either the Bank or Unity of any notice under Federal or state law, which in any way restricts the payment of any amount or benefits which may become due under this Agreement. It is hereby understood and agreed that, upon the termination of the term of this Agreement due to the occurrence of any of the events described in the foregoing clauses (i), (ii) or (iii), this Agreement shall be deemed terminated and the Employer shall have no further obligation to pay any amounts to the Executive or provide any further benefits to the Executive. Notwithstanding the forgoing, upon the occurrence of the events described in clauses (i), (ii) or (iii) above, the Boards of Directors of Unity and the Bank may, by joint resolution of both Boards, waive the termination of this Agreement and elect to maintain this Agreement in full force and effect, subject to the terms, including the term set forth above, of this Agreement.

Confidential Information.

As used herein, "Confidential Information" means any confidential or proprietary information relating to the Employer and its affiliates including, without limitation, the identity of the Employer's customers, the identity of representatives of customers with whom the Employer has dealt, the kinds of services provided by the Employer to customers, the manner in which such services are performed or offered to be performed, the service needs of actual or prospective customers, customer preferences and policies, pricing information, business and marketing plans, financial information, budgets, compensation or personnel records, information concerning the creation, acquisition or disposition of products and services, vendors, software, data processing programs, databases, customer maintenance listings, computer software applications, research and development data, know-how, and other trade secrets.

Notwithstanding the above, Confidential Information does not include information which: (i) is or becomes public knowledge without breach of this Agreement; or (ii) is received by Executive from a third party without any violation of any obligation of confidentiality and without confidentiality restrictions; provided, however, that nothing in this Agreement shall prevent the Executive from participating in or disclosing documents or information in connection with any judicial or administrative investigation, inquiry or proceeding and participating in any monetary award related to such participation or information or to the extent that such participation or disclosure is required under applicable law; provided further, however, that with regard to legally required participation or disclosure the Executive will provide the Employer with prompt notice of such request, to the extent legally permitted to do so, so that the Employer may seek (with the cooperation of the Executive, if so requested by the Employer), a protective order or other appropriate remedy and/or waiver in writing of compliance with the provisions of this Agreement. If a particular portion or aspect of Confidential Information becomes subject to any of the foregoing exceptions, all other portions or aspects of such information shall remain subject to all of the provisions of this Agreement. At all times, both during the period of Executive's services for the Employer and after termination of Executive's services, the Executive will keep in strictest confidence and trust all Confidential Information and the Executive will not directly or indirectly use or disclose to any third-party any Confidential Information, except as may be necessary in the ordinary course of performing the Executive’s duties for the Employer, or disclose any Confidential Information, or permit or encourage any other person or entity to do so, without the prior written consent of the Employer except as may be necessary in the ordinary course of performing the Executive’s duties for the Employer.

The Executive agrees to return promptly all Confidential Information in tangible form, including, without limitation, all photocopies, extracts and summaries thereof, and any such information stored electronically on tapes, computer disks, mobile or remote computers (including personal digital assistants) or in any other manner to the Employer at any time that the Employer makes such a request and automatically, without request, within five days after the termination of the Executive's performance of services for the Employer for any reason.

Assignability. Neither this Agreement nor the rights or obligations of Executive hereunder may be assigned, whether by operation of law or otherwise. This Agreement shall be binding upon the Employer, its successors and assignees. The Bank and Unity shall require any successor or assignee, whether direct or indirect, by purchase, merger, consolidation or otherwise, to all or substantially all the business or assets of the Bank and Unity, to expressly and unconditionally agree to assume and discharge the obligations of the Bank and Unity under this Agreement, in the same manner and to the same extent that the Bank and Unity would be required to perform if no such succession or assignment had taken place:

Waiver. The waiver by Employer or the Executive of a breach of any provision of this Agreement by the other shall not operate or be construed as a waiver of any subsequent or other breach hereof.

Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey without giving effect to principles of conflict of laws.

Entire Agreement. This Agreement contains the entire agreement of the parties hereto with respect to the subject matter hereof and may not be amended, waived, changed, modified or discharged, except by an agreement in writing signed by the parties hereto.

Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument.

Amendment. This Agreement may be modified or amended only by an amendment in writing signed by both parties.

Severability. If any provision of this Agreement shall be held invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision, only to the extent it is invalid or unenforceable, and shall not in any manner affect or render invalid or unenforceable any other severable provision of this Agreement, and this Agreement shall be carried out as if any such invalid or unenforceable provision were not contained herein.

Section Headings. The headings contained in this Agreement are solely for convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

Fees and Expenses. If any party to this Agreement institutes any action or proceeding to enforce this Agreement, the prevailing party in such action or proceeding shall be entitled to recover from the non-prevailing party all legal costs and expenses incurred by the prevailing party in such action, including, but not limited to, reasonable attorney's fees and other reasonable legal costs and expenses.

Legal Representation. The Executive hereby acknowledges that this Agreement has been prepared by Windels Marx Lane & Mittendorf , LLP as legal counsel for Unity and the Bank and that the Executive was given the opportunity to consult with independent legal counsel regarding this Agreement prior to his/her execution of this Agreement

Release. All payments and benefits under Section 2 hereof shall be contingent upon Executive executing a general release of claims in favor of Unity, its subsidiaries and affiliates, and their respective officers, directors, shareholders, partners, members, managers, agents or employees, and which must be executed by the Executive no later than the twenty second (22nd) day after the termination of Executive's employment. Payments under this Agreement that are contingent upon such release shall, subject to Section 18, commence within eight (8) days after such release becomes effective; provided, however, that if Executive's termination of employment occurs on or after November 15 of a calendar year, then severance payments shall, subject to the effectiveness of such release and Section 18, commence on the first business day of the following calendar year.

Section 409A Compliance. If the Executive is a "specified employee" for purposes of Section 409A of the Code, to the extent required to comply with Section 409A of the Code, any payments required to be made pursuant to this Agreement which are deferred compensation and subject to Section 409A of the Code (and do not qualify for an exemption thereunder) shall not commence until one day after the day which is six (6) months from the date of termination. Should this Section 18 result in a delay of payments to the Executive, on the first day any such payments may be made incurring a penalty pursuant to Section 409A (the "**409A Payment Date**"), the Employer shall begin to make such payments as described in this Section 18, provided that any amounts would have been paid earlier but for application of this Section 18 shall be paid in lump-sum of the 409A Payment Date.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement under their respective hands and seals as of the day and year first above written

ATTEST:	**UNITY BANK**
	By: ______________________ James A. Hughes: President and CEO:
ATTEST:	**UNITY BANCORP, INC.**
	By: ______________________ James A. Hughes: President and CEO:
WITNESS	**EMPLOYEE**
	By: ______________________ James A. Davies:

UNITY BANK DEFERRED COMPENSATION PLAN

THIS AGREEMENT is made as of this ___ day of _________, 20__, is by between Unity Bank (the "Bank"), a New Jersey chartered commercial bank headquartered in Clinton, New Jersey and __________________ (the "Manager").

INTRODUCTION

In an effort to reward past service, encourage continued service on the Bank's Board of Directors and/or as an Officer, and as a method to attract future members of management, the Bank is willing to provide to the Manager a deferred fee opportunity. The Bank will pay each Manager's benefits from the Bank's general assets – the obligation to make payments hereunder is an unfunded contractual commitment by the Bank. This document is intended to comply with the provisions of Section 409A of the Internal Revenue Code and shall be interpreted accordingly. If any provision or term of this document would be prohibited by or inconsistent with the requirements of Section 409A of the Code, then such provision or term shall be deemed to be reformed to comply with Section 409A of the Code.

AGREEMENT

The Manager and the Bank agree as follows:

Article 1
Definitions

1.1 *Definitions*. Whenever used in this Agreement, the following words and phrases shall have the meanings specified:

1.1.1 "*Anniversary Date*" means December 31 of each year.

1.1.2 "*Change in Control*" means

(a) a reorganization, merger, consolidation or sale of all or substantially all of the assets of Unity Bancorp, Inc., the parent company of the Bank ("Unity"), or any similar transaction, in any case in which the holders of a majority of the voting power of Unity prior to such transaction fail to hold a majority of the voting power of the resulting entity;

(b) individuals who constitute the Incumbent Board (as herein defined) of Unity cease for any reason to constitute a majority thereof;

(c) Without limitation, a change in control shall be deemed to have occurred at such time as (i) any "person" (as the term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) other than Unity, the Bank or the trustees or any administrator of any employee stock ownership plan and trust, or any other employee benefit plans, established by Unity or the Bank from time to time is or becomes a "beneficial owner" (as defined in Rule 13-d under the Exchange Act) directly or indirectly, of securities of the Bank representing 35% or more of Unity's outstanding securities ordinarily having the right to vote at the election of directors; or

(d) A tender offer is made for 35% or more of the voting securities of Unity and shareholders owning beneficially or of record 35% or more of the outstanding securities of Unity have tendered or offered to sell their shares pursuant to such tender and such tendered shares have been accepted by the tender offeror.

For purposes of this provision, *"Incumbent Board"* means the Board of Directors of Unity on the date hereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by members or stockholders was approved by the same nominating committee serving under an Incumbent Board, shall be considered as though he were a member of the Incumbent Board.

1.1.3 "*Code*" means the Internal Revenue Code of 1986, as amended.

1.1.4 "*Deferral Account*" means the Bank's accounting of the Manager's accumulated Deferrals and accrued interest pursuant to Section 3.1.2.

1.1.5 "*Deferrals*" means the amount of the Fees which the Manager elects to defer according to this Agreement.

1.1.6 "*Disability*" means the Manager's (i) inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, and which causes the Manager to receive income replacement benefits for a period of not less than 3 months under an accident and health plan covering the Manager. As a condition to any benefits, the Bank may require the Manager to submit to such physical or mental evaluations and tests as the Board of Directors deems appropriate.

1.1.7 "*Effective Date*" means ____ __, 20__.

1.1.8 "*Election Form*" means the Form attached as Exhibit A.

1.1.9 "*Fees*" means, (i) with respect to a Manager who receives fees for service on the Board of Directors of the Bank, the total Manager's fees payable to the Manager for such Board service, including any retainers, meeting fees, committee chair fees and committee meeting fees; and (ii) with respect to a Manager who is an officer of the Bank, that portion of such Manager's base salary and/or year end bonus, if any, as such Manager has elected annually in accordance with Article 2 hereof to have deferred hereunder.

1.1.10 "*Manager*" means either a non-employee member of the Board of Directors of the Bank or an officer of the Bank chosen by the Board to participate in this deferred fee arrangement.

1.1.11 "*Plan Year*" means the calendar year.

1.1.12 "*Prime Rate*" means the Prime Interest Rate reported in the Wall Street Journal on the business day immediately prior to the Anniversary Date.

1.1.13 "*Termination of Service*" means (i) with respect to a Manager who is a non-employee member of the Board of Directors, the Manager ceasing to be a member of the Bank's Board of Directors for any reason whatsoever, and (ii) with respect to a Manager who is a senior executive officer of the Bank, the termination of such Manager's employment with the Bank.

Article 2
Deferral Election

2.1 *Initial Election.* The elections with respect to a deferral by the Manager for a given calendar year shall be made on an election form no later than December 31st of the preceding year; provided, however, that for the calendar year in which an individual first becomes a Manager and so a participant in this Plan, he or she may make the deferral election for such year regarding amounts to be earned after such elections are made within 30 days after first becoming a Manager. An initial deferral election, if submitted to the Bank earlier than the date specified above, may be changed by the Manager at any time prior to the date specified above. The Election Form shall set forth the amount of Fees to be deferred. The Election Form shall be effective to defer only Fees earned after the date the Election Form is received by the Bank for the next succeeding year.

