

REFINITIV

DELTA REPORT

10-Q

UNTY - UNITY BANCORP INC /NJ/

10-Q - JUNE 30, 2024 COMPARED TO 10-Q - MARCH 31, 2024

The following comparison report has been automatically generated

TOTAL DELTAS 835

█ **CHANGES** 334

█ **DELETIONS** 204

█ **ADDITIONS** 297

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, June 30, 2024

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



Graphic

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 **(800) 618-2265**

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 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, as amended, 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 an 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 Nonaccelerated filer Smaller reporting company
Emerging Growth Company

If an emerging growth company, indicate by check mark 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 is a shell company as defined in Rule 12b-2 of the Exchange Act: Yes No

The number of shares outstanding of each of the registrant's classes of common equity stock, as of **April 30, 2024** **July 31, 2024** common stock, no par value: **10,039,119** **9,979,668** shares outstanding.

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PART I CONSOLIDATED FINANCIAL INFORMATION

ITEM 1 Consolidated Financial Statements (Unaudited)

Unity Bancorp, Inc.
Consolidated Balance Sheets
(Unaudited)

<i>(In thousands)</i>	March 31, 2024	December 31, 2023
ASSETS		
Cash and due from banks	\$ 20,619	\$ 20,668
Interest-bearing deposits	162,367	174,108
Cash and cash equivalents	182,986	194,776
 Securities:		
Debt securities available for sale, at market value	94,682	91,765
Debt securities held to maturity, at amortized cost	36,089	36,122

Equity securities, at market value	7,931	7,802
Total securities	138,702	135,689
Loans:		
SBA loans held for sale	18,439	18,242
SBA loans held for investment	39,009	38,584
SBA PPP loans	2,168	2,318
Commercial loans	1,291,319	1,277,460
Residential mortgage loans	627,464	631,506
Consumer loans	72,275	72,676
Residential construction loans	123,783	131,277
Total loans	2,174,457	2,172,063
Allowance for credit losses	(26,080)	(25,854)
Net loans	2,148,377	2,146,209
Premises and equipment, net	19,281	19,567
Bank owned life insurance ("BOLI")	25,295	25,230
Deferred tax assets, net	12,681	12,552
Federal Home Loan Bank ("FHLB") stock	15,896	18,435
Accrued interest receivable	13,165	13,582
Goodwill	1,516	1,516
Prepaid expenses and other assets	10,189	10,951
Total assets	\$ 2,568,088	\$ 2,578,507
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 395,520	\$ 419,636
Interest-bearing demand	325,174	312,208
Savings	504,210	497,491
Brokered deposits	235,755	268,408
Time deposits	500,611	426,397
Total deposits	1,961,270	1,924,140
Borrowed funds	299,397	356,438
Subordinated debentures	10,310	10,310
Accrued interest payable	1,551	1,924
Accrued expenses and other liabilities	28,799	24,265
Total liabilities	2,301,327	2,317,077
Shareholders' equity:		
Common stock	101,676	100,426
Retained earnings	199,380	191,108
Treasury stock	(31,443)	(27,367)
Accumulated other comprehensive loss	(2,852)	(2,737)
Total shareholders' equity	266,761	261,430
Total liabilities and shareholders' equity	\$ 2,568,088	\$ 2,578,507
Shares issued		
Shares outstanding	11,555	11,424
Treasury shares	10,044	10,063
Treasury shares	1,511	1,361
<i>(In thousands)</i>	<i>June 30, 2024</i>	<i>December 31, 2023</i>
ASSETS		
Cash and due from banks	\$ 31,180	\$ 20,668
Interest-bearing deposits	166,238	174,108
Cash and cash equivalents	197,418	194,776
Securities:		
Debt securities available for sale ("AFS"), at fair value	99,081	91,765

Debt securities held to maturity ("HTM"), at amortized cost	36,157	36,122
Equity securities, at fair value	9,949	7,802
Total securities	145,187	135,689
Loans:		
SBA loans held for sale	15,159	18,242
SBA loans held for investment	38,017	38,584
SBA PPP loans	1,734	2,318
Commercial loans	1,318,208	1,277,460
Residential mortgage loans	624,949	631,506
Consumer loans	69,280	72,676
Residential construction loans	103,188	131,277
Total loans	2,170,535	2,172,063
Allowance for credit losses	(26,107)	(25,854)
Net loans	2,144,428	2,146,209
Premises and equipment, net	19,073	19,567
Bank owned life insurance ("BOLI")	25,483	25,230
Deferred tax assets, net	13,294	12,552
Federal Home Loan Bank ("FHLB") stock	14,957	18,435
Accrued interest receivable	13,257	13,582
Goodwill	1,516	1,516
Prepaid expenses and other assets	23,094	10,951
Total assets	\$ 2,597,707	\$ 2,578,507
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 422,001	\$ 419,636
Interest-bearing demand	301,480	312,208
Savings	505,586	497,491
Brokered deposits	221,990	268,408
Time deposits	559,774	426,397
Total deposits	2,010,831	1,924,140
Borrowed funds	274,798	356,438
Subordinated debentures	10,310	10,310
Accrued interest payable	1,657	1,924
Accrued expenses and other liabilities	26,716	24,265
Total liabilities	2,324,312	2,317,077
Shareholders' equity:		
Common stock	102,226	100,426
Retained earnings	207,534	191,108
Treasury stock	(33,285)	(27,367)
Accumulated other comprehensive loss	(3,080)	(2,737)
Total shareholders' equity	273,395	261,430
Total liabilities and shareholders' equity	\$ 2,597,707	\$ 2,578,507
Common shares at period end		
Shares issued	11,555	11,424
Shares outstanding	9,975	10,063
Treasury shares	1,580	1,361

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

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Unity Bancorp, Inc.
Consolidated Statements of Income
(Unaudited)

<i>(In thousands, except per share amounts)</i>	For the three months ended March 31,	
	2024	2023
INTEREST INCOME		
Interest-bearing deposits	\$ 420	\$ 333
FHLB stock	280	331
Securities:		
Taxable	1,849	1,739
Tax-exempt	18	19
Total securities	1,867	1,758
Loans:		
SBA loans	1,333	1,404
SBA PPP loans	8	77
Commercial loans	20,830	17,401
Residential mortgage loans	9,219	8,109
Consumer loans	1,402	1,354
Residential construction loans	2,578	2,586
Total loans	35,370	30,931
Total interest income	37,937	33,353
INTEREST EXPENSE		
Interest-bearing demand deposits	1,710	965
Savings deposits	3,144	1,554
Brokered deposits	2,295	1,562
Time deposits	4,699	1,563
Borrowed funds and subordinated debentures	2,248	3,799
Total interest expense	14,096	9,443
Net interest income	23,841	23,910
Provision for credit losses, loans	641	108
Provision for credit losses, off-balance sheet	2	—
Net interest income after provision for credit losses	23,198	23,802
NONINTEREST INCOME		
Branch fee income	243	235
Service and loan fee income	457	503
Gain on sale of SBA loans held for sale, net	238	309
Gain on sale of mortgage loans, net	320	244
BOLI income	65	80
Net security gains (losses)	54	(322)
Other income	341	368
Total noninterest income	1,718	1,417
NONINTEREST EXPENSE		
Compensation and benefits	7,357	7,090
Processing and communications	906	804
Occupancy	798	770
Furniture and equipment	684	689

Professional services	436	427		
Advertising	400	260		
Loan related expenses	384	175		
Deposit insurance	339	348		
Director fees	247	217		
Other expenses	581	648		
Total noninterest expense	12,132	11,428		
Income before provision for income taxes	12,784	13,791		
Provision for income taxes	3,198	3,504		
Net income	\$ 9,586	\$ 10,287		
Net income per common share – Basic	\$ 0.95	\$ 0.98		
Net income per common share – Diluted	\$ 0.93	\$ 0.96		
Weighted average common shares outstanding – Basic	10,127	10,538		
Weighted average common shares outstanding – Diluted	10,276	10,686		
For the three months ended June				
30,				
(In thousands, except per share amounts)				
2024	2023	2024		
2023		2023		
INTEREST INCOME				
Interest-bearing deposits	\$ 435	\$ 441	\$ 855	\$ 775
FHLB stock	180	343	460	674
Securities:				
Taxable	1,749	1,798	3,598	3,537
Tax-exempt	17	19	35	38
Total securities	1,766	1,817	3,633	3,575
Loans:				
SBA loans	1,276	1,403	2,609	2,807
SBA PPP loans	11	27	19	104
Commercial loans	21,160	18,621	41,990	36,022
Residential mortgage loans	9,316	8,532	18,535	16,641
Consumer loans	1,390	1,471	2,792	2,825
Residential construction loans	2,453	2,737	5,031	5,323
Total loans	35,606	32,791	70,976	63,722
Total interest income	37,987	35,392	75,924	68,746
INTEREST EXPENSE				
Interest-bearing demand deposits	2,010	1,331	3,720	2,296
Savings deposits	3,349	1,993	6,493	3,548
Brokered deposits	2,181	1,857	4,476	3,419
Time deposits	5,832	2,564	10,531	4,126
Borrowed funds and subordinated debentures	1,191	4,125	3,439	7,924
Total interest expense	14,563	11,870	28,659	21,313
Net interest income	23,424	23,522	47,265	47,433
Provision for credit losses, loans	266	777	907	885
Provision for credit losses, off-balance sheet	13	(84)	15	(84)
Provision for credit losses, AFS debt securities	646	—	646	—
Net interest income after provision for credit losses	22,499	22,829	45,697	46,632
NONINTEREST INCOME				
Branch fee income	266	228	509	463
Service and loan fee income	467	491	924	993
Gain on sale of SBA loans held for sale, net	305	586	543	896
Gain on sale of mortgage loans, net	266	463	586	707
BOLI income	189	84	254	164
Net security gains (losses)	20	(164)	74	(487)
Other income	520	427	861	796