2.2 *Annual Elections.*

2.2.1 *Generally*. Each Manager, in order to continue participation in the Plan, must file a new Election Form with the Bank prior to the beginning of the Plan Year in which the Fees are to be deferred. The annual deferral election shall not be effective until the Plan Year following the year in which the subsequent Election Form is received and approved by the Bank. The annual Election Form may be used to change the Manager's distribution option in order to postpone and not accelerate a distribution option, or to change the form of or number of installments elected with respect to the payment of an amount of deferred Fees (a "Subsequent Deferral Election") only if the following conditions are satisfied: (i) the Subsequent Deferral Election must not take effect until 12 months after the date on which it is made, (ii) in the case of a payment other than a payment attributable to the Manager's death, the Subsequent Election further defers the payment for a period of not less than 5 years from the date such payment would otherwise have been made, or in the case of installment payments, 5 years from the date the first installment was scheduled to be paid, and (iii) the Subsequent Election is received by the Bank at least 12 months prior to the date the payment would otherwise have been made, or in the case of installment payments, 12 months prior to the date the first installment was scheduled to be paid. If no new Election Form is filed prior to the beginning of a new Plan Year, the Manager will be deemed not to have participated in the Plan for the upcoming year.

2.2.2 *Hardship*. If an unforeseeable financial emergency occurs, the Manager, by written instructions to the Bank, may reduce future deferrals under this Agreement.
For purposes of this Agreement, "financial emergency" means a severe financial hardship to the Manager resulting from an illness or accident of the Manager, the Manager's spouse, or a dependent (as defined in section 152(a) of the Code) of the Manager, loss of the Manager's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Manager.

Article 3
Deferral Account

3.1 *Establishing and Crediting.* The Bank shall establish a Deferral Account on its books for the Manager and shall credit to the Deferral Account the following amounts:

3.1.1 *Deferrals*. The Fees deferred by the Manager as of the time the Fees would have otherwise been paid to the Manager.

3.1.2 *Interest*. On the first day of each month and immediately prior to the payment of any benefits, interest on the Deferral Account balance since the preceding credit under this Section 3.1.1, if any, at an annual rate, compounded monthly, equal to the Prime Rate for the previous Anniversary Date, plus one percent (1%); provided, however, that the minimum rate of interest to be applied hereunder shall be four percent (4%), regardless of the actual Prime Rate, and will not exceed ten percent (10%) regardless of the actual prime rate.

3.2 *Statement of Accounts*. The Bank shall provide to the Manager, within one hundred twenty (120) days after each Anniversary Date, a statement setting forth the Deferral Account balance.

3.3 *Accounting Device Only; Unfunded Arrangement*. The Deferral Account is solely a device for measuring amounts to be paid under this Agreement. The Deferral Account is not a trust fund of any kind nor are any Bank assets specially segregated to satisfy the obligations represented by the Deferral Account. The Manager is a general unsecured creditor of the Bank for the payment of benefits. The benefits represent the mere promise by the Bank to pay such benefits. The Manager's rights are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by the Manager's creditors.

Article 4
Distribution of Benefits

4.1 *Termination of Service Benefit*. Upon the Manager's Termination of Service, the Bank shall pay to the Manager the benefit described in this Section 4.1 in lieu of any other benefit under this Agreement; provided, however, that in the event the Manager is deemed to be a "specified employee" for purposes of Section 409A of the Code, to the extent required to comply with Section 409A of the Code, any payments required to be made pursuant to this Agreement which are deferred compensation and subject to Section 409A of the Code (and do not qualify for an exemption thereunder) shall not commence until one day after the day which is six (6) months from the date of termination. Should this requirement result in a delay of payments to the Employee, on the first day any such payments may be made without incurring a penalty pursuant to Section 409A (the "409A Payment Date"), Bank shall begin to make such payments, provided that any amounts that would have been payable earlier but for application of this provision shall be paid in lump-sum on the 409A Payment Date.

4.1.1 *Amount of Benefit*. The benefit under this Section 4.1 is the Deferral Account balance at the Manager's Termination of Service date.

4.1.2 *Payment of Benefit*. The Bank shall pay the benefit to the Manager in the form elected by the Manager on the Election Form. If the Manager elected to receive his benefit in the form of installments, the Bank shall continue to credit interest on the remaining Deferral Account balance during any applicable installment period fixed at the rate in effect under Section 3.1.2 on the Manager's date of Termination of Service.

4.2 *Change of Control Benefit.* Upon Termination of Service within 12 months of a Change of Control, the Bank shall pay to the Manager the benefit described in this Section 4.2 in lieu of any other benefit under this Agreement.

4.2.1 *Amount of Benefit.* The benefit under this Section 4.2 shall be the balance of the Director's Deferral Account on the date of the Manager's Termination of Service.

4.3 Except as otherwise provided, the Bank may not permit the acceleration of the time or schedule of any payment or amount scheduled to be paid pursuant to the Plan, unless such acceleration of the time or schedule is (i) necessary to fulfill a domestic relations order (as defined in section 414(p)(1)(B) of the Code) or to comply with a certificate of divestiture (as defined in section 1043(b)(2) of the Code, (ii) de minimis in nature (as defined in regulations promulgated under section 409A of the Code), or (iii) equal to amounts included in the federal personal taxable income of the Manager under section 409A of the Code.

4.4 *Distribution Upon Unforeseeable Emergency.* Upon the Board of Director's determination (following petition by the Manager) that the Manager has suffered an unforeseeable financial emergency as described in Section 2.2.2, the Bank shall distribute to the Manager all or a portion of the Deferral Account balance as determined by the Bank, but in no event shall the distribution be greater than is necessary to relieve the financial hardship, plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Manager's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

Article 5
Death Benefits

5.1 *Death During Active Service*. If the Manager dies while in the active service of the Bank, the Bank shall pay to the Manager's beneficiary the benefit described in this Section 5.1 in lieu of any other benefit under this Agreement.

5.1.1 *Amount of Benefit.* The benefit under Section 5.1 is the Deferral Account balance on the date of the Manager's death.

5.1.2 *Payment of Benefit.* The Bank shall pay the benefit to the beneficiary in the form elected by the Manager on the Election Form. If the Manager elected to receive his benefit in the form of installments, the Bank shall continue to credit interest on the remaining Deferral Account balance during any applicable installment period fixed at the rate in effect under Section 3.1.2 on the date of the Manager's death.

5.2 *Death During Benefit Period.* If the Manager dies after benefit payments have commenced under this Agreement but before receiving all such payments, the Bank shall pay the remaining benefits to the Manager's beneficiary at the same time and in the same amounts they would have been paid to the Manager had the Manager survived.

Article 6
Beneficiaries

6.1 *Beneficiary Designations*. The Manager shall designate a beneficiary by filing a written designation with the Bank. The Manager may revoke or modify the designation at any time by filing a new designation. However, designations will only be effective if signed by the Manager and received and approved by the Bank during the Manager's lifetime. The Manager's beneficiary designation shall be deemed automatically revoked if the beneficiary predeceases the Manager, or if the Manager names a spouse as beneficiary and the marriage is subsequently dissolved. If the Manager dies without a valid beneficiary designation, all payments shall be made to the Manager's estate.

6.2 *Facility of Payment*. If a benefit is payable to a minor, to a person declared incompetent, or to a person incapable of handling the disposition of his or her property (as determined by the Bank), the Bank may pay such benefit to the guardian, legal representative or person having the care or custody of such minor, incompetent person or incapable person. The Bank may require proof of incompetence, minority or guardianship as it may deem appropriate prior to distribution of the benefit. Such distribution shall completely discharge the Bank from all liability with respect to such benefit.

Article 7
Amendments and Termination

7.1 This Agreement may be amended or terminated only by a written agreement signed by the Bank and the Manager.

7.2 Notwithstanding Section 7.1, the Bank may amend or terminate this Agreement at any time if, pursuant to legislative, judicial or regulatory action, continuation of the Agreement would (i) cause benefits to be taxable to the Manager prior to actual receipt, or (ii) result in significant financial penalties or other significantly detrimental ramifications to the Bank. Furthermore, this Agreement may be terminated only if (i) all nonqualified defined contribution deferred compensation plans maintained by the Bank and its affiliates are terminated, (ii) no payments other than payments that would be payable under the terms of this Agreement, if the termination had not occurred, are made within 12 months of the termination of the Agreement, (iii) all payments of a Manager’s Deferrals are made within 24 months of the termination of this Agreement, and (iv) the Bank acknowledges to the participating Managers that it will not adopt any new nonqualified defined contribution plans at any time within 5 years following the date of the termination of the Agreement. In no event shall this Agreement be terminated under this Section 7.2 without payment to the Manager of the Deferral Account balance attributable to the Manager's Deferrals and, if applicable, interest credited on such amounts.

Article 8
Miscellaneous

8.1 *Binding Effect.* This Agreement shall bind the Manager and the Bank, and their beneficiaries, survivors, executors, administrators and transferees.

8.2 *No Guarantee of Service*. This Agreement is not a contract for services. It does not give the Manager the right to remain a Director of the Bank or to continue employment. It also does not require the Manager to remain a Manager nor interfere with the Manager's right to terminate services at any time.

8.3 *Non-Transferability*. Benefits under this Agreement cannot be sold, transferred, assigned, pledged, attached or encumbered in any manner.

8.4 *Tax Withholding*. The Bank is authorized to withhold any taxes that it believes are required to be withheld from the benefits provided under this Agreement.

8.5 *Applicable Law.* The Plan and all rights hereunder shall be governed by and construed according to the laws of the State of New Jersey, except to the extent preempted by the laws of the United States of America. Other provisions of this Plan notwithstanding, deferrals under this Plan shall comply with the requirements under Section 409A of the Code and in accordance with U.S. federal income tax laws and Treasury regulations (including proposed regulations) thereunder as presently in effect or hereafter implemented, (i) if the timing of any distribution under this Plan would result in a Manager's constructive receipt of income or tax penalties prior to such distribution, the distribution will be made at the earliest date after the specified payment date that distribution can be effected without resulting in such constructive receipt or tax penalties; (ii) the Bank shall have no authority to accelerate any payment hereunder except as permitted under Code section 409A and regulations thereunder; and (iii) any rights of the Manager or retained authority of the Bank with respect to deferrals hereunder shall be automatically modified and limited to the extent necessary so that a Manager will not be deemed to be in constructive receipt of income relating to the deferrals prior to the payment and so that the Manager shall not be subject to any penalty under Code section 409A.

8.6 *Recovery of Estate Taxes*. If the Manager's gross estate for federal estate tax purposes includes any amount determined by reference to and on account of this Agreement, and if the beneficiary is other than the Manager's estate, then the Manager's estate shall be entitled to recover from the beneficiary receiving such benefit under the terms of the Agreement, an amount by which the total estate tax due by the Manager's estate, exceeds the total estate tax which would have been payable if the value of such benefit had not been included in the Manager's gross estate. If there is more than one person receiving such benefit, the right of recovery shall be against each such person. In the event the beneficiary has a liability hereunder, the beneficiary may petition the Bank for a lump sum payment in an amount not to exceed the lesser of the beneficiary's liability hereunder and the balance remaining in the Deferral Account.

8.7 *Reorganization.* In the event of any merger, consolidation or acquisition where Unity or the Bank is not the surviving entity or resulting corporation, or upon transfer of all or substantially all of the assets of Unity or the Bank, this Agreement shall continue and be in full force and effect and shall be binding upon such surviving entity, resulting corporation, or transferee.