Total noninterest income	2,033	2,115	3,751	3,532
NONINTEREST EXPENSE				
Compensation and benefits	7,121	7,271	14,478	14,361
Processing and communications	840	663	1,746	1,467
Occupancy	815	779	1,613	1,549
Furniture and equipment	819	690	1,503	1,379
Professional services	405	296	841	723
Advertising	397	443	797	703
Loan related expenses	351	130	735	305
Deposit insurance	321	617	660	965
Director fees	231	203	478	420
Other expenses	680	743	1,261	1,391
Total noninterest expense	11,980	11,835	24,112	23,263
Income before provision for income taxes	12,552	13,109	25,336	26,901
Provision for income taxes	3,098	3,409	6,296	6,914
Net income	\$ 9,454	\$ 9,700	\$ 19,040	\$ 19,987
Net income per common share – Basic	\$ 0.94	\$ 0.96	\$ 1.89	\$ 1.94
Net income per common share – Diluted	\$ 0.93	\$ 0.95	\$ 1.86	\$ 1.91
Weighted average common shares outstanding – Basic	10,016	10,103	10,072	10,319
Weighted average common shares outstanding – Diluted	10,149	10,203	10,212	10,444

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

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Unity Bancorp, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)

	For the three months ended					
	March 31, 2024			March 31, 2023		
	Before tax	Income tax	Before tax	Income tax	Before tax	Income tax
<i>(In thousands)</i>	amount	(benefit)	amount	amount	(benefit)	amount
Net income	\$ 12,784	3,198	9,586	13,791	3,504	10,287
Other comprehensive (loss) income before reclassifications						
<i>Debt securities available for sale:</i>						
Unrealized holding losses (gains) on securities arising during the period	(44)	(10)	(34)	359	93	266
Less: reclassification adjustment for losses on securities included in net income	—	—	—	—	—	—
Total unrealized losses on securities available for sale	(44)	(10)	(34)	359	93	266
<i>Net unrealized (losses) gains from cash flow hedges:</i>						

Unrealized holding losses on cash flow hedges arising during the period	(351)	(100)	(251)	(433)	(92)	(341)
Less: reclassification adjustment for gains on cash flow hedges included in net income	(238)	(68)	(170)	(198)	(42)	(156)
Total unrealized losses on cash flow hedges	(113)	(32)	(81)	(235)	(50)	(185)
Total other comprehensive (loss) income	(157)	(42)	(115)	124	43	81
Total comprehensive income	\$ 12,627	\$ 3,156	\$ 9,471	\$ 13,915	\$ 3,547	\$ 10,368
For the three months ended						
		June 30, 2024			June 30, 2023	
(In thousands)						
Net income	\$ 12,552	\$ 3,098	\$ 9,454	\$ 13,109	\$ 3,409	\$ 9,700
Other comprehensive (loss) income before reclassifications						
Debt securities available for sale:						
Unrealized holding losses on securities arising during the period	(118)	(29)	(89)	(683)	(166)	(517)
Less: reclassification adjustment for losses on securities included in net income	—	—	—	—	—	—
Total unrealized losses on securities available for sale	(118)	(29)	(89)	(683)	(166)	(517)
Net unrealized (losses) gains from cash flow hedges:						
Unrealized holding (losses) gains on cash flow hedges arising during the period	(429)	(122)	(307)	319	90	229
Less: reclassification adjustment for (gains) losses on cash flow hedges included in net income	(238)	(70)	(168)	219	63	156
Total unrealized (losses) gains on cash flow hedges	(191)	(52)	(139)	100	27	73
Total other comprehensive loss	(309)	(81)	(228)	(583)	(139)	(444)
Total comprehensive income	\$ 12,243	\$ 3,017	\$ 9,226	\$ 12,526	\$ 3,270	\$ 9,256

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

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Unity Bancorp, Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31, 2024 and 2023
(Unaudited)

	For the six months ended					
	June 30, 2024				June 30, 2023	
	Before tax	Income tax expense	Net of tax	Before tax	Income tax expense	Net of tax

(In thousands)	amount	(benefit)	amount	amount	(benefit)	amount
Net income	\$ 25,336	\$ 6,296	\$ 19,040	\$ 26,901	\$ 6,914	\$ 19,987
Other comprehensive (loss) income						
<i>Debt securities available for sale:</i>						
Unrealized holding losses on securities arising during the period	(162)	(39)	(123)	(324)	(74)	(250)
Less: reclassification adjustment for losses on securities included in net income	—	—	—	—	—	—
Total unrealized losses on securities available for sale	(162)	(39)	(123)	(324)	(74)	(250)
<i>Net unrealized (losses) gains from cash flow hedges:</i>						
Unrealized holding losses on cash flow hedges arising during the period	(780)	(222)	(558)	(552)	(140)	(412)
Less: reclassification adjustment for (gains) losses on cash flow hedges included in net income	(476)	(138)	(338)	(418)	(119)	(299)
Total unrealized losses on cash flow hedges	(304)	(84)	(220)	(134)	(21)	(113)
Total other comprehensive loss	(466)	(123)	(343)	(458)	(95)	(363)
Total comprehensive income	\$ 24,870	\$ 6,173	\$ 18,697	\$ 26,443	\$ 6,819	\$ 19,624

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

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(In thousands)	Accumulated					
	Common Stock		Retained earnings	Treasury stock	comprehensive loss	shareholders' equity
	Shares	Amount				
Balance, December 31, 2023	10,063	\$ 100,426	\$ 191,108	\$ (27,367)	\$ (2,737)	\$ 261,430
Net income	— A	—	9,586	—	—	9,586
Other comprehensive loss, net of tax	—	—	—	—	(115)	(115)
Dividends on common stock (\$0.13 per share)	2	53	(1,314)	—	—	(1,261)
Share-based compensation (1)	129	1,197	—	—	—	1,197
Treasury stock purchased, at cost	(150)	—	—	(4,076)	—	(4,076)
Balance, March 31, 2024	10,044	\$ 101,676	\$ 199,380	\$ (31,443)	\$ (2,852)	\$ 266,761

Unity Bancorp, Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the three and six months ended June 30, 2024 and 2023

(Unaudited)

(In thousands)	Accumulated					
	Common Stock		Retained	Treasury	comprehensive	shareholders'
	Shares	Amount	earnings	stock	(loss) income	aa
Balance, December 31, 2022	10,584	\$ 97,204	\$ 156,958	\$ (11,675)	\$ (3,260)	\$ 239,227
Net income	—	A	10,287	—	—	10,287
Other comprehensive income, net of tax	—	—	—	—	81	81
Dividends on common stock (\$0.12 per share)	2	46	(1,261)	—	—	(1,215)
Effect of adopting Accounting Standards Update ("ASU") No. 2016-13 ("CECL")	—	—	(649)	—	—	(649)
Share-based compensation (1)	44	947	—	—	—	947
Treasury stock purchased, at cost	(338)	—	—	(8,219)	—	(8,219)
Balance, March 31, 2023	10,292	\$ 98,197	\$ 165,335	\$ (19,894)	\$ (3,179)	\$ 240,459
Accumulated						
Common Stock		Retained	Treasury	comprehensive	shareholders'	Total
(In thousands)		Shares	Amount	earnings	stock	aa
Balance, December 31, 2023	10,063	\$ 100,426	\$ 191,108	\$ (27,367)	\$ (2,737)	\$ 261,430
Net income	—	—	9,586	—	—	9,586
Other comprehensive loss, net of tax	—	—	—	—	(115)	(115)
Dividends on common stock (\$0.13 per share)	2	53	(1,314)	—	—	(1,261)
Share-based compensation (1)	129	1,197	—	—	—	1,197
Treasury stock purchased, at cost	(150)	—	—	(4,076)	—	(4,076)
Balance, March 31, 2024	10,044	\$ 101,676	\$ 199,380	\$ (31,443)	\$ (2,852)	\$ 266,761
Net income	—	—	9,454	—	—	9,454
Other comprehensive loss, net of tax	—	—	—	—	(228)	(228)
Dividends on common stock (\$0.13 per share)	2	52	(1,300)	—	—	(1,248)
Share-based compensation (1)	(2)	498	—	—	—	498
Treasury stock purchased, at cost	(69)	—	—	(1,842)	—	(1,842)
Balance, June 30, 2024	9,975	\$ 102,226	\$ 207,534	\$ (33,285)	\$ (3,080)	\$ 273,395

(In thousands)	Accumulated					
	Common Stock		Retained	Treasury	comprehensive	shareholders'
	Shares	Amount	earnings	stock	(loss) income	aa
Balance, December 31, 2022	10,584	\$ 97,204	\$ 156,958	\$ (11,675)	\$ (3,260)	\$ 239,227
Net income	—	—	10,287	—	—	10,287
Other comprehensive income, net of tax	—	—	—	—	81	81
Dividends on common stock (\$0.12 per share)	2	46	(1,261)	—	—	(1,215)
Effect of adopting Accounting Standards Update ("ASU") No. 2016-13 ("CECL")	—	—	(649)	—	—	(649)
Share-based compensation (1)	44	947	—	—	—	947
Treasury stock purchased, at cost	(338)	—	—	(8,219)	—	(8,219)
Balance, March 31, 2023	10,292	\$ 98,197	\$ 165,335	\$ (19,894)	\$ (3,179)	\$ 240,459
Net income	—	—	9,700	—	—	9,700
Other comprehensive loss, net of tax	—	—	—	—	(444)	(444)
Dividends on common stock (\$0.13 per share)	2	52	(1,300)	—	—	(1,248)
Share-based compensation (1)	50	666	—	—	—	666
Treasury stock purchased, at cost	(225)	—	—	(5,143)	—	(5,143)
Balance, June 30, 2023	10,119	\$ 98,910	\$ 173,823	\$ (25,037)	\$ (3,623)	\$ 244,073

(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.

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

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Unity Bancorp, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	For the three months ended March 31,		For the six months ended June 30,	
	2024	2023	2024	2023
OPERATING ACTIVITIES:				
Net income	\$ 9,586	\$ 10,287	\$ 19,040	\$ 19,987
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>				
Provision for credit losses, loans	641	108	907	885
Net amortization of purchase premiums and discounts on securities	34	36		
Depreciation and amortization (accretion)	554	(738)		
Provision for credit losses, AFS debt Securities			646	—
Net accretion of purchase premiums and discounts on securities			(130)	(29)
Depreciation and amortization			764	659
PPP deferred fees and costs	(3)	(68)	(9)	(73)
Deferred income tax (benefit) expense	(87)	91		
Deferred income tax benefit			(618)	(301)
Net realized security gains	(21)	(222)	(62)	(222)
Stock compensation expense	476	417	926	840
Valuation writedowns on OREO	—	113		
Gain on sale of mortgage loans, net	(320)	(244)	(586)	(707)
Gain on sale of SBA loans held for sale, net	(238)	(309)	(543)	(896)
BOLI income	(65)	(80)	(254)	(164)

Net change in other assets and liabilities	5,205	4,359	(12,768)	(11,309)
Net cash provided by operating activities	15,762	13,750	7,313	8,670
INVESTING ACTIVITIES				
Purchases of equity securities	(166)	(126)	(2,247)	(168)
Purchases of securities available for sale	(4,000)	—	(10,500)	—
Proceeds from redemption of FHLB stock, at cost, net	2,539	376	3,478	(2,365)
Maturities and principal payments on securities held to maturity	100	—	100	101
Maturities and principal payments on securities available for sale	1,041	1,639	2,371	2,103
Proceeds from sales of equity securities	91	1,269	221	1,269
Net decrease in SBA PPP loans	153	3,431	593	3,425
Net increase in loans	(2,705)	(26,339)		
Net decrease (increase) in loans			4,135	(63,046)
Purchases of premises and equipment	(78)	(195)	(215)	(580)
Net cash used in investing activities	(3,025)	(19,945)	(2,064)	(59,261)
FINANCING ACTIVITIES				
Net increase in deposits	37,130	36,393	86,691	62,000
Repayments of short-term borrowings	(61,400)	(14,000)		
(Repayments) of proceeds from short-term borrowings			(96,000)	35,000
Proceeds from long-term borrowings	4,359	5,000	14,360	5,000
Proceeds from exercise of stock options	721	530	769	773
Dividends on common stock	(1,261)	(1,215)	(2,509)	(2,381)
Purchase of treasury stock, including excise tax accrual	(4,076)	(8,219)		
Purchase of treasury stock, including excise tax accrual			(5,918)	(13,360)
Net cash (used in) provided by financing activities	(24,527)	18,489	(2,607)	87,032
(Decrease) increase in cash and cash equivalents	(11,790)	12,294		
Increase in cash and cash equivalents			2,642	36,441
Cash and cash equivalents, beginning of year	194,776	114,793	194,776	114,793
Cash and cash equivalents, end of period	\$ 182,986	\$ 127,087	\$ 197,418	\$ 151,234
SUPPLEMENTAL DISCLOSURES				
<i>Cash:</i>				
Interest paid	\$ 14,469	\$ 9,202	\$ 28,926	\$ 21,289
Income taxes paid	250	3,557	6,617	3,557
<i>Noncash activities:</i>				
Establishment of lease liability and right-of-use asset	—	—		
Capitalization of servicing rights	76	159	152	429
Transfer of loans to OREO	—	288	—	251

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

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Unity Bancorp, Inc.
Notes to the Consolidated Financial Statements (Unaudited)
March 31, June 30, 2024

NOTE 1. Significant Accounting Policies

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"). The Bank has multiple subsidiaries used to hold part of its investment and loan portfolios. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior period amounts to conform to the current year presentation, with no impact on current earnings or shareholders' equity. The financial information has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and has not been audited. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses during the reporting periods. Actual results could differ from those estimates. Amounts requiring the use of significant estimates include the allowance for credit losses, valuation of servicing assets, the valuation of securities and the determination of impairment for securities and fair value disclosures. Management believes that the allowance for credit losses is adequate. While management uses available information to recognize credit losses, future additions to the allowance for credit losses may be necessary based on changes in economic conditions and the general credit quality of the loan portfolio.

The interim unaudited Consolidated Financial Statements included herein have been prepared in accordance with instructions for Form 10-Q and the rules and regulations of the Securities and Exchange Commission ("SEC") and consist of normal recurring adjustments, that in the opinion of management, are necessary for the fair presentation of interim results. The results of operations for the ~~three~~six months ended ~~March 31, 2024~~June 30, 2024 are not necessarily indicative of the results which may be expected for the entire year. As used in this Form 10-Q, "we" and "us" and "our" refer to Unity Bancorp, Inc., and its consolidated subsidiary, Unity Bank, depending on the context. Certain information and financial disclosures required by U.S. GAAP have been condensed or omitted from interim reporting pursuant to SEC rules. Interim financial statements should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Risks and Uncertainties

Overall, the markets and customers serviced by the Company may be significantly impacted by ongoing macro-economic trends, such as inflation and recessionary pressures created by a higher interest rate environment. The Company assesses the impact of inflation on an ongoing basis.

Market conditions and external factors may unpredictably impact the competitive landscape for deposits in the banking industry. Additionally, the current high interest rate environment has increased competition for liquidity and the premium at which liquidity is available to meet funding needs. The Company believes the sources of liquidity presented in the Unaudited Consolidated Financial Statements and the Notes to the Unaudited Consolidated Financial Statements are sufficient to meet its needs as of the balance sheet date.

An unexpected influx of ~~withdrawals~~withdrawal of deposits could adversely impact the Company's ability to rely on organic deposits to primarily fund its operations, potentially requiring greater reliance on secondary sources of liquidity to meet withdrawal demands or to fund continuing operations. These sources may include proceeds from Federal Home Loan Bank advances, sales of securities and loans, federal funds lines of credit from correspondent banks and out-of-market time deposits.

Such reliance on secondary funding sources could increase the Company's overall cost of funding and thereby reduce net income. While the Company believes its current sources of liquidity are adequate to fund operations, there is no guarantee they will suffice to meet future liquidity demands. This may necessitate slowing or discontinuing loan growth, capital expenditures or other investments, or liquidating assets.