8.8 *Entire Agreement.* This Agreement constitutes the entire agreement between the Bank and the Manager as to the subject matter hereof. No rights are granted to the Manager by virtue of this Agreement other than those specifically set forth herein.

8.9 *Administration.* The Bank shall have powers which are necessary to administer this Agreement, including but not limited to:

8.9.1 Interpreting the provisions of the Agreement;
8.9.2 Establishing and revising the method of accounting for the Agreement;
8.9.3 Maintaining a record of benefit payments; and
8.9.4 Establishing rules and prescribing any forms necessary or desirable to administer

the Agreement.

8.10 *Named Fiduciary.* For purposes of the Employee Retirement Income Security Act of 1974, if applicable, the Bank shall be the named fiduciary and plan administrator under the Agreement. The named fiduciary may delegate to others certain aspects of the management and operation responsibilities of the plan including the employment of advisors and the delegation of ministerial duties to qualified individuals.

IN WITNESS WHEREOF, the Manager and a duly authorized Bank officer have signed this Agreement.

MANAGER:	**BANK:**
	UNITY BANK
______________________________	**By:** ______________________________
	Title: ______________________________

EXHIBIT A
TO
MANAGEMENT FEE DEFERRAL AGREEMENT

____
(Name of Manager)

[Initial and Complete]

_____ I elect to defer _____% or $_________ of my Board Fees, including committee fees.

_____ I elect to defer _____% or $_________ of my Retainer.

_____ I elect to defer _____% or $ _________ of both my Retainer and Board Fees.

_____ I elect to defer _____% of my year end bonus.

_____ I elect to defer _____% of my salary, to be withheld from each payroll.

_____ I elect not to defer my Retainer, Board Fees, salary and/or year end bonus.

I understand that I may change the amount, frequency and duration of my deferral by filing a new election form with the Bank; provided, however, that any subsequent election (a) is in compliance with Code section 409A and the Treasury Regulations promulgated thereunder and (b) will not be effective until the calendar year following the year in which the new election is received by the Bank.

Form of Benefit

I elect to receive benefits under the Agreement in the following form:

[Initial One]

_____ Lump Sum

_____ Equal monthly installments for 120 months

Beneficiary Designation

I designate the following as beneficiaries of benefits under the Management Fee Deferral Agreement payable following my death:

Primary: ______________________________

Contingent: ______________________________

I understand that I may change these beneficiary designations by filing a new written designation with the Bank. I further understand that the designations will be automatically revoked if the beneficiary predeceases me, or, if I have named my spouse as beneficiary, in the event of the dissolution of our marriage.

Signature ____________________________

Date ____________________________

Accepted by Unity Bank this ___ day of ____________ 20__.

By ________________________________

Title ________________________________

Compensation Recoupment Policy

The Board of Directors of Unity Bancorp, Inc. (the "Company") believes it is desirable, and in the best interests of the Company and its stockholders, to maintain and enhance a culture that is focused on integrity, accountability and that discourages conduct detrimental to the Company's risk profile and sustainable growth. Therefore, it may be appropriate for the Company to recover Incentive Compensation (as defined herein) provided to certain employees, and it may be appropriate for those employees to repay such Incentive Compensation, in the event that the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (an “Accounting Restatement”). The Board of Directors has adopted the following Compensation Recoupment Policy (the "Policy") effective as of the date set forth above (the "Effective Date"). The Policy applies to the Company’s Executive Officers (as defined below).

Additional Definitions

“Erroneously Awarded Compensation” means the amount of Incentive Compensation received that exceeds the amount of Incentive Compensation that otherwise would have been received had it been determined based on the amounts reflected in the Accounting Restatement, and must be computed without regard to any taxes paid. For Incentive Compensation based on stock price or total shareholder return, where the amount of erroneously awarded compensation is not subject to mathematical recalculation directly from the information in an Accounting Restatement:

(A) The amount must be based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive Compensation was received; and

(B) The Company must maintain documentation of the determination of that reasonable estimate and provide such documentation to the Nasdaq.

"Executive Officer" shall mean the Company’s president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the Company. Executive officers of the Company’s parent(s) or subsidiaries are deemed executive officers of the Company if they perform such policy making functions for the Company. As used herein, a policy-making function is not intended to include policy-making functions that are not significant. .

“Financial Reporting Measures” means measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures that are derived wholly or in part from such measures. Stock price and total shareholder return shall be considered financial reporting measures. A Financial Reporting Measure need not be presented within the financial statements or included in a filing with the Securities and Exchange Commission.

"Incentive Compensation" shall mean any compensation payable in cash, shares of the Company's common stock, restricted stock units or stock options, that is granted, earned or vested based wholly or in part upon the attainment of any Financial Reporting Measure. For the avoidance of doubt, Incentive Compensation will be deemed “received” by the Executive Officer for purposes of this policy in the fiscal period during which the financial reporting measure is attained, even if the payment or grant occurs after the end of that period.

"Restatement Date" shall mean the date that the Company concluded (or reasonably should have concluded), whether through its Board of Directors, a committee of the Board of Directors, or through officers of the Company if such officers are authorized to take such action without Board action, that an Accounting Restatement is required, or the date that a court or regulator directs the Company to prepare an Accounting Restatement.

Recoupment of Incentive Compensation

If the Company incurs an Accounting Restatement then the Company shall promptly require each current or former Executive Officer who received Incentive Compensation to reimburse the Company any Erroneously Awarded Compensation received by such Executive Officer during the three completed fiscal years immediately preceding the Restatement Date.

For the sake of clarity, Erroneously Awarded Compensation shall be recovered even if there was no misconduct or failure of oversight on the part an individual Executive Officer.

Recoupment Amount and Procedures

The amount required to be reimbursed or returned to the Company shall be determined by the Compensation Committee of the Board of Directors (the "Committee") and will equal the amount of the Erroneously Awarded Compensation.

The Company will determine, in its sole discretion, the method for obtaining reimbursement or return of payments made, which may include, but is not limited to: (i) by offsetting the amount from any compensation owed by the Company to the affected Executive Officer (including, without limitation, amounts payable under a deferred compensation plan at such time as is permitted by Section 409A of the Internal Revenue Code of 1986, as amended): (ii) by reducing or eliminating future salary increases, cash incentive awards or equity awards; or (iii) by requiring the individual to pay the amount to the Company upon its written demand for such payment.

Exceptions to Recovery.

Exceptions to the foregoing policy of recoupment are only available where:

(i) pursuing such recovery would be impracticable because the direct expense paid to a third party to assist in enforcing the policy would exceed the recoverable amounts and the

Company has (A) made a reasonable attempt to recover such amounts and (B) provided documentation of such attempts to recover to the Nasdaq; or

(ii) recoupment would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the registrant, to fail to meet the requirements of the Internal Revenue Code.

Miscellaneous

The Board of Directors intends that this Policy will be applied to the fullest extent permitted by law. In addition, the Committee may determine that any equity award agreement, employment agreement or similar agreement entered into or amended after the Effective Date shall, as a condition to the grant of any benefit covered by such agreement, require the affected employee to contractually agree to abide by the terms of this Policy. Further, the adoption of this Policy does not mitigate, and is intended to enhance, the effect of any recoupment or similar policies in any equity award agreement, employment agreement or similar agreement in effect prior to the Effective Date.

Binding on Successors

The terms of this Policy shall be binding and enforceable against all employees and their heirs, executors, administrators and legal representatives.

CHANGE IN CONTROL AGREEMENT

CHANGE IN CONTROL AGREEMENT (this "Agreement") made as of this 7th day of December, 2023, by and among UNITY BANK, a New Jersey state bank with its principal place of business located at 64 Old Highway 22, Clinton, New Jersey 08809 (the "Bank"), UNITY BANCORP, INC. a New Jersey corporation with its principal place of business located at 64 Old Highway 22, Clinton, New Jersey 08809 ("Unity", and collectively with the Bank, the "Employer"), and Vincent Geraci, an individual, residing at 20 Falling Waters, Oakland, New Jersey 07436 (the "Executive").

WITNESSETH:

WHEREAS, Executive holds the position of Director of Mortgage Lending, First Senior Vice President (the “Position”); and

WHEREAS, in connection this position, Employer and Executive wish to enter into this Agreement;

NOW, THEREFORE, in consideration of the mutual promises and undertakings herein contained, the parties hereto, intending to be legally bound, agree as follows:

1. Termination. Executive may be terminated at any time, without prejudice to Executive's right to compensation or benefits pursuant to any benefit plan or policy of Employer.

2. Change in Control

(a) For purposes of this Agreement, a "Change in Control" shall mean:

(i) a reorganization, merger, consolidation or sale of all or substantially all of the assets of Unity or a similar transaction in which Unity is not the resulting entity; or

(ii) individuals who constitute the Incumbent Board (as herein defined) of Unity cease for any reason to constitute a majority thereof; or

(iii) the occurrence of an event of a nature that would be required to be reported in response to Item 1.01 of the Current Report on Form 8-K, as then in effect, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); or

(iv) Without limitation, a "change in control" shall be deemed to have occurred at such time as any "person" (as the term is used in Section 13(d) and 14(d) of the Exchange Act) other than Unity or the trustees or any administrator of any employee stock ownership plan and trust, or any other employee benefit plans, established by Employer from time-to-time is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly, of securities of Unity representing 35% or more of Unity's outstanding securities ordinarily having the right to vote at the election of directors; or

(v) A proxy statement soliciting proxies from stockholders of Unity is disseminated by someone other than the current management of Unity, seeking stockholder approval of a plan of reorganization, merger or consolidation of Unity or similar transaction with one or more corporations as a result of which the outstanding shares of the class of securities then subject to the plan or transaction are exchanged or converted into cash or property or securities not issued by Unity, and the proponent of such proxy statement shall have obtained the vote required to approve such proposal; or

(vi) A tender offer is made for 35% or more of the voting securities of Unity and shareholders owning beneficially or of record 35% or more of the outstanding securities of Unity have tendered or offered to sell their shares pursuant to such tender and such tendered shares have been accepted by the tender offeror.

For these purposes, "Incumbent Board" means the Board of Directors of Unity on the date hereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by members or stockholders was approved by the same nominating committee serving under an Incumbent Board, shall be considered as if he were a member of the Incumbent Board.

(b) Upon the occurrence of a Change in Control, and, in connection with such Change in Control, if Executive's employment with Employer and/or its successors is terminated within twelve months of such Change in Control, regardless of whether such termination is by Employer or its successor, through Executive's resignation of employment with Employer or its successor with or without good cause, or Executive's failure to accept an offer of employment with any successor to Employer, Executive shall be entitled to receive a payment equal to twelve months of the Executive's Base Salary plus an additional payment equal to twelve twelfths (12/12ths) of the cash bonus and commission received by the Executive for the Employer's preceding fiscal year. Such payment shall be made to Executive in a single lump sum payment and shall be made in accordance with Section 17 hereof. In addition to the foregoing, Executive shall, during the twelve months following the termination of Executive’s employment be entitled to receive from Employer or its successor, hospital, health, medical and life insurance benefits on the terms and at the same cost to Executive as Executive was receiving such benefits upon the date of termination of Executive's employment. Notwithstanding the preceding sentence, in the event the Executive obtains new employment during any period that the Employer is obligated to provide hospital, health, medical and life insurance benefits hereunder and such new employment provides for hospital, health, medical and life insurance benefits in a manner substantially similar to the benefits to be provided by Employer hereunder, Employer may permanently terminate the duplicative benefits it is obligated to provide hereunder. It is understood and agreed that Executive must provide Employer with notice of such employment obtained while such benefits are being provided. Notwithstanding the forgoing, upon a Change in Control, Executive shall not have the right to receive the payments provided for above due to the Executive's resignation of employment with Employer or its successor or Executive's failure to accept an offer of employment with any successor to Employer if, following such transaction, (i) a majority of the individuals constituting the Board of the resulting entity are members of the Incumbent Board and (ii) a majority of the "senior officer positions" of the resulting entity are held by individuals who held "senior officer positions" with the Employer prior to such transaction.