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New Accounting Guidance ~~adopted~~Adopted in 2024

Accounting Standards Update ("ASU") 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" requires public entities to disclose detailed information about a reportable segment's expenses on both an annual and interim basis. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. The amendments in ASU 2023-07 should be applied retrospectively to all periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. The Company adopted ASU 2023-07 effective January 1, 2024, noting no material impact.

NOTE 2. 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.

NOTE 3. Net Income per Share

Basic net income per common share is calculated as net income divided by the weighted average common shares outstanding during the reporting period. Common shares include vested and unvested restricted shares.

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.

The following is a reconciliation of the calculation of basic and diluted income per share:

(In thousands, except per share amounts)	For the three months ended		For the three months		For the six months	
	March 31,		ended June 30,		ended June 30,	
	2024	2023	2024	2023	2024	2023
Net income	\$ 9,586	\$ 10,287	\$ 9,454	\$ 9,700	\$ 19,040	\$ 19,987
Weighted average common shares outstanding - Basic	10,127	10,538	10,016	10,103	10,072	10,319
Plus: Potential dilutive common stock equivalents	149	148	133	100	140	125
Weighted average common shares outstanding - Diluted	10,276	10,686	10,149	10,203	10,212	10,444
Net income per common share - Basic	\$ 0.95	\$ 0.98	\$ 0.94	\$ 0.96	\$ 1.89	\$ 1.94
Net income per common share - Diluted	0.93	0.96	0.93	0.95	1.86	1.91
Stock options and common stock excluded from the income per share calculation as their effect would have been anti-dilutive	—	—	—	50	—	—

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NOTE 4. Other Comprehensive (Loss) Income

The following tables show the changes in other comprehensive (loss) income for the three and six months ended March 31, 2024 June 30, 2024 and 2023, net of tax:

For the three months ended March 31, 2024			For the three months ended June 30, 2024		
Net unrealized	Net unrealized	other	Net unrealized	Net unrealized	other

(In thousands)	losses on securities	gains (losses) from cash flow hedges	comprehensive loss	losses on securities	gains (losses) from cash flow hedges	comprehensive loss
Balance, beginning of period	\$ (3,408)	\$ 671	\$ (2,737)	\$ (3,442)	\$ 590	\$ (2,852)
Other comprehensive loss before reclassifications	(34)	(251)	(285)	(89)	(307)	(396)
Less amounts reclassified from accumulated other comprehensive loss	—	(170)	(170)	—	(168)	(168)
Period change	(34)	(81)	(115)	(89)	(139)	(228)
Balance, end of period	\$ (3,442)	\$ 590	\$ (2,852)	\$ (3,531)	\$ 451	\$ (3,080)

(In thousands)	For the three months ended March 31, 2023			For the three months ended June 30, 2023		
				Net unrealized losses on securities	gains (losses) from cash flow hedges	Accumulated comprehensive loss
				Net unrealized gains on securities	from cash flow hedges	other
	Net unrealized (losses) gains on securities	from cash flow hedges	comprehensive (loss) income	Net unrealized losses on securities	gains from cash flow hedges	Accumulated comprehensive (loss) income
Balance, beginning of period	\$ (4,381)	\$ 1,121	\$ (3,260)	\$ (4,115)	\$ 936	\$ (3,179)
Other comprehensive income (loss) before reclassifications	266	(341)	(75)			
Other comprehensive (loss) income before reclassifications				(516)	228	(288)
Less amounts reclassified from accumulated other comprehensive loss	—	(156)	(156)	—	156	156
Period change	266	(185)	81	(516)	72	(444)
Balance, end of period	\$ (4,115)	\$ 936	\$ (3,179)	\$ (4,631)	\$ 1,008	\$ (3,623)

(In thousands)	For the six months ended June 30, 2024		
	Net unrealized losses on securities	gains (losses) from cash flow hedges	Accumulated comprehensive loss
Balance, beginning of period	\$ (3,408)	\$ 671	\$ (2,737)
Other comprehensive loss before reclassifications	(123)	(558)	(681)
Less amounts reclassified from accumulated other comprehensive loss	—	(338)	(338)
Period change	(123)	(220)	(343)
Balance, end of period	\$ (3,531)	\$ 451	\$ (3,080)

(In thousands)	For the six months ended June 30, 2023		
	Net unrealized losses on securities	gains (losses) from cash flow hedges	Accumulated comprehensive loss
Balance, beginning of period	\$ (4,381)	\$ 1,121	\$ (3,260)
Other comprehensive loss before reclassifications	(250)	(412)	(662)
Less amounts reclassified from accumulated other comprehensive loss	—	(299)	(299)
Period change	(250)	(113)	(363)
Balance, end of period	\$ (4,631)	\$ 1,008	\$ (3,623)

NOTE 5. Fair Value

Fair Value Measurement

The Company follows *Financial Accounting Standards Board ("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: follows

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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 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.

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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 **March 31, 2024** **June 30, 2024**, the fair value of the Company's AFS debt securities portfolio was **\$94.7 million** **\$99.1 million**. Most of the Company's AFS debt securities were classified as Level 2 assets at **March 31, 2024** **June 30, 2024**. 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 third-party model pricing, defined as valuing securities based upon their relationship with other benchmark securities.

Included in the Company's AFS debt securities are select corporate bonds which are classified as Level 3 assets at **March 31, 2024** **June 30, 2024**. The valuation of these corporate bonds **is** **are** determined using broker quotes or third-party vendor prices that are not adjusted by management. 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.

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The following table presents a reconciliation of the Level 3 AFS debt securities measured at fair value on a recurring basis for the **three** **six** months ended **March 31, 2024** **June 30, 2024** and 2023:

(In thousands)	Collateralized Debt Obligations		Corporate debt & other securities	
			For the six months ended	
	2024	2023	June 30, 2024	June 30, 2023
Balance of Recurring Level 3 assets at January 1	\$ 7,979	\$ 4,675	\$ 7,979	\$ 4,675
Activity				
Losses in other comprehensive income	—	(165)		
Balance of recurring Level 3 assets at March 31	\$ 7,979	\$ 4,510		
Unrealized holding losses on securities arising during the period			(646)	(344)
Balance of recurring Level 3 assets at June 30			\$ 7,333	\$ 4,331

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 **March 31, 2024** **June 30, 2024**, the fair value of the Company's equity securities portfolio was **\$7.9 million** **\$9.9 million**.

All of the Company's equity securities were classified as Level 1 assets at **March 31, 2024** **June 30, 2024**.

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.

There were no material changes in the inputs or methodologies used to determine fair value during the period ended **March 31, 2024** **June 30, 2024**, as compared to the periods ended December 31, 2023 and **March 31, 2023** **June 30, 2023**.

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The tables below present the balances of assets **and** **liabilities** measured at fair value on a recurring basis as of **March 31, 2024** **June 30, 2024** and December 31, 2023:

	Fair Value Measurements at March 31, 2024				Fair Value Measurements at June 30, 2024				
	(In thousands)	Quoted Prices in			Assets	Quoted Prices in			
		Assets/Liabilities	Active Markets	Significant Other		Active Markets	Significant Other	Significant	
		Measured at Fair	for Identical	Observable		Measured at Fair	for Identical	Observable	
		Value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Measured on a recurring basis:									
Assets:									
Debt securities available for sale:									
U.S. Government sponsored entities		\$ 15,264	\$ —	\$ 15,264	\$ —	\$ 14,537	\$ —	\$ 14,537	\$ —
State and political subdivisions		350	—	350	—	346	—	346	—

Residential mortgage- backed securities	13,532	—	13,532	—	12,959	—	12,959	—
Corporate and other securities	65,536	—	57,557	7,979	71,239	—	63,906	7,333
Total debt securities available for sale	\$ 94,682	\$ —	\$ 86,703	\$ 7,979	\$ 99,081	\$ —	\$ 91,748	\$ 7,333
Equity securities with readily determinable fair values	\$ 7,931	\$ 7,931	\$ —	\$ —	\$ 9,949	\$ 9,949	\$ —	\$ —
Total equity securities	\$ 7,931	\$ 7,931	\$ —	\$ —	\$ 9,949	\$ 9,949	\$ —	\$ —
Interest rate swap agreements	\$ 805	\$ —	\$ 805	\$ —	\$ 614	\$ —	\$ 614	\$ —
Total swap agreements	\$ 805	\$ —	\$ 805	\$ —	\$ 614	\$ —	\$ 614	\$ —
Fair value Measurements at December 31, 2023								
Quoted Prices in								
(In thousands)	Assets/Liabilities	Active Markets	Significant Other	Significant	Assets	Active Markets	Significant Other	Significant
	Measured at Fair	for Identical	Observable	Unobservable	Measured at Fair	for Identical	Observable	Unobservable
	Value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Measured on a recurring basis:								
Assets:								
Debt securities available for sale:								
U.S. Government sponsored entities	\$ 16,033	\$ —	\$ 16,033	\$ —	\$ 16,033	\$ —	\$ 16,033	\$ —
State and political subdivisions	360	—	360	—	360	—	360	—
Residential mortgage- backed securities	14,077	—	14,077	—	14,077	—	14,077	—
Corporate and other securities	61,295	—	53,316	7,979	61,295	—	53,316	7,979