For purposes hereof, the “senior officer positions” shall include such of the following positions as the Employer shall separately maintain prior to any such transaction: the Chairman, Chief Executive Officer, President, Chief Financial Officer, Senior Lending Officer.

(c) Upon the occurrence of a Change in Control, subject to paragraph (d) hereof, the vesting period for any unvested stock options or unvested awards of Unity common stock previously granted to Executive shall accelerate and become fully vested on the date of the Change in Control.

(d) For purposes of this Agreement, a “Significant Acquisition” shall mean an acquisition of another entity by Unity (either by way of merger, purchase of substantially all assets of such other entity or purchase of all outstanding shares of securities of such other entity) pursuant to which: (i) Unity shall, as all or part of the consideration for such acquisition, issue to the shareholders of such other entity, such number of voting securities as shall equal 35% or more of the then outstanding voting Unity securities (measured prior to the consummated Significant Acquisition); and (ii) in the case of a merger, Unity shall be the surviving entity.

(e) If Executive’s employment with Employer is terminated within twelve of the consummation of a Significant Acquisition, regardless of whether such termination is by Employer or through Executive’s resignation of employment with Employer, Executive shall be entitled to receive a payment equal to twelve months of the Executive’s Base Salary, plus an additional payment equal to 12 twelfths (12/12ths) of the cash bonus received by the Executive for the Employer's preceding fiscal year. Such payment shall, be made to Executive in a single lump sum payment to be made in accordance with Section 17 hereof. In addition to the foregoing, Executive shall, during the twelve months following the termination of his/her employment be entitled to receive from Employer or its successor, hospital, health, medical and life insurance benefits on the terms and at the same cost to Executive as Executive was receiving such benefits upon the date of termination of Executive’s employment. Notwithstanding the preceding sentence, in the event the Executive obtains new employment during any period that the Employer is obligated to provide hospital, health, medical and life insurance benefits hereunder and such new employment provides for hospital, health, medical and life insurance benefits in a manner substantially similar to the benefits to be provided by Employer hereunder, Employer may permanently terminate the duplicate benefits it is obligated to provide hereunder. It is understood and agreed that Executive must provide Employer with Notice of such employment obtained while such benefits are being provided. In the event Executive becomes entitled to receive the amount due under this paragraph (e), subject to paragraph (f) hereof, the unvested stock options or unvested awards of Unity common stock previously granted to Executive shall accelerate and become fully vested on the date of Executive’s termination of employment. It is hereby understood and agreed that payments that may become due to the Executive under this sub-paragraph (e) shall be in lieu of, and not in addition to, any payments the Executive may be entitled to under Section 2(b) hereof.

(f) Notwithstanding anything contained in this Section 2 above, in the event all compensation to be provided to Executive conditioned upon the occurrence of a Change in Control, whether under this Agreement or in connection with any other agreement or benefit plan of the Employer to which Executive is a party or in which he participates, exceeds 2.99 times the Executive's Base Amount, as that term is defined under Section 280G of the Internal Revenue Code and regulations of the Internal Revenue Service promulgated thereunder, the total compensation to be paid to the Executive shall be reduced to an amount that is $1.00 less than 2.99 times the Executive's Base Amount. Executive shall have the right to determine which benefits to which he would otherwise be entitled shall be reduced.

3. No Guaranty of Employment. Nothing in this Agreement shall be construed to guarantee the employment of the Executive. Executive shall remain an "employee at will" of Employer at all times during the term of this Agreement.

4. Notices. Any and all notices, demands or requests required or permitted to be given under this Agreement shall be given in writing and sent: (i) by registered or certified U.S. mail, return receipt requested; (ii) by hand; (iii) by overnight courier; or (iv) by telecopier addressed to the parties hereto at their addresses set forth above or such other addresses as they may from time-to time designate by written notice, given in accordance with the terms of this Section 4, together with copies thereof as follows:

In the case of the Executive, to the address set forth on the first page hereof or to such other address as Executive shall provide in writing to the Employer for the provisions of notice hereunder.

In the case of Employer, to the address set forth on the first page hereof, with a copy to:

Windels Marx Lane & Mittendorf, LLP

Attn: Robert A Schwartz, Esq.

120 Albany Street Plaza

New Brunswick, NJ 08901

Telecopier No. (732) 846-8877

Notice given as provided in this Section 4 shall be deemed effective: (i) on the date hand delivered; (ii) on the first business day following the sending thereof by overnight courier; (iii) on the seventh calendar day (or, if it is not a business day, then the next succeeding business day thereafter) after the depositing thereof into the exclusive custody of the U.S. Postal Service; or (iv) on the date telecopied.

5. Term. The term of this Agreement shall immediately end upon (i) the termination of Executive’s employment with the Employer, (ii) Executive no longer serving in the Position, even if still employed by

the Employer, or (iii) any material change to the terms and conditions of Executive’s employment (such as a material reduction in hours worked) even if Executive is still employed in the Position. In addition, notwithstanding any provision of this Agreement, the term of this Agreement shall immediately end upon: (i) the Bank or Unity entering into a Memorandum of Understanding with the Federal Deposit Insurance Corporation ("FDIC") or the New Jersey Department of Banking and Insurance ("NJDBI"); (ii) a cease-and-desist order being issued with respect to the Bank or Unity by the FDIC or the NJDBI; or (iii) receipt by either the Bank or Unity of any notice under Federal or state law, which in any way restricts the payment of any amount or benefits which may become due under this Agreement. It is hereby understood and agreed that, upon the termination of the term of this Agreement due to the occurrence of any of the events described in the foregoing clauses (i), (ii) or (iii), this Agreement shall be deemed terminated and the Employer shall have no further obligation to pay any amounts to the Executive or provide any further benefits to the Executive. Notwithstanding the forgoing, upon the occurrence of the events described in clauses (i), (ii) or (iii) above, the Boards of Directors of Unity and the Bank may, by joint resolution of both Boards, waive the termination of this Agreement and elect to maintain this Agreement in full force and effect, subject to the terms, including the term set forth above, of this Agreement.

6. Confidential Information.

(a) As used herein, "Confidential Information" means any confidential or proprietary information relating to the Employer and its affiliates including, without limitation, the identity of the Employer's customers, the identity of representatives of customers with whom the Employer has dealt, the kinds of services provided by the Employer to customers, the manner in which such services are performed or offered to be performed, the service needs of actual or prospective customers, customer preferences and policies, pricing information, business and marketing plans, financial information, budgets, compensation or personnel records, information concerning the creation, acquisition or disposition of products and services, vendors, software, data processing programs, databases, customer maintenance listings, computer software applications, research and development data, know-how, and other trade secrets.

(b) Notwithstanding the above, Confidential Information does not include information which: (i) is or becomes public knowledge without breach of this Agreement; or (ii) is received by Executive from a third party without any violation of any obligation of confidentiality and without confidentiality restrictions; provided, however, that nothing in this Agreement shall prevent the Executive from participating in or disclosing documents or information in connection with any judicial or administrative investigation, inquiry or proceeding and participating in any monetary award related to such participation or information or to the extent that such participation or disclosure is required under applicable law; provided further, however, that with regard to legally required participation or disclosure the Executive will provide the Employer with prompt notice of such request, to the extent legally permitted to do so, so that the Employer may seek (with the cooperation of the Executive, if so requested by the Employer), a protective order or other appropriate remedy and/or waiver in writing of compliance with the provisions of this Agreement. If a particular portion or aspect of Confidential Information becomes subject to any of the foregoing exceptions, all other portions or aspects of such information shall remain subject to all of the provisions of this Agreement. At all times, both during the period of Executive's services for the Employer and after termination of Executive's services, the Executive will keep in strictest confidence and trust all Confidential Information and the Executive will not directly or indirectly use or disclose to any third-party any Confidential Information, except as may be necessary in the ordinary course of performing the Executive’s duties for the Employer, or disclose any Confidential Information, or permit or encourage any other person or entity to do so, without the prior written consent of the Employer except as may be necessary in the ordinary course of performing the Executive’s duties for the Employer.

(c) The Executive agrees to return promptly all Confidential Information in tangible form, including, without limitation, all photocopies, extracts and summaries thereof, and any such information stored electronically on tapes, computer disks, mobile or remote computers (including personal digital assistants) or in any other manner to the Employer at any time that the Employer makes such a request and automatically, without request, within five days after the termination of the Executive's performance of services for the Employer for any reason.

7. Assignability. Neither this Agreement nor the rights or obligations of Executive hereunder may be assigned, whether by operation of law or otherwise. This Agreement shall be binding upon the Employer, its successors and assignees. The Bank and Unity shall require any successor or assignee, whether direct or indirect, by purchase, merger, consolidation or otherwise, to all or substantially all the business or assets of the Bank and Unity, to expressly and unconditionally agree to assume and discharge the obligations of the Bank and Unity under this Agreement, in the same manner and to the same extent that the Bank and Unity would be required to perform if no such succession or assignment had taken place:

8. Waiver. The waiver by Employer or the Executive of a breach of any provision of this Agreement by the other shall not operate or be construed as a waiver of any subsequent or other breach hereof.

9. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey without giving effect to principles of conflict of laws.

10. Entire Agreement. This Agreement contains the entire agreement of the parties hereto with respect to the subject matter hereof and may not be amended, waived, changed, modified or discharged, except by an agreement in writing signed by the parties hereto.

11. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument.

12. Amendment. This Agreement may be modified or amended only by an amendment in writing signed by both parties.

13. Severability. If any provision of this Agreement shall be held invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision, only to the extent it is invalid or

unenforceable, and shall not in any manner affect or render invalid or unenforceable any other severable provision of this Agreement, and this Agreement shall be carried out as if any such invalid or unenforceable provision were not contained herein.

14. Section Headings. The headings contained in this Agreement are solely for convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

15. Fees and Expenses. If any party to this Agreement institutes any action or proceeding to enforce this Agreement, the prevailing party in such action or proceeding shall be entitled to recover from the non-prevailing party all legal costs and expenses incurred by the prevailing party in such action, including, but not limited to, reasonable attorney's fees and other reasonable legal costs and expenses.

16. Legal Representation. The Executive hereby acknowledges that this Agreement has been prepared by Windels Marx Lane & Mittendorf , LLP as legal counsel for Unity and the Bank and that the Executive was given the opportunity to consult with independent legal counsel regarding this Agreement prior to his/her execution of this Agreement

17. Release. All payments and benefits under Section 2 hereof shall be contingent upon Executive executing a general release of claims in favor of Unity, its subsidiaries and affiliates, and their respective officers, directors, shareholders, partners, members, managers, agents or employees, and which must be executed by the Executive no later than the twenty second (22nd) day after the termination of Executive's employment. Payments under this Agreement that are contingent upon such release shall, subject to Section 18, commence within eight (8) days after such release becomes effective; provided, however, that if Executive's termination of employment occurs on or after November 15 of a calendar year, then severance payments shall, subject to the effectiveness of such release and Section 18, commence on the first business day of the following calendar year.