Total debt securities available for sale	\$ 91,765	\$ —	\$ 83,786	\$ 7,979	\$ 91,765	\$ —	\$ 83,786	\$ 7,979
Equity securities with readily determinable fair values	\$ 7,802	\$ 7,802	\$ —	\$ —	\$ 7,802	\$ 7,802	\$ —	\$ —
Total equity securities	\$ 7,802	\$ 7,802	\$ —	\$ —	\$ 7,802	\$ 7,802	\$ —	\$ —
Interest rate swap agreements	\$ 918	\$ —	\$ 918	\$ —	\$ 918	\$ —	\$ 918	\$ —
Total swap agreements	\$ 918	\$ —	\$ 918	\$ —	\$ 918	\$ —	\$ 918	\$ —

There were no liabilities measured on a recurring basis as of **March 31, 2024** June 30, 2024 or December 31, 2023.

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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 March 31, 2024						Fair Value Measurements at June 30, 2024					
	Quoted Prices			Significant			Quoted Prices			Significant		
	in Active		Other	Significant		in Active		Other	Significant		Significant	
	Assets/Liabilities	Markets for	Observable	Unobservable	Assets	Markets for	Observable	Unobservable	Assets	Markets for	Observable	Unobservable
	Measured at Fair	Identical Assets	Inputs	Inputs	Measured at Fair	Identical Assets	Inputs	Inputs	Measured at Fair	Identical Assets	Inputs	Inputs
	Value	(Level 1)	(Level 2)	(Level 3)	Value	(Level 1)	(Level 2)	(Level 3)	Value	(Level 1)	(Level 2)	(Level 3)
<i>Measured on a non-recurring basis:</i>												
<i>Financial assets:</i>												
Collateral-dependent loans	\$ 8,083	\$ —	\$ —	\$ —	\$ 8,083	\$ 6,444	\$ —	\$ —	\$ —	\$ —	\$ 6,444	

(In thousands)	Fair Value Measurements at December 31, 2023						Fair Value Measurements at December 31, 2023					
	Quoted Prices			Significant			Quoted Prices			Significant		
	in Active		Other	Significant		in Active		Other	Significant		Significant	
	Assets/Liabilities	Markets for	Observable	Unobservable	Assets	Markets for	Observable	Unobservable	Assets	Markets for	Observable	Unobservable
	Measured at Fair	Identical Assets	Inputs	Inputs	Measured at Fair	Identical Assets	Inputs	Inputs	Measured at Fair	Identical Assets	Inputs	Inputs
	Value	(Level 1)	(Level 2)	(Level 3)	Value	(Level 1)	(Level 2)	(Level 3)	Value	(Level 1)	(Level 2)	(Level 3)
<i>Measured on a non-recurring basis:</i>												
<i>Financial assets:</i>												
Collateral-dependent loans	\$ 8,083	\$ —	\$ —	\$ —	\$ 8,083	\$ 6,444	\$ —	\$ —	\$ —	\$ —	\$ 6,444	

Measured on a non-recurring basis:			
Financial assets:			
Collateral-dependent loans	\$ 4,755	\$ —	\$ 4,755

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 and is measured for impairment based upon a third-party appraisal. 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 borrower makes six months of contractual payments and/or demonstrates the ability to service the debt going forward. 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 **March 31, 2024** **June 30, 2024**, the valuation allowance for individually evaluated loans was **\$1.1 million** **\$1.2 million**, compared to \$1.0 million at December 31, 2023.

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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 **March 31, 2024** **June 30, 2024** and December 31, 2023 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 is 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 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.

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The table below presents the carrying amount and estimated fair values of the Company's financial instruments presented as of **March 31, 2024** **June 30, 2024** and December 31, 2023:

(In thousands)	March 31, 2024			June 30, 2024				
	Carrying amount	Level 1	Level 2	Level 3	Carrying amount	Level 1	Level 2	Level 3
Financial assets:								
Debt securities held to maturity	\$ 36,089	\$ —	\$ 29,138	\$ —	\$ 36,157	\$ —	\$ 29,007	\$ —
SBA loans held for sale	18,439	—	19,383	—	15,159	—	16,118	—
Loans, net of allowance for credit losses	2,129,938	—	2,018,402	8,083	2,129,269	—	2,026,813	6,444
Financial liabilities:								
Deposits	1,961,270	—	1,952,706	—	2,010,831	—	2,002,396	—
Borrowed funds and subordinated debentures	309,707	—	308,640	—	285,108	—	284,509	—

(In thousands)	December 31, 2023		
	Carrying amount	Level 1	Level 2
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
Financial liabilities:			
Deposits	1,924,140	—	1,915,022
Borrowed funds and subordinated debentures	366,748	—	365,879

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-balance sheet 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.

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NOTE 6. Securities

This table provides the major components of debt securities available for sale ("AFS") and held to maturity ("HTM") at amortized cost and estimated fair value at **March 31, 2024** **June 30, 2024** and December 31, 2023:

(In thousands)	March 31, 2024					June 30, 2024				
	Gross		Gross		Allowance	Gross		Gross		Allowance
	Amortized	unrealized	unrealized	for credit	Estimated	Amortized	unrealized	unrealized	for credit	Estimated
Available for sale:										
U.S. Government sponsored entities	\$ 15,749	\$ —	\$ (485)	\$ —	\$ 15,264	\$ 15,000	\$ —	\$ (463)	\$ —	\$ 14,537
State and political subdivisions	379	—	(29)	—	350	377	—	(31)	—	346
Residential mortgage-backed securities	15,184	29	(1,681)	—	13,532	14,597	26	(1,664)	—	12,959
Corporate and other securities	69,203	250	(2,634)	(1,283)	65,536	75,704	295	(2,831)	(1,929)	71,239
Total debt securities available for sale	\$ 100,515	\$ 279	\$ (4,829)	\$ (1,283)	\$ 94,682	\$ 105,678	\$ 321	\$ (4,989)	\$ (1,929)	\$ 99,081
Held to maturity:										
U.S. Government sponsored entities	\$ 28,000	\$ —	\$ (4,656)	\$ —	\$ 23,344	\$ 28,000	\$ —	\$ (4,736)	\$ —	\$ 23,264
State and political subdivisions	1,187	75	—	—	1,262	1,203	68	—	—	1,271
Residential mortgage-backed securities	6,902	—	(2,370)	—	4,532	6,954	—	(2,482)	—	4,472
Total debt securities held to maturity	\$ 36,089	\$ 75	\$ (7,026)	\$ —	\$ 29,138	\$ 36,157	\$ 68	\$ (7,218)	\$ —	\$ 29,007

(In thousands)	December 31, 2023				
	Gross		Gross		Allowance
	Amortized	unrealized	unrealized	for credit	Estimated
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
<i>Held to maturity:</i>					
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

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For three six months ended **March 31, 2024** and **2023** June 30, 2024 there was a \$0.6 million provision for credit loss on AFS debt securities compared to no provision for credit loss on AFS debt securities for the six months ended June 30, 2023. The impairment was entirely attributable to the same corporate debt security for which a partial provision was taken in the fourth quarter of 2023. The company owns \$5 million in par of this position and moved the position into non-accrual status during the three months ending June 30, 2024. The net carrying value of the position was \$3.1 million as of June 30, 2024.