18. Section 409A Compliance. If the Executive is a "specified employee" for purposes of Section 409A of the Code, to the extent required to comply with Section 409A of the Code, any payments required to be made pursuant to this Agreement which are deferred compensation and subject to Section 409A of the Code (and do not qualify for an exemption thereunder) shall not commence until one day after the day which is six (6) months from the date of termination. Should this Section 18 result in a delay of payments to the Executive, on the first day any such payments may be made incurring a penalty pursuant to Section 409A (the "409A Payment Date"), the Employer shall begin to make such payments as described in this Section 18, provided that any amounts would have been paid earlier but for application of this Section 18 shall be paid in lump-sum of the 409A Payment Date.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement under their respective hands and seals as of the day and year first above written

ATTEST: UNITY BANK

By: ____________________

James Hughes

President & Chief Executive Officer

ATTEST: UNITY BANCORP, INC.

By: ____________________

James Hughes

President & Chief Executive Officer

WITNESS EMPLOYEE

By: ____________________

Vincent Geraci

CHANGE IN CONTROL AGREEMENT

CHANGE IN CONTROL AGREEMENT (this "**Agreement**") made as of this 7th day of December, 2023, by and among **UNITY BANK**, a New Jersey state bank with its principal place of business located at 64 Old Highway 22, Clinton, New Jersey 08809 (the "**Bank**"), **UNITY BANCORP, INC.** a New Jersey corporation with its principal place of business located at 64 Old Highway 22, Clinton, New Jersey 08809 ("**Unity**", and collectively with the Bank, the "**Employer**"), and Minsu Kim, an individual, residing at 103 Park Avenue, Unit C2, Summit, New Jersey 07901 (the "**Executive**").

WITNESSETH:

WHEREAS, Executive holds the position of Chief Credit Officer, Senior Vice President (the “Position”); and

WHEREAS, in connection this position, Employer and Executive wish to enter into this Agreement;

NOW, THEREFORE, in consideration of the mutual promises and undertakings herein contained, the parties hereto, intending to be legally bound, agree as follows:

Termination. Executive may be terminated at any time, without prejudice to Executive's right to compensation or benefits pursuant to any benefit plan or policy of Employer.

Change in Control

For purposes of this Agreement, a "Change in Control" shall mean:

a reorganization, merger, consolidation or sale of all or substantially all of the assets of Unity or a similar transaction in which Unity is not the resulting entity; or

individuals who constitute the Incumbent Board (as herein defined) of Unity cease for any reason to constitute a majority thereof; or

the occurrence of an event of a nature that would be required to be reported in response to Item 1.01 of the Current Report on Form 8-K, as then in effect, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); or

Without limitation, a "change in control" shall be deemed to have occurred at such time as any "person" (as the term is used in Section 13(d) and 14(d) of the Exchange Act) other than Unity or the trustees or any administrator of any employee stock ownership plan and trust, or any other employee benefit plans, established by Employer from time-to-time is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly, of securities of Unity representing 35% or more of Unity's outstanding securities ordinarily having the right to vote at the election of directors; or

A proxy statement soliciting proxies from stockholders of Unity is disseminated by someone other than the current management of Unity, seeking stockholder approval of a plan of reorganization, merger or consolidation of Unity or similar transaction with one or more corporations as a result of which the outstanding shares of the class of securities then subject to the plan or transaction are exchanged or converted into cash or property or securities not issued by Unity, and the proponent of such proxy statement shall have obtained the vote required to approve such proposal; or

A tender offer is made for 35% or more of the voting securities of Unity and shareholders owning beneficially or of record 35% or more of the outstanding securities of Unity have tendered or offered to sell their shares pursuant to such tender and such tendered shares have been accepted by the tender offeror.

For these purposes, "Incumbent Board" means the Board of Directors of Unity on the date hereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by members or stockholders was approved by the same nominating committee serving under an Incumbent Board, shall be considered as if he were a member of the Incumbent Board.

Upon the occurrence of a Change in Control, and, in connection with such Change in Control, if Executive's employment with Employer and/or its successors is terminated within nine months of such Change in Control, regardless of whether such termination is by Employer or its successor, through Executive's resignation of employment with Employer or its successor with or without good cause, or Executive's failure to accept an offer of employment with any successor to Employer, Executive shall be entitled to receive a payment equal to nine months of the Executive's Base Salary plus an additional payment equal to nine twelfths (9/12ths) of the cash bonus received by the Executive for the Employer's preceding fiscal year. Such payment shall be made to Executive in a single lump sum payment and shall be made in accordance with Section 17 hereof. In addition to the foregoing, Executive shall, during the nine months following the termination of Executive’s employment be entitled to receive from Employer or its successor, hospital, health, medical and life insurance benefits on the terms and at the same cost to Executive as Executive was receiving such benefits upon the date of termination of Executive's employment. Notwithstanding the preceding sentence, in the event the Executive obtains new employment during any period that the Employer is obligated to provide hospital, health, medical and life insurance benefits hereunder and such new employment provides for hospital, health, medical and life insurance benefits in a manner substantially similar to the benefits to be provided by Employer hereunder, Employer may permanently terminate the duplicative benefits it is obligated to provide hereunder. It is understood and agreed that Executive must provide Employer with notice of such employment obtained while such benefits are being provided. Notwithstanding the forgoing, upon a Change in Control, Executive shall not have the right to receive the payments provided for above due to the Executive's resignation of employment with Employer or its successor or Executive's failure to accept an offer of employment with any successor to Employer if, following such transaction, (i) a majority of the individuals constituting the Board of the resulting entity are members of the Incumbent Board and (ii) a majority of the "senior officer positions" of the resulting entity are held by individuals who held "senior officer positions" with the Employer prior to such transaction.

For purposes hereof, the “senior officer positions” shall include such of the following positions as the Employer shall separately maintain prior to any such transaction: the Chairman, Chief Executive Officer, President, Chief Financial Officer, Senior Lending Officer.

Upon the occurrence of a Change in Control, subject to paragraph (d) hereof, the vesting period for any unvested stock options or unvested awards of Unity common stock previously granted to Executive shall accelerate and become fully vested on the date of the Change in Control.

For purposes of this Agreement, a “Significant Acquisition” shall mean an acquisition of another entity by Unity (either by way of merger, purchase of substantially all assets of such other entity or purchase of all outstanding shares of securities of such other entity) pursuant to which: (i) Unity shall, as all or part of the consideration for such acquisition, issue to the shareholders of such other entity, such number of voting securities as shall equal 35% or more of the then outstanding voting Unity securities (measured prior to the consummated Significant Acquisition); and (ii) in the case of a merger, Unity shall be the surviving entity.

If Executive’s employment with Employer is terminated within nine months of the consummation of a Significant Acquisition, regardless of whether such termination is by Employer or through Executive’s resignation of employment with Employer, Executive shall be entitled to receive a payment equal to nine months of the Executive’s Base Salary, plus an additional payment equal to nine twelfths (9/12ths) of the cash bonus received by the Executive for the Employer's preceding fiscal year. Such payment shall, be made to Executive in a single lump sum payment to be made in accordance with Section 17 hereof. In addition to the foregoing, Executive shall, during the nine (months following the termination of his/her employment be entitled to receive from Employer or its successor, hospital, health, medical and life insurance benefits on the terms and at the same cost to Executive as Executive was receiving such benefits upon the date of termination of Executive’s employment. Notwithstanding the preceding sentence, in the event the Executive obtains new employment during any period that the Employer is obligated to provide hospital, health, medical and life insurance benefits hereunder and such new employment provides for hospital, health, medical and life insurance benefits in a manner substantially similar to the benefits to be provided by Employer hereunder, Employer may permanently terminate the duplicate benefits it is obligated to provide hereunder. It is understood and agreed that Executive must provide Employer with Notice of such employment obtained while such benefits are being provided. In the event Executive becomes entitled to receive the amount due under this paragraph (e), subject to paragraph (f) hereof, the unvested stock options or unvested awards of Unity common stock previously granted to Executive shall accelerate and become fully vested on the date of Executive’s termination of employment. It is hereby understood and agreed that payments that may become due to the Executive under this sub-paragraph (e) shall be in lieu of, and not in addition to, any payments the Executive may be entitled to under Section 2(b) hereof.

Notwithstanding anything contained in this Section 2 above, in the event all compensation to be provided to Executive conditioned upon the occurrence of a Change in Control, whether under this Agreement or in connection with any other agreement or benefit plan of the Employer to which Executive is a party or in which he participates, exceeds 2.99 times the Executive's Base Amount, as that term is defined under Section 280G of the Internal Revenue Code and regulations of the Internal Revenue Service promulgated thereunder, the total compensation to be paid to the Executive shall be reduced to an amount that is $1.00 less than 2.99 times the Executive's Base Amount. Executive shall have the right to determine which benefits to which he would otherwise be entitled shall be reduced.

No Guaranty of Employment. Nothing in this Agreement shall be construed to guarantee the employment of the Executive. Executive shall remain an "employee at will" of Employer at all times during the term of this Agreement.

Notices. Any and all notices, demands or requests required or permitted to be given under this Agreement shall be given in writing and sent: (i) by registered or certified U.S. mail, return receipt requested; (ii) by hand; (iii) by overnight courier; or (iv) by telecopier addressed to the parties hereto at their addresses set forth above or such other addresses as they may from time-to time designate by written notice, given in accordance with the terms of this Section 4, together with copies thereof as follows:

In the case of the Executive, to the address set forth on the first page hereof or to such other address as Executive shall provide in writing to the Employer for the provisions of notice hereunder.

In the case of Employer, to the address set forth on the first page hereof, with a copy to:

Windels Marx Lane & Mittendorf, LLP
Attn: Robert A Schwartz, Esq.
120 Albany Street Plaza
New Brunswick, NJ 08901
Telecopier No. (732) 846-8877

Notice given as provided in this Section4 shall be deemed effective: (i) on the date hand delivered; (ii) on the first business day following the sending thereof by overnight courier; (iii) on the seventh calendar day (or, if it is not a business day, then the next succeeding business day thereafter) after the depositing thereof into the exclusive custody of the U.S. Postal Service; or (iv) on the date telecopied.

Term. The term of this Agreement shall immediately end upon (i) the termination of Executive’s employment with the Employer, (ii) Executive no longer serving in the Position, even if still employed by the Employer, or (iii) any material change to the terms and conditions of Executive’s employment (such as a material reduction in hours worked) even if Executive is still employed in the Position. In addition, notwithstanding any provision of this Agreement, the term of this Agreement shall immediately end upon: (i) the Bank or Unity entering into a Memorandum of Understanding with the Federal Deposit Insurance Corporation ("**FDIC**") or the New Jersey Department of Banking and Insurance ("**NJDBI**"); (ii) a cease-and-desist order being issued with respect to the Bank or Unity by the FDIC or the NJDBI; or (iii) receipt by either the Bank or Unity of any notice under Federal or state law, which in any way restricts the payment of any amount or benefits which may become due under this Agreement. It is hereby understood and agreed that, upon the termination of the term of this Agreement due to the occurrence of any of the events described in the foregoing clauses (i), (ii) or (iii), this Agreement shall be deemed terminated and the Employer shall have no further obligation to pay any amounts to the Executive or provide any further benefits to the Executive. Notwithstanding the forgoing, upon the occurrence of the events described in clauses (i), (ii) or (iii) above, the Boards of Directors of Unity and the Bank may, by joint resolution of both Boards, waive the termination of this Agreement and elect to maintain this Agreement in full force and effect, subject to the terms, including the term set forth above, of this Agreement.

Confidential Information.

As used herein, "Confidential Information" means any confidential or proprietary information relating to the Employer and its affiliates including, without limitation, the identity of the Employer's customers, the identity of representatives of customers with whom the Employer has dealt, the kinds of services provided by the Employer to customers, the manner in which such services are performed or offered to be performed, the service needs of actual or prospective customers, customer preferences and policies, pricing information, business and marketing plans, financial information, budgets, compensation or personnel records, information concerning the creation, acquisition or disposition of products and services, vendors, software, data processing programs, databases, customer maintenance listings, computer software applications, research and development data, know-how, and other trade secrets.

Notwithstanding the above, Confidential Information does not include information which: (i) is or becomes public knowledge without breach of this Agreement; or (ii) is received by Executive from a third party without any violation of any obligation of confidentiality and without confidentiality restrictions; provided, however, that nothing in this Agreement shall prevent the Executive from participating in or disclosing documents or information in connection with any judicial or administrative investigation, inquiry or proceeding and participating in any monetary award related to such participation or information or to the extent that such participation or disclosure is required under applicable law; provided further, however, that with regard to legally required participation or disclosure the Executive will provide the Employer with prompt notice of such request, to the extent legally permitted to do so, so that the Employer may seek (with the cooperation of the Executive, if so requested by the Employer), a protective order or other appropriate remedy and/or waiver in writing of compliance with the provisions of this Agreement. If a particular portion or aspect of Confidential Information becomes subject to any of the foregoing exceptions, all other portions or aspects of such information shall remain subject to all of the provisions of this Agreement. At all times, both during the period of Executive's services for the Employer and after termination of Executive's services, the Executive will keep in strictest confidence and trust all Confidential Information and the Executive will not directly or indirectly use or disclose to any third-party any Confidential Information, except as may be necessary in the ordinary course of performing the Executive's duties for the Employer, or disclose any Confidential Information, or permit or encourage any other person or entity to do so, without the prior written consent of the Employer except as may be necessary in the ordinary course of performing the Executive's duties for the Employer.

The Executive agrees to return promptly all Confidential Information in tangible form, including, without limitation, all photocopies, extracts and summaries thereof, and any such information stored electronically on tapes, computer disks, mobile or remote computers (including personal digital assistants) or in any other manner to the Employer at any time that the Employer makes such a request and automatically, without request, within five days after the termination of the Executive's performance of services for the Employer for any reason.

Assignability. Neither this Agreement nor the rights or obligations of Executive hereunder may be assigned, whether by operation of law or otherwise. This Agreement shall be binding upon the Employer, its successors and assignees. The Bank and Unity shall require any successor or assignee, whether direct or indirect, by purchase, merger, consolidation or otherwise, to all or substantially all the business or assets of the Bank and Unity, to expressly and unconditionally agree to assume and discharge the obligations of the Bank and Unity under this Agreement, in the same manner and to the same extent that the Bank and Unity would be required to perform if no such succession or assignment had taken place:

Waiver. The waiver by Employer or the Executive of a breach of any provision of this Agreement by the other shall not operate or be construed as a waiver of any subsequent or other breach hereof.

Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey without giving effect to principles of conflict of laws.

Entire Agreement. This Agreement contains the entire agreement of the parties hereto with respect to the subject matter hereof and may not be amended, waived, changed, modified or discharged, except by an agreement in writing signed by the parties hereto.

Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument.

Amendment. This Agreement may be modified or amended only by an amendment in writing signed by both parties.

Severability. If any provision of this Agreement shall be held invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision, only to the extent it is invalid or unenforceable, and shall not in any manner affect or render invalid or unenforceable any other severable provision of this Agreement, and this Agreement shall be carried out as if any such invalid or unenforceable provision were not contained herein.

Section Headings. The headings contained in this Agreement are solely for convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

Fees and Expenses. If any party to this Agreement institutes any action or proceeding to enforce this Agreement, the prevailing party in such action or proceeding shall be entitled to recover from the non-prevailing party all legal costs and expenses incurred by the prevailing party in such action, including, but not limited to, reasonable attorney's fees and other reasonable legal costs and expenses.

Legal Representation. The Executive hereby acknowledges that this Agreement has been prepared by Windels Marx Lane & Mittendorf , LLP as legal counsel for Unity and the Bank and that the Executive was given the opportunity to consult with independent legal counsel regarding this Agreement prior to his/her execution of this Agreement

Release. All payments and benefits under Section 2 hereof shall be contingent upon Executive executing a general release of claims in favor of Unity, its subsidiaries and affiliates, and their respective officers, directors, shareholders, partners, members, managers, agents or employees, and which must be executed by the Executive no later than the twenty second (22nd) day after the termination of Executive's employment. Payments under this Agreement that are contingent upon such release shall, subject to Section 18, commence within eight (8) days after such release becomes effective; provided, however, that if Executive's termination of employment occurs on or after November 15 of a calendar year, then severance payments shall, subject to the effectiveness of such release and Section 18, commence on the first business day of the following calendar year.

Section 409A Compliance. If the Executive is a "specified employee" for purposes of Section 409A of the Code, to the extent required to comply with Section 409A of the Code, any payments required to be made pursuant to this Agreement which are deferred compensation and subject to Section 409A of the Code (and do not qualify for an exemption thereunder) shall not commence until one day after the day which is six (6) months from the date of termination. Should this Section 18 result in a delay of payments to the Executive, on the first day any such payments may be made incurring a penalty pursuant to Section 409A (the "**409A Payment Date**"), the Employer shall begin to make such payments as described in this Section 18, provided that any amounts would have been paid earlier but for application of this Section 18 shall be paid in lump-sum of the 409A Payment Date.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement under their respective hands and seals as of the day and year first above written

ATTEST:	**UNITY BANK**
	By: ______________________ James Hughes President & Chief Executive Officer
ATTEST:	**UNITY BANCORP, INC.**
	By: ______________________ James Hughes President & Chief Executive Officer
WITNESS	**EMPLOYEE**
	By: ______________________ Minsu Kim

CHANGE IN CONTROL AGREEMENT

CHANGE IN CONTROL AGREEMENT (this "**Agreement**") made as of this 7th day of December, 2023, by and among **UNITY BANK**, a New Jersey state bank with its principal place of business located at 64 Old Highway 22, Clinton, New Jersey 08809 (the "**Bank**"), **UNITY BANCORP, INC.** a New Jersey corporation with its principal place of business located at 64 Old Highway 22, Clinton, New Jersey 08809 ("**Unity**", and collectively with the Bank, the "**Employer**"), and David Bove, an individual, residing at 55 Waltman Loop Lane, Easton, Pennsylvania 18042 (the "**Executive**").

WITNESSETH:

WHEREAS, Executive holds the position of Chief Technology Officer, Senior Vice President (the "Position"); and

WHEREAS, in connection this position, Employer and Executive wish to enter into this Agreement;

NOW, THEREFORE, in consideration of the mutual promises and undertakings herein contained, the parties hereto, intending to be legally bound, agree as follows:

Termination. Executive may be terminated at any time, without prejudice to Executive's right to compensation or benefits pursuant to any benefit plan or policy of Employer.

Change in Control

For purposes of this Agreement, a "Change in Control" shall mean:

a reorganization, merger, consolidation or sale of all or substantially all of the assets of Unity or a similar transaction in which Unity is not the resulting entity; or

individuals who constitute the Incumbent Board (as herein defined) of Unity cease for any reason to constitute a majority thereof; or

the occurrence of an event of a nature that would be required to be reported in response to Item 1.01 of the Current Report on Form 8-K, as then in effect, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); or

Without limitation, a "change in control" shall be deemed to have occurred at such time as any "person" (as the term is used in Section 13(d) and 14(d) of the Exchange Act) other than Unity or the trustees or any administrator of any employee stock ownership plan and trust, or any other employee benefit plans, established by Employer from time-to-time is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly, of securities of Unity representing 35% or more of Unity's outstanding securities ordinarily having the right to vote at the election of directors; or

A proxy statement soliciting proxies from stockholders of Unity is disseminated by someone other than the current management of Unity, seeking stockholder approval of a plan of reorganization, merger or consolidation of Unity or similar transaction with one or more corporations as a result of which the outstanding shares of the class of securities then subject to the plan or transaction are exchanged or converted into cash or property or securities not issued by Unity, and the proponent of such proxy statement shall have obtained the vote required to approve such proposal; or

A tender offer is made for 35% or more of the voting securities of Unity and shareholders owning beneficially or of record 35% or more of the outstanding securities of Unity have tendered or offered to sell their shares pursuant to such tender and such tendered shares have been accepted by the tender offeror.

For these purposes, "Incumbent Board" means the Board of Directors of Unity on the date hereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by members or stockholders was approved by the same nominating committee serving under an Incumbent Board, shall be considered as if he were a member of the Incumbent Board.

Upon the occurrence of a Change in Control, and, in connection with such Change in Control, if Executive's employment with Employer and/or its successors is terminated within nine months of such Change in Control, regardless of whether such termination is by Employer or its successor, through Executive's resignation of employment with Employer or its successor with or without good cause, or Executive's failure to accept an offer of employment with any successor to Employer, Executive shall be entitled to receive a payment equal to nine months of the Executive's Base Salary plus an additional payment equal to nine twelfths (9/12ths) of the cash bonus received by the Executive for the Employer's preceding fiscal year. Such payment shall be made to Executive in a single lump sum payment and shall be made in accordance with Section 17 hereof. In addition to the foregoing, Executive shall, during the nine months following the termination of Executive’s employment be entitled to receive from Employer or its successor, hospital, health, medical and life insurance benefits on the terms and at the same cost to Executive as Executive was receiving such benefits upon the date of termination of Executive's employment. Notwithstanding the preceding sentence, in the event the Executive obtains new employment during any period that the Employer is obligated to provide hospital, health, medical and life insurance benefits hereunder and such new employment provides for hospital, health, medical and life insurance benefits in a manner substantially similar to the benefits to be provided by Employer hereunder, Employer may permanently terminate the duplicative benefits it is obligated to provide hereunder. It is understood and agreed that Executive must provide Employer with notice of such employment obtained while such benefits are being provided. Notwithstanding the forgoing, upon a Change in Control, Executive shall not have the right to receive the payments provided for above due to the Executive's resignation of employment with Employer or its successor or Executive's failure to accept an offer of employment with any successor to Employer if, following such transaction, (i) a majority of the individuals constituting the Board of the resulting entity are members of the Incumbent Board and (ii) a majority of the "senior officer positions" of the resulting entity are held by individuals who held "senior officer positions" with the Employer prior to such transaction.

For purposes hereof, the “senior officer positions” shall include such of the following positions as the Employer shall separately maintain prior to any such transaction: the Chairman, Chief Executive Officer, President, Chief Financial Officer, Senior Lending Officer.

Upon the occurrence of a Change in Control, subject to paragraph (d) hereof, the vesting period for any unvested stock options or unvested awards of Unity common stock previously granted to Executive shall accelerate and become fully vested on the date of the Change in Control.

For purposes of this Agreement, a “Significant Acquisition” shall mean an acquisition of another entity by Unity (either by way of merger, purchase of substantially all assets of such other entity or purchase of all outstanding shares of securities of such other entity) pursuant to which: (i) Unity shall, as all or part of the consideration for such acquisition, issue to the shareholders of such other entity, such number of voting securities as shall equal 35% or more of the then outstanding voting Unity securities (measured prior to the consummated Significant Acquisition); and (ii) in the case of a merger, Unity shall be the surviving entity.