The contractual maturities of available for sale and held for maturity debt securities at **March 31, 2024** June 30, 2024 are set forth in the following table. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

(In thousands)	Amortized		Fair		Amortized		Fair	
	Cost	Value	Cost	Value	Cost	Value	Cost	Value
<i>Available for sale:</i>								
Due in one year	\$ 749	\$ 747	\$ 3,285	\$ 3,155				
Due after one year through five years	33,780	31,358	30,495	27,211				
Due after five years through ten years	13,289	11,558	15,789	14,171				
Due after ten years	37,513	37,487	41,512	41,585				
Residential mortgage-backed securities	15,184	13,532	14,597	12,959				
Total	\$ 100,515	\$ 94,682	\$ 105,678	\$ 99,081				
<i>Held to maturity:</i>								
Due in one year	\$ —	\$ —	\$ —	\$ —				
Due after one year through five years	—	—	3,000	2,910				
Due after five years through ten years	3,000	2,897	—	—				
Due after ten years	26,187	21,709	26,203	21,625				
Residential mortgage-backed securities	6,902	4,532	6,954	4,472				
Total	\$ 36,089	\$ 29,138	\$ 36,157	\$ 29,007				

Actual maturities of available for sale and held to maturity debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

The fair value of debt securities with unrealized losses by length of time that the individual securities have been in a continuous unrealized loss position at **March 31, 2024** June 30, 2024 and December 31, 2023 are as follows:

	March 31, 2024						June 30, 2024					
	Less than 12 months		12 months and greater		Total		Less than 12 months		12 months and greater		Total	
	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss
(In thousands)												
Available for sale:												
U.S. Government sponsored entities	\$ 747	\$ (2)	\$ 14,517	\$ (483)	\$ 15,264	\$ (485)	\$ —	\$ —	\$ 14,537	\$ (463)	\$ 14,537	\$ (463)
State and political subdivisions	—	—	350	(29)	350	(29)	—	—	346	(31)	346	(31)
Residential mortgage-backed securities	—	—	13,415	(1,681)	13,415	(1,681)	—	—	12,919	(1,664)	12,919	(1,664)
Corporate and other securities	4,696	(1,054)	33,526	(1,580)	38,222	(2,634)	1,998	(2)	22,878	(2,829)	24,876	(2,831)
Total	\$ 5,443	\$ (1,056)	\$ 61,808	\$ (3,773)	\$ 67,251	\$ (4,829)	\$ 1,998	\$ (2)	\$ 50,680	\$ (4,987)	\$ 52,678	\$ (4,989)
Held to maturity:												
U.S. Government sponsored entities	\$ —	\$ —	\$ 23,344	\$ (4,656)	\$ 23,344	\$ (4,656)	\$ —	\$ —	\$ 23,264	\$ (4,736)	\$ 23,264	\$ (4,736)
Residential mortgage-backed securities	—	\$ —	4,532	(2,370)	4,532	(2,370)	—	\$ —	4,472	(2,482)	4,472	(2,482)
Total	\$ —	\$ —	\$ 27,876	\$ (7,026)	\$ 27,876	\$ (7,026)	\$ —	\$ —	\$ 27,736	\$ (7,218)	\$ 27,736	\$ (7,218)

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	December 31, 2023					
	Less than 12 months		12 months and greater		Total	
	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss
(In thousands)						
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 AFS 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 HTM securities	\$	—	\$	—	\$ 28,294	\$ (6,556)	\$ 28,294	\$ (6,556)

Unrealized losses in each of the categories presented in the tables above were primarily driven by market interest rate fluctuations. Residential mortgage-backed securities are guaranteed by either Ginnie Mae, Freddie Mac or Fannie Mae.

The Company is using the practical expedient to exclude accrued interest receivable from credit loss measurement. At **March 31, 2024** **June 30, 2024**, there was **\$1.5 million** **\$1.3 million** of accrued interest on securities. At December 31, 2023, there was \$1.5 million of accrued interest on securities.

Realized Gains and Losses on Debt Securities

Net realized gains **on debt securities** are included in noninterest income in the Consolidated Statements of Income as net security gains. There were no realized gains or losses on available for sale **debt securities** during the three **and six** months ended **March 31, 2024** **June 30, 2024** and 2023. There were no realized gains or losses for held to maturity debt securities during the three **and six** months ended **March 31, 2024** **June 30, 2024** and 2023.

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 unrealized and realized gains and losses recognized in net income on equity securities during the three **and six** months ended **March 31, 2024** **June 30, 2024** and 2023:

(In thousands)	For the three months ended March		For the three months ended June 30,		For the six months ended June 30,	
	31,		June 30,		June 30,	
	2024	2023	2024	2023	2024	2023
Net unrealized gains (losses) occurring during the period on equity securities	\$ 33	\$ (544)				
Net unrealized (losses) gains occurring during the period on equity securities			\$ (21)	\$ (164)	\$ 12	\$ (709)
Net gains recognized during the period on equity securities sold during the period	21	222	41	—	62	222
Gains (losses) recognized during the reporting period on equity securities	<u>\$ 54</u>	<u>\$ (322)</u>	<u>\$ 20</u>	<u>\$ (164)</u>	<u>\$ 74</u>	<u>\$ (487)</u>

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NOTE 7. Loans

The following table sets forth the classification of loans by class, including unearned fees, deferred costs and excluding the allowance for credit losses as of **March 31, 2024** **June 30, 2024** and December 31, 2023:

(In thousands)	March 31, 2024	December 31, 2023	June 30, 2024	December 31, 2023
	\$ 39,009	\$ 38,584	\$ 38,017	\$ 38,584
SBA loans held for investment				

SBA PPP loans	2,168	2,318	1,734	2,318
Commercial loans				
SBA 504 loans	38,128	33,669	39,195	33,669
Commercial & industrial	133,409	128,402	147,172	128,402
Commercial real estate	977,437	986,230	1,006,092	986,230
Commercial real estate construction	142,345	129,159	125,749	129,159
Residential mortgage loans	627,464	631,506	624,949	631,506
Consumer loans				
Home equity	67,448	67,037	65,065	67,037
Consumer other	4,827	5,639	4,215	5,639
Residential construction loans	123,783	131,277	103,188	131,277
Total loans held for investment	\$ 2,156,018	\$ 2,153,821	\$2,155,376	\$ 2,153,821
SBA loans held for sale	18,439	18,242	15,159	18,242
Total loans	\$ 2,174,457	\$ 2,172,063	\$2,170,535	\$ 2,172,063

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**, most notably in New Jersey. 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.

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Commercial Loans: Commercial credit is extended primarily to middle market and small business customers. 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. In most cases, these loans are secured by underlying real estate collateral. 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 will generally be 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 and 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 commercial loan portfolio is then subject to on-going internal reviews for credit quality which in part is derived from ongoing collection and review of borrowers' financial information, as well as independent credit reviews performed by an outside independent external firm.

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

Credit Ratings

The Company places all SBA, commercial and residential construction 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**. **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 as substandard** 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.

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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 and consumer 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 in default 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.

Nonaccrual and Past Due Loans

Nonaccrual loans consist of loans that are not accruing interest as a result of principal or interest being in default, typically 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 **Generally, loans** may be returned to an accrual status when the ability to collect is reasonably assured and 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.

The following tables set forth an aging analysis of past due and nonaccrual loans as of **March 31, 2024**, **June 30, 2024** and December 31, 2023:

(In thousands)	March 31, 2024							June 30, 2024						
	90+ days							90+ days						
	30-59 days past due	60-89 days past due	and still accruing	Nonaccrual	Total past due	Current	Total loans	30-59 days past due	60-89 days past due	and still accruing	Nonaccrual	Total past due	Current	
SBA loans held for investment	\$ 169	\$ 275	\$ 138	\$ 3,542	\$ 4,124	\$ 34,885	\$ 39,009	\$ 1,816	\$ —	\$ —	\$ 3,813	\$ 5,629	\$ 32,323	
Commercial loans														
SBA loans	—	—	—	—	—	38,128	38,128	—	—	—	—	—	—	39,230
Commercial & industrial	321	—	—	112	433	132,976	133,409	—	9	—	84	93	147,000	
Commercial real estate	4,324	384	—	2,303	7,011	970,426	977,437	4,676	—	373	2,237	7,286	998,810	
Commercial real estate construction	—	—	—	—	—	142,345	142,345	—	—	—	—	—	—	125,710
Residential mortgage loans	12,178	—	—	7,440	19,618	607,846	627,464	16,610	3,729	—	5,336	25,675	599,200	
Consumer loans														
Home equity	—	—	—	366	366	67,082	67,448	—	—	—	105	105	64,900	
Consumer other	52	38	—	—	90	4,737	4,827	44	53	—	—	97	4,737	
Residential construction loans	434	—	—	3,127	3,561	120,222	123,783	2,213	—	—	547	2,760	100,400	
Total loans held for investment, excluding SBA														
PPP SBA loans held for sale	17,478	697	138	16,890	35,203	2,118,647	2,153,850	25,359	3,791	373	12,122	41,645	2,111,900	
Total loans, excluding SBA														
PPP	508	—	—	—	508	17,931	18,439	—	—	—	—	—	—	15,439
	\$ 17,986	\$ 697	\$ 138	\$ 16,890	\$ 35,711	\$ 2,136,578	\$ 2,172,289	\$ 25,359	\$ 3,791	\$ 373	\$ 12,122	\$ 41,645	\$ 2,127,300	

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(In thousands)	December 31, 2023						
	90+ days			Nonaccrual	Total past		
	30-59 days	60-89 days	and still accruing		due	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, excluding							
SBA PPP	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

The Company is using the practical expedient to exclude accrued interest receivable from credit loss measurement. At **March 31, 2024**, there was **\$11.3 million of accrued interest on loans**. At **June 30, 2024** and **December 31, 2023**, there was **\$11.7 million of accrued interest on loans**.

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.

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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 **March 31, 2024** **June 30, 2024** and December 31, 2023:

(In thousands)	March 31, 2024			June 30, 2024		
	Unpaid principal balance	Recorded investment	Allowance for Credit Losses Allocated	Unpaid principal balance	Recorded investment	Allowance for Credit Losses Allocated
	\$	\$	\$	\$	\$	\$
With no related allowance:						
SBA loans held for investment	\$ 2,401	\$ 2,323	\$ —	\$ 360	\$ 269	\$ —
Commercial loans						
Commercial & industrial				638	33	—
Commercial real estate	2,727	1,755	—	3,300	2,120	—
Total commercial loans	2,727	1,755	—	3,938	2,153	—
Residential mortgage loans	3,706	3,700	—	1,753	1,753	—
Consumer loans						
Home equity	382	365	—	115	105	—
Total consumer loans				115	105	—
Residential construction loans	547	547	—	547	547	—
Total individually evaluated loans with no related allowance	9,763	8,690	—	6,713	4,827	—
With an allowance:						
SBA loans held for investment	1,482	1,357	382	3,669	3,544	683
Commercial loans						
Commercial & industrial	718	112	112	129	51	51
Commercial real estate	699	548	225	490	490	204
Total commercial loans	1,417	660	337	619	541	255
Residential mortgage loans	3,772	3,740	300	3,614	3,583	286
Consumer loans						
Home equity	1	1	1			
Residential construction loans	2,580	2,580	116			
Total individually evaluated loans with a related allowance	9,252	8,338	1,136	7,902	7,668	1,224
Total individually evaluated loans:						
SBA loans held for investment	3,883	3,680	382	4,029	3,813	683
Commercial loans						
Commercial & industrial	718	112	112	767	84	51
Commercial real estate	3,426	2,303	225	3,790	2,610	204
Total commercial loans	4,144	2,415	337	4,557	2,694	255
Residential mortgage loans	7,478	7,440	300	5,367	5,336	286
Consumer loans						
Home equity	383	366	1	115	105	—
Total consumer loans				115	105	—
Residential construction loans	3,127	3,127	116	547	547	—
Total individually evaluated loans	\$ 19,015	\$ 17,028	\$ 1,136	\$ 14,615	\$ 12,495	\$ 1,224

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(In thousands)	December 31, 2023		
	Unpaid principal balance	Recorded investment	Allowance for Credit Losses Allocated
	\$	\$	\$
<i>With no related allowance:</i>			
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	<u>15,291</u>	<u>13,443</u>	—
<i>With an allowance:</i>			
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	<u>6,412</u>	<u>5,750</u>	<u>995</u>
<i>Total individually evaluated loans:</i>			
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	<u>\$ 21,703</u>	<u>\$ 19,193</u>	<u>\$ 995</u>

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The following tables show the internal loan classification risk by loan portfolio classification by origination year as of **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively:

Term Loans										Term Loans									
Amortized Cost Basis by Origination Year, March 31, 2024										Amortized Cost Basis by Origination Year, June 30, 2024									
(In thousands)	Revolving Loans									Revolving Loans									
	2024	2023	2022	2021	2020	2019 and Earlier	Amortized Cost Basis	Total		2024	2023	2022	2021	2020	2019 and Earlier	Amortized Cost Basis			
SBA loans held for investment:																			
Risk Rating:																			
Pass	\$ 964	\$ 1,878	\$ 5,241	\$ 4,843	\$ 5,778	\$ 13,240	\$ -	\$ 31,944	\$ 1,268	\$ 1,872	\$ 5,222	\$ 4,854	\$ 5,727	\$ 12,612	\$ -				
Special	-	-	1,836	356	510	170	-	2,872	-	-	1,805	356	510	157	-				
Mention	-	-	1,256	2,186	176	575	-	4,193	-	-	1,256	2,186	189	3	-				
Total SBA loans held for investment:	\$ 964	\$ 1,878	\$ 8,333	\$ 7,385	\$ 6,464	\$ 13,985	\$ -	\$ 39,009	\$ 1,268	\$ 1,872	\$ 8,283	\$ 7,396	\$ 6,426	\$ 12,772	\$ -				
SBA PPP loans:																			
Risk Rating:																			
Pass	\$ -	\$ -	\$ -	\$ -	\$ 2,168	\$ -	\$ -	\$ 2,168	\$ -	\$ -	\$ -	\$ -	\$ 1,734	\$ -	\$ -	\$ -	\$ -	\$ -	
Total SBA PPP loans:	\$ -	\$ -	\$ -	\$ -	\$ 2,168	\$ -	\$ -	\$ 2,168	\$ -	\$ -	\$ -	\$ -	\$ 1,734	\$ -	\$ -	\$ -	\$ -	\$ -	
Commercial loans:																			
Risk Rating:																			
Pass	\$ 14,828	\$ 152,337	\$ 336,287	\$ 180,893	\$ 126,845	\$ 365,085	\$ 103,292	\$ 1,279,567	\$ 48,352	\$ 161,203	\$ 334,416	\$ 180,628	\$ 124,855	\$ 356,822	\$ 97,903				
Special	-	-	490	1,464	-	6,431	395	8,780	-	-	6,358	915	-	4,161	395				
Mention	-	-	-	137	9	2,826	-	2,972	-	-	-	2	10	2,188	-				
Substandard	-	-	-	137	9	2,826	-	2,972	-	-	-	2	10	2,188	-				

Total																
commercial																
loans	\$14,828	\$152,337	\$336,777	\$182,494	\$126,854	\$374,342	\$103,687	\$1,291,319	\$48,352	\$161,203	\$340,774	\$181,545	\$124,865	\$363,171	\$98,298	
Commercial																
loans																
Current-period																
gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98	\$ -	\$ 98	\$ -	\$ -	\$ -	\$ 138	\$ -	\$ 98	\$ -
Residential																
mortgage																
loans																
Risk Rating:																
Performing	\$23,064	\$ 85,980	\$249,423	\$ 70,123	\$ 48,833	\$142,601	\$ -	\$ 620,024	\$ 41,911	\$ 82,249	\$241,579	\$ 68,543	\$ 47,895	\$137,430	\$ -	
Nonperforming	-	-	1,665	2,382	259	3,134	-	7,440	-	-	1,358	2,982	259	743	-	
Total																
residential																
mortgage																
loans	\$23,064	\$ 85,980	\$251,088	\$ 72,505	\$ 49,092	\$145,735	\$ -	\$ 627,464	\$ 41,911	\$ 82,249	\$242,937	\$ 71,525	\$ 48,154	\$138,173	\$ -	
Consumer																
loans																
Risk Rating:																
Performing	\$ 693	\$ 2,973	\$ 4,400	\$ 3,035	\$ 644	\$ 11,255	\$ 48,908	\$ 71,908	\$ 3,357	\$ 2,883	\$ 4,169	\$ 2,445	\$ 606	\$ 10,935	\$ 44,770	
Nonperforming	-	-	-	-	109	1	257	367	-	-	-	-	-	115	-	-
Total																
consumer																
loans	\$ 693	\$ 2,973	\$ 4,400	\$ 3,035	\$ 753	\$ 11,256	\$ 49,165	\$ 72,275	\$ 3,357	\$ 2,883	\$ 4,169	\$ 2,445	\$ 721	\$ 10,935	\$ 44,770	
Consumer																
loans																
Current-period																
gross writeoffs	\$ -	\$ -	\$ 21	\$ 49	\$ -	\$ -	\$ -	\$ 70	\$ -	\$ -	\$ 21	\$ 49	\$ -	\$ 130	\$ -	
Residential																
construction																
Risk Rating:																
Pass	\$ 6,595	\$ 34,782	\$ 64,368	\$ 12,511	\$ 1,418	\$ -	\$ -	\$ 119,674	\$ 11,687	\$ 31,897	\$ 49,974	\$ 6,690	\$ 1,161	\$ 1,232	\$ -	
Special	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Mention	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Substandard	-	-	-	2,580	547	982	-	4,109	-	-	-	-	-	547	-	-
Total																
residential																
construction																
loans	\$ 6,595	\$ 34,782	\$ 64,368	\$ 15,091	\$ 1,965	\$ 982	\$ -	\$ 123,783	\$ 11,687	\$ 31,897	\$ 49,974	\$ 6,690	\$ 1,708	\$ 1,232	\$ -	
Residential																
construction																
Current-period																
gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 277	\$ -	\$ 277	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 277	\$ -
Total																
loans																
held for																
investment	\$46,144	\$277,950	\$664,966	\$282,678	\$185,128	\$546,300	\$ 152,852	\$2,156,018	\$106,575	\$280,104	\$646,137	\$271,335	\$181,874	\$526,283	\$ 143,068	