If Executive’s employment with Employer is terminated within nine months of the consummation of a Significant Acquisition, regardless of whether such termination is by Employer or through Executive’s resignation of employment with Employer, Executive shall be entitled to receive a payment equal to nine months of the Executive’s Base Salary, plus an additional payment equal to nine twelfths (9/12ths) of the cash bonus received by the Executive for the Employer's preceding fiscal year. Such payment shall, be made to Executive in a single lump sum payment to be made in accordance with Section 17 hereof. In addition to the foregoing, Executive shall, during the nine (months following the termination of his/her employment be entitled to receive from Employer or its successor, hospital, health, medical and life insurance benefits on the terms and at the same cost to Executive as Executive was receiving such benefits upon the date of termination of Executive’s employment. Notwithstanding the preceding sentence, in the event the Executive obtains new employment during any period that the Employer is obligated to provide hospital, health, medical and life insurance benefits hereunder and such new employment provides for hospital, health, medical and life insurance benefits in a manner substantially similar to the benefits to be provided by Employer hereunder, Employer may permanently terminate the duplicate benefits it is obligated to provide hereunder. It is understood and agreed that Executive must provide Employer with Notice of such employment obtained while such benefits are being provided. In the event Executive becomes entitled to receive the amount due under this paragraph (e), subject to paragraph (f) hereof, the unvested stock options or unvested awards of Unity common stock previously granted to Executive shall accelerate and become fully vested on the date of Executive’s termination of employment. It is hereby understood and agreed that payments that may become due to the Executive under this sub-paragraph (e) shall be in lieu of, and not in addition to, any payments the Executive may be entitled to under Section 2(b) hereof.

Notwithstanding anything contained in this Section 2 above, in the event all compensation to be provided to Executive conditioned upon the occurrence of a Change in Control, whether under this Agreement or in connection with any other agreement or benefit plan of the Employer to which Executive is a party or in which he participates, exceeds 2.99 times the Executive's Base Amount, as that term is defined under Section 280G of the Internal Revenue Code and regulations of the Internal Revenue Service promulgated thereunder, the total compensation to be paid to the Executive shall be reduced to an amount that is $1.00 less than 2.99 times the Executive's Base Amount. Executive shall have the right to determine which benefits to which he would otherwise be entitled shall be reduced.

No Guaranty of Employment. Nothing in this Agreement shall be construed to guarantee the employment of the Executive. Executive shall remain an "employee at will" of Employer at all times during the term of this Agreement.

Notices. Any and all notices, demands or requests required or permitted to be given under this Agreement shall be given in writing and sent: (i) by registered or certified U.S. mail, return receipt requested; (ii) by hand; (iii) by overnight courier; or (iv) by telecopier addressed to the parties hereto at their addresses set forth above or such other addresses as they may from time-to time designate by written notice, given in accordance with the terms of this Section 4, together with copies thereof as follows:

In the case of the Executive, to the address set forth on the first page hereof or to such other address as Executive shall provide in writing to the Employer for the provisions of notice hereunder.

In the case of Employer, to the address set forth on the first page hereof, with a copy to:

Windels Marx Lane & Mittendorf, LLP
Attn: Robert A Schwartz, Esq.
120 Albany Street Plaza
New Brunswick, NJ 08901
Telecopier No. (732) 846-8877

Notice given as provided in this Section4 shall be deemed effective: (i) on the date hand delivered; (ii) on the first business day following the sending thereof by overnight courier; (iii) on the seventh calendar day (or, if it is not a business day, then the next succeeding business day thereafter) after the depositing thereof into the exclusive custody of the U.S. Postal Service; or (iv) on the date telecopied.

Term. The term of this Agreement shall immediately end upon (i) the termination of Executive's employment with the Employer, (ii) Executive no longer serving in the Position, even if still employed by the Employer, or (iii) any material change to the terms and conditions of Executive's employment (such as a material reduction in hours worked) even if Executive is still employed in the Position. In addition, notwithstanding any provision of this Agreement, the term of this Agreement shall immediately end upon: (i) the Bank or Unity entering into a Memorandum of Understanding with the Federal Deposit Insurance Corporation ("**FDIC**") or the New Jersey Department of Banking and Insurance ("**NJDBI**"); (ii) a cease-and-desist order being issued with respect to the Bank or Unity by the FDIC or the NJDBI; or (iii) receipt by either the Bank or Unity of any notice under Federal or state law, which in any way restricts the payment of any amount or benefits which may become due under this Agreement. It is hereby understood and agreed that, upon the termination of the term of this Agreement due to the occurrence of any of the events described in the foregoing clauses (i), (ii) or (iii), this Agreement shall be deemed terminated and the Employer shall have no further obligation to pay any amounts to the Executive or provide any further benefits to the Executive. Notwithstanding the forgoing, upon the occurrence of the events described in clauses (i), (ii) or (iii) above, the Boards of Directors of Unity and the Bank may, by joint resolution of both Boards, waive the termination of this Agreement and elect to maintain this Agreement in full force and effect, subject to the terms, including the term set forth above, of this Agreement.

Confidential Information.

As used herein, "Confidential Information" means any confidential or proprietary information relating to the Employer and its affiliates including, without limitation, the identity of the Employer's customers, the identity of representatives of customers with whom the Employer has dealt, the kinds of services provided by the Employer to customers, the manner in which such services are performed or offered to be performed, the service needs of actual or prospective customers, customer preferences and policies, pricing information, business and marketing plans, financial information, budgets, compensation or personnel records, information concerning the creation, acquisition or disposition of products and services, vendors, software, data processing programs, databases, customer maintenance listings, computer software applications, research and development data, know-how, and other trade secrets.

Notwithstanding the above, Confidential Information does not include information which: (i) is or becomes public knowledge without breach of this Agreement; or (ii) is received by Executive from a third party without any violation of any obligation of confidentiality and without confidentiality restrictions; provided, however, that nothing in this Agreement shall prevent the Executive from participating in or disclosing documents or information in connection with any judicial or administrative investigation, inquiry or proceeding and participating in any monetary award related to such participation or information or to the extent that such participation or disclosure is required under applicable law; provided further, however, that with regard to legally required participation or disclosure the Executive will provide the Employer with prompt notice of such request, to the extent legally permitted to do so, so that the Employer may seek (with the cooperation of the Executive, if so requested by the Employer), a protective order or other appropriate remedy and/or waiver in writing of compliance with the provisions of this Agreement. If a particular portion or aspect of Confidential Information becomes subject to any of the foregoing exceptions, all other portions or aspects of such information shall remain subject to all of the provisions of this Agreement. At all times, both during the period of Executive's services for the Employer and after termination of Executive's services, the Executive will keep in strictest confidence and trust all Confidential Information and the Executive will not directly or indirectly use or disclose to any third-party any Confidential Information, except as may be necessary in the ordinary course of performing the Executive’s duties for the Employer, or disclose any Confidential Information, or permit or encourage any other person or entity to do so, without the prior written consent of the Employer except as may be necessary in the ordinary course of performing the Executive’s duties for the Employer.

The Executive agrees to return promptly all Confidential Information in tangible form, including, without limitation, all photocopies, extracts and summaries thereof, and any such information stored electronically on tapes, computer disks, mobile or remote computers (including personal digital assistants) or in any other manner to the Employer at any time that the Employer makes such a request and automatically, without request, within five days after the termination of the Executive's performance of services for the Employer for any reason.

<u>Assignability.</u> Neither this Agreement nor the rights or obligations of Executive hereunder may be assigned, whether by operation of law or otherwise. This Agreement shall be binding upon the Employer, its successors and assignees. The Bank and Unity shall require any successor or assignee, whether direct or indirect, by purchase, merger, consolidation or otherwise, to all or substantially all the business or assets of the Bank and Unity, to expressly and unconditionally agree to assume and discharge the obligations of the Bank and Unity under this Agreement, in the same manner and to the same extent that the Bank and Unity would be required to perform if no such succession or assignment had taken place:

<u>Waiver.</u> The waiver by Employer or the Executive of a breach of any provision of this Agreement by the other shall not operate or be construed as a waiver of any subsequent or other breach hereof.

<u>Applicable Law.</u> This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey without giving effect to principles of conflict of laws.

<u>Entire Agreement.</u> This Agreement contains the entire agreement of the parties hereto with respect to the subject matter hereof and may not be amended, waived, changed, modified or discharged, except by an agreement in writing signed by the parties hereto.

<u>Counterparts.</u> This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument.

<u>Amendment.</u> This Agreement may be modified or amended only by an amendment in writing signed by both parties.

Severability. If any provision of this Agreement shall be held invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision, only to the extent it is invalid or unenforceable, and shall not in any manner affect or render invalid or unenforceable any other severable provision of this Agreement, and this Agreement shall be carried out as if any such invalid or unenforceable provision were not contained herein.

Section Headings. The headings contained in this Agreement are solely for convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

Fees and Expenses. If any party to this Agreement institutes any action or proceeding to enforce this Agreement, the prevailing party in such action or proceeding shall be entitled to recover from the non-prevailing party all legal costs and expenses incurred by the prevailing party in such action, including, but not limited to, reasonable attorney's fees and other reasonable legal costs and expenses.

Legal Representation. The Executive hereby acknowledges that this Agreement has been prepared by Windels Marx Lane & Mittendorf , LLP as legal counsel for Unity and the Bank and that the Executive was given the opportunity to consult with independent legal counsel regarding this Agreement prior to his/her execution of this Agreement

Release. All payments and benefits under Section 2 hereof shall be contingent upon Executive executing a general release of claims in favor of Unity, its subsidiaries and affiliates, and their respective officers, directors, shareholders, partners, members, managers, agents or employees, and which must be executed by the Executive no later than the twenty second (22nd) day after the termination of Executive's employment. Payments under this Agreement that are contingent upon such release shall, subject to Section 18, commence within eight (8) days after such release becomes effective; provided, however, that if Executive's termination of employment occurs on or after November 15 of a calendar year, then severance payments shall, subject to the effectiveness of such release and Section 18, commence on the first business day of the following calendar year.

Section 409A Compliance. If the Executive is a "specified employee" for purposes of Section 409A of the Code, to the extent required to comply with Section 409A of the Code, any payments required to be made pursuant to this Agreement which are deferred compensation and subject to Section 409A of the Code (and do not qualify for an exemption thereunder) shall not commence until one day after the day which is six (6) months from the date of termination. Should this Section 18 result in a delay of payments to the Executive, on the first day any such payments may be made incurring a penalty pursuant to Section 409A (the "**409A Payment Date**"), the Employer shall begin to make such payments as described in this Section 18, provided that any amounts would have been paid earlier but for application of this Section 18 shall be paid in lump-sum of the 409A Payment Date.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement under their respective hands and seals as of the day and year first above written

ATTEST: **UNITY BANK**

By: ______________________
James Hughes
President & Chief Executive Officer

ATTEST: **UNITY BANCORP, INC.**

By: ______________________
James Hughes
President & Chief Executive Officer

WITNESS **EMPLOYEE**

By: ______________________
David Bove

EXHIBIT 21

SUBSIDIARIES OF REGISTRANT

As of December 31, 2023, the Registrant had two subsidiaries, Unity Bank and Unity (NJ) Statutory Trust II. Unity Risk Management Inc. was dormant and in process of final close out.