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(In thousands)	Term Loans							Revolving Loans		Amortized Cost Basis	Total	
	2023	2022	2021	2020	2019	2018 and Earlier						
	2023	2022	2021	2020	2019	2018 and Earlier	2023	2022	2021	2020		
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										
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	\$ 686,032	\$ 297,252	\$ 190,775	\$ 140,165	\$ 415,756	\$ 147,134	\$ 2,153,821		

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Modifications

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on **each asset in-scope assets** 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) during the twelve months ended **March 31, 2024** **June 30, 2024**:

(In thousands)	Principal			Payment			Term		
	Forgiveness	Delay	Extension	Forgiveness	Delay	Extension	Forgiveness	Delay	Extension
SBA loans held for investment	\$ 8	\$ 99	\$ —	\$ 4	\$ 99	\$ —			
Commercial loans									
Commercial & industrial	—	—	813	—	—	2,074			
Commercial real estate	—	2,619	—	—	2,619	—			
Residential mortgage loans							—	1,036	—
Consumer loans							—	—	2,309
Home equity	—	—	2,309	—	—	—			
Balance, March 31, 2024	\$ 8	\$ 2,718	\$ 3,122						

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. No loans that were modified during the twelve months ended **March 31, 2024** **June 30, 2024** had a payment default during the period and all loans were current as of **March 31, 2024** **June 30, 2024**.

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NOTE 8. 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**, **mortgage**, 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** **established** 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. These environmental factors include reasonable and supportable forecasts. 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.

- 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.

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The following tables detail the activity in the allowance for credit losses by portfolio segment for the three **and six** months ended **March 31, 2024** June 30, 2024 and 2023:

(In thousands)	For the three months ended March 31, 2024						For the three months ended June 30, 2024						
	SBA		Residential				SBA		Residential				
	Held for	Investment	Commercial	Residential	Consumer	Construction	Total	Held for	Investment	Commercial	Residential	Consumer	Construction
Balance, beginning of period	\$ 1,221	\$ 15,876	\$ 6,529	\$ 1,022	\$ 1,206	\$ 25,854	\$ 25,854	\$ 1,209	\$ 16,187	\$ 6,394	\$ 922	\$ 1,368	\$ 26,080
Charge-offs	—	(98)	—	(70)	(277)	(445)	(445)	—	(138)	—	(130)	—	(268)
Recoveries	8	12	—	10	—	30	30	6	12	—	11	—	29
Net recoveries (charge-offs)	8	(86)	—	(60)	(277)	(415)	(415)	6	(126)	—	(119)	—	(239)
(Credit to) provision for credit losses charged to expense	(20)	397	(135)	(40)	439	641	641	242	627	(181)	32	(454)	266
Balance, end of period	\$ 1,209	\$ 16,187	\$ 6,394	\$ 922	\$ 1,368	\$ 26,080	\$ 26,080	\$ 1,457	\$ 16,688	\$ 6,213	\$ 835	\$ 914	\$ 26,107
(In thousands)	For the three months ended March 31, 2023						For the three months ended June 30, 2023						
	SBA		Residential				SBA		Residential				
	Held for	Investment	Commercial	Residential	Consumer	Construction	Total	Held for	Investment	Commercial	Residential	Consumer	Construction
Balance, beginning of period	\$ 875	\$ 15,254	\$ 5,450	\$ 990	\$ 2,627	\$ 25,196	\$ 25,196	\$ 1,103	\$ 15,299	\$ 6,135	\$ 1,022	\$ 2,642	\$ 26,201

Effect of adopting Accounting Standards Update ("ASU")											
No. 2016-13 ("CECL")	163	171	376	101	36	847	—	—	—	(225)	(900) (1,125)
Charge-offs	(113)	—	—	(120)	—	(233)	—	—	—	(225)	(900) (1,125)
Recoveries	—	271	—	12	—	283	15	96	—	24	— 135
Net (charge-offs)											
recoveries	(113)	271	—	(108)	—	50	15	96	—	(201)	(900) (990)
Net recoveries (charge-offs)							15	96	—	(201)	(900) (990)
Provision for (credit to) credit losses charged to expense	178	(395)	309	37	(21)	108	438	121	302	24	(108) 777
Balance, end of period	\$ 1,103	\$ 15,301	\$ 6,135	\$ 1,020	\$ 2,642	\$ 26,201	\$ 1,556	\$ 15,516	\$ 6,437	\$ 845	\$ 1,634 \$25,988

(In thousands)	For the six months ended June 30, 2024					
	SBA			Residential		
	Held for Investment	Commercial	Residential	Consumer	construction	Total
Balance, beginning of period	\$ 1,221	\$ 15,876	\$ 6,529	\$ 1,022	\$ 1,206	\$ 25,854
Charge-offs	—	(236)	—	(200)	(277)	(713)
Recoveries	14	24	—	21	—	59
Net recoveries (charge-offs)	14	(212)	—	(179)	(277)	(654)
Provision for (credit to) credit losses charged to expense	222	1,024	(316)	(8)	(15)	907
Balance, end of period	\$ 1,457	\$ 16,688	\$ 6,213	\$ 835	\$ 914	\$ 26,107

(In thousands)	For the six months ended June 30, 2023					
	SBA			Residential		
	Held for Investment	Commercial	Residential	Consumer	construction	Total
Balance, beginning of period	\$ 875	\$ 15,254	\$ 5,450	\$ 990	\$ 2,627	\$ 25,196
Effect of adopting Accounting Standards Update ("ASU")						
No. 2016-13 ("CECL")	163	171	376	101	36	847
Charge-offs	(113)	—	—	(345)	(900)	(1,358)
Recoveries	15	367	—	36	—	418
Net (charge-offs) recoveries	(98)	367	—	(309)	(900)	(940)
Provision for (credit to) credit losses charged to expense	616	(276)	611	63	(129)	885
Balance, end of period	\$ 1,556	\$ 15,516	\$ 6,437	\$ 845	\$ 1,634	\$ 25,988

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The following tables present loans and their related allowance for credit losses, by portfolio segment, as of **March 31, 2024** **June 30, 2024** and **December 31, 2023**:

(in thousands)	March 31, 2024						June 30, 2024					
	SBA			Residential			SBA			Residential		
	Held for Investment	Commercial	Residential	Consumer construction	Total		Held for Investment	Commercial	Residential	Consumer construction	Total	
Allowance for credit losses ending balance:												
Individually evaluated	\$ 382	\$ 337	\$ 300	\$ 1	\$ 116	\$ 1,136		\$ 683	\$ 255	\$ 286	\$ —	\$ 1,224
Collectively evaluated	827	15,850	6,094	921	1,252	24,944		774	16,433	5,927	835	914 24,883
Total	\$ 1,209	\$ 16,187	\$ 6,394	\$ 922	\$ 1,368	\$ 26,080		\$ 1,457	\$ 16,688	\$ 6,213	\$ 835	\$ 914 \$ 26,107
Loan ending balances:												
Individually evaluated	\$ 3,680	\$ 2,415	\$ 7,440	\$ 366	\$ 3,127	\$ 17,028		\$ 3,813	\$ 2,694	\$ 5,336	\$ 105	\$ 547 \$ 12,495
Collectively evaluated	37,497	1,288,904	620,024	71,909	120,656	2,138,990		35,938	1,315,514	619,613	69,175	102,641 2,142,881
Total	\$ 41,177	\$ 1,291,319	\$ 627,464	\$ 72,275	\$ 123,783	\$ 2,156,018		\$ 39,751	\$ 1,318,208	\$ 624,949	\$ 69,280	\$ 103,188 \$ 2,155,376

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

Reserve for Unfunded Loan Commitments

In addition to the allowance for credit losses, the Company maintains a reserve for unfunded loan commitments at a level that management believes is adequate to absorb estimated probable losses. At **March 31, 2024** **June 30, 2024** and December 31, 2023, a \$0.6 million commitment reserve was reported on the balance sheet as "Accrued expenses and other liabilities" and reported on the income statement as "Provision for credit losses, off-balance sheet".

Reserve for Debt Security Impairment

The Company maintains a reserve for credit losses on AFS debt securities. Adjustments to the reserve are made through the provision for credit