Unity Bank has two subsidiaries, Unity Investment Services, Inc. and Unity OREO, LLC, which currently has no real estate activity. Unity Investment Services, Inc. has one subsidiary, Unity Delaware Investment 2, Inc., which has one subsidiary, Unity NJ REIT, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement Nos. 333-189913, 333-204391, 333-218153, 333-231939, and 333-271618 on Form S-8 and Registration No. 333-151276 on Form S-3 of Unity Bancorp, Inc. of our report dated March 10, 2023, relating to the consolidated financial statements of Unity Bancorp, Inc. and Subsidiaries, appearing in this Annual Report on Form 10-K of Unity Bancorp, Inc. for the year ended December 31, 2023.

/s/ RSM US LLP

New York, New York

March 7, 2024

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Nos. 333-189913, 333-204391, 333-218153, 333-231939 and 333-271618) on Form S-8 and Registration Statement (No. 333-151276) on Form S-3 of Unity Bancorp, Inc. (the “Company”) of our reports dated March 7, 2024, relating to the consolidated financial statements and effectiveness of internal control over financial reporting of the Company, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2023.

/s/ Wolf & Company, P.C.

Boston, Massachusetts
March 7, 2024

EXHIBIT 31.1

I, James A. Hughes, certify that:

1. I have reviewed this Annual Report on Form 10-K of Unity Bancorp, Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 7, 2024

/s/ James A. Hughes
James A. Hughes
President and Chief Executive Officer

EXHIBIT 31.2

I, George Boyan, certify that:

1. I have reviewed this Annual Report on Form 10-K of Unity Bancorp, Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 7, 2024

/s/ George Boyan
George Boyan
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C.SECTION1350, AS ADOPTED
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Unity Bancorp, Inc. (the "Company"), certifies that, to the best of their knowledge:

1. The Annual Report on Form 10-K of the Company for the annual period ended December 31, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 7, 2024

/s/ James A. Hughes
James A. Hughes
President and Chief Executive Officer

Dated: March 7, 2024

/s/ George Boyan
George Boyan
Executive Vice President and Chief Financial Officer

This certification is made solely for the purposes of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.

EXHIBIT 4(vi)

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2023, Unity Bancorp, Inc. ("Unity"), the registrant and the registered banking holding Company or Unity Bank ("Unity Bank") had one class of security registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our common stock, no par value per share ("Common Stock").

Description of Capital Stock

We are authorized by our certificate of incorporation to issue 12,500,000 shares of common stock, no par value per share, and 500,000 shares of preferred stock, the terms, rights and features of which are determined by our Board of Directors upon issuance. As of the date hereof, we have 10,063,252 shares of common stock issued and outstanding and no shares of preferred stock issued and outstanding.

Common Stock

The following description contains certain general terms of Unity's common stock.

Dividend Rights

The holders of Unity's common stock are entitled to dividends when, as, and if declared by the Unity board of directors out of funds legally available for the payment of dividends. Generally, New Jersey law prohibits corporations from paying dividends or any other distributions to shareholders, if after giving effect to the distribution, either the corporation would be unable to pay its debts as they become due in the usual course of its business or the corporation's total assets would be less than its total liabilities.

The primary source of dividends paid to the Unity's shareholders is dividends paid to Unity by Unity Bank. Thus, as a practical matter, any restrictions on the ability of Unity Bank to pay dividends will act as restrictions on the amount of funds available for payment of dividends by Unity. Under the New Jersey Banking Act of 1948, as amended, dividends may be paid by Unity Bank only if, after the payment of each such dividend, the capital stock of Unity Bank will be unimpaired and either Unity Bank will have a surplus of not less than 50% of its capital stock or the payment of such dividend will not reduce Unity Bank's surplus. The payment of dividends is also dependent upon the Bank's ability to maintain adequate capital ratios pursuant to applicable regulatory requirements. In addition to these explicit limitations, the federal regulatory agencies are authorized to prohibit a banking subsidiary or bank holding company from engaging in an unsafe or unsound banking practice. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The dividend rights of holders of Unity's common stock are qualified and subject to the dividend rights of holders of Unity's preferred stock that may be issued in the future as described below in the section titled "Preferred Stock".

Voting Rights

Each holder of Unity's common stock is entitled to one vote for each share held on all matters voted upon by the shareholders, including the election of directors. There is no cumulative voting in the election of directors.

Preemptive Rights

Holders of shares of Unity's common stock are not entitled to preemptive rights with respect to any shares of the common stock that may be issued.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of the affairs of Unity, subject to the rights and preferences, if any, of the holders of preferred stock, holders of Unity's common stock are entitled to share, ratably in proportion to the number of shares of common stock held by them, in the remaining assets of Unity available for distribution to its shareholders.

Assessment and Redemption

All outstanding shares of Unity's common stock are fully paid and non-assessable. Unity's common stock is not redeemable at the option of the issuer or the holders thereof.

Transfer Agent

Computershare is presently the transfer agent for Unity's common stock.

Listing

Unity's common stock is listed on the NASDAQ Global Select Market under the symbol "UNTY".

Preferred Stock

Unity has 500,000 authorized shares of preferred stock typically referred to as "blank check" preferred stock. This term refers to stock for which the rights and restrictions are determined by the board of directors of a corporation. Unity's certificate of incorporation authorizes Unity's Board of Directors to issue new shares of Unity's preferred stock without further shareholder action.

Unity's certificate of incorporation gives the board of directors of Unity authority to issue preferred stock from time to time in one or more classes or series thereof, each such class or series to have voting powers (if any), conversion rights (if any), designations, preferences and relative, participating, optional or other special rights, and such qualifications, limitations or restrictions thereof, as shall be determined by the board of directors of Unity and stated and expressed in a resolution or resolutions thereof providing for the issuance of such preferred stock.

With respect to any class or series of preferred stock, Unity's certificate of incorporation allows the board of directors of Unity at any time to determine:

- the dividend rate on shares of such class or series and any restrictions, limitations or conditions upon the payment of such dividends, and whether dividends are cumulative, and the dates on which dividends, if declared, would be payable;
- whether the shares of such class or series would be redeemable and, if so, the terms of redemption;
- the rights of holders of shares of such class or series in the event of the liquidation, dissolution or winding up of Unity, whether voluntary or involuntary, or any other distribution of its assets;
- whether the shares of such class or series would be subject to the operation of a purchase, retirement or sinking fund and, if so, the terms and conditions thereof;
- whether the shares of such class or series would be convertible into shares of any other class or series of the same or any other class, and if so, the terms of such conversion; and
- the extent of voting powers, if any, of the shares of such class or series.

The issuance of additional common or preferred stock may be viewed as having adverse effects upon the holders of common stock. Holders of Unity's common stock do not have preemptive rights with respect to any newly issued stock. Unity's board could adversely affect the voting power of holders of Unity's common stock by issuing shares of preferred stock with certain voting, conversion and/or redemption rights. In the event of a proposed merger, tender offer or other attempt to gain control of Unity that the board does not believe to be in the best interests of its shareholders, the board could issue additional preferred stock which could make any such takeover attempt more difficult to complete. Blank check preferred stock may also be used in connection with the issuance of a shareholder rights plan, sometimes called a poison pill.

Anti-Takeover Provisions

The provisions of our certificate of incorporation, bylaws and the New Jersey corporation law summarized in the following paragraphs may be deemed to have anti-takeover effects and may delay, defer, or prevent a tender offer or takeover attempt that a shareholder might consider to be in such shareholder's best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders, and may make removal of management more difficult.

Authorized but Unissued Stock

The authorized but unissued shares of common stock and preferred stock will be available for future issuance without shareholder approval. These additional shares may be used for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions, and employee benefit plans. The existence of authorized but unissued and unreserved shares of common and preferred stock may enable our Board of Directors to issue shares to persons friendly to current management, which could render more difficult or discourage any attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise, and thereby protect the continuity of our management.

Number of Directors

Our current board is comprised of 10 directors. Our certificate of incorporation currently provides that the Board of Directors shall consist of not less than 1 or more than 16 directors. The number of directors may be amended only by the affirmative vote of a majority of directors then in office or the affirmative vote of shareholders owning at least two-thirds of the outstanding shares entitled to vote.

Classified Board of Directors

Our certificate of incorporation divides the Board of Directors into three classes of directors serving staggered three- year terms. As a result, approximately one-third of the Board of Directors will be elected at each annual meeting of shareholders. The classification of directors will have the effect of making it more difficult for shareholders to change the composition of the Board of Directors. As a result, at least two annual meetings of shareholders may be required for the shareholders to change a majority of the directors, whether or not a change in the Board of Directors would be beneficial to the Company and its shareholders and whether or not a majority of the Company's shareholders believes that such a change would be desirable.

Bank Regulatory Requirements

Under the Federal Change in Bank Control Act (the “Control Act”), a 60 day prior written notice must be submitted to the Board of Governors of the Federal Reserve System (“FRB”) if any person, or any group acting in concert, seeks to acquire 10% or more of any class of outstanding voting securities of a bank holding company, unless the FRB determines that the acquisition will not result in a change of control. Under the Control Act, the FRB has 60 days within which to act on such notice taking into consideration certain factors, including the financial and managerial resources of the acquirer, the convenience and needs of the community served by the bank holding company and its subsidiary banks and the antitrust effects of the acquisition. Under the Bank Holding Company Act of 1956, as amended (‘BHCA”), a company is generally required to obtain prior approval of the FRB before it may obtain control of a bank holding company. Under the BHCA, control is generally described to mean the beneficial ownership of 25% or more of the outstanding voting securities of a company, although a presumption of control may exist if a party beneficially owns 10% or more of the outstanding voting securities of a company and certain other circumstances are present.

New Jersey Shareholders Protection Act

A provision of New Jersey law, the New Jersey Shareholders’Protection Act (the “Shareholders’Protection Act”), prohibits certain transactions involving an “interested stockholder” and a resident domestic corporation. When used in reference to any such corporation, an “interested stockholder” is generally defined as one who is the beneficial owner, directly or indirectly, of 10% or more of the voting power of the outstanding voting stock of that corporation or who is an affiliate or associate of that corporation and at any time within the five-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding stock of that corporation.

The Shareholders' Protection Act generally prohibits any business combination between an interested stockholder and a resident domestic corporation for a period of five years following that interested stockholder's stock acquisition date unless: (a) that business combination is approved by the corporation's board of directors prior to that interested stockholder's stock acquisition date or (b) the transaction(s) which caused the person to become an interested stockholder was approved by the corporation's board of directors prior to that interested stockholder's stock acquisition date and any subsequent business combinations with that interested stockholder are approved by the corporation's board of directors, provided that any such subsequent business combination is approved by (1) the board of directors, or a committee thereof, consisting solely of persons who are not employees, officers, directors, stockholders, affiliates or associates of that interested stockholder, and (2) the affirmative vote of the holders of a majority of the voting stock not beneficially owned by such interested stockholder at a meeting called for such purpose. After the five-year period expires, the prohibition on business combinations with an interested stockholder continues unless certain conditions are met. Subject to further limitations, these conditions include: (a) a business combination approved by the corporation's board of directors prior to that interested stockholder's stock acquisition date; (b) a business combination approved by a vote of two-thirds of the voting stock not owned by the interested stockholder; (c) a business combination whereby its shareholders receive consideration in accordance with the Shareholders' Protection Act; and (d) a business combination approved by the corporation's board of directors, or a committee thereof, consisting solely of persons who are not employees, officers, directors, stockholders, affiliates or associates of that interested stockholder prior to the consummation of the business combination and by the affirmative vote of the holders of a majority of the voting stock not beneficially owned by such interested stockholder at a meeting called for such purpose if the transaction(s) with the interested stockholder which caused the person to become an interested stockholder was approved by the corporation's board of directors prior to the consummation of such transaction(s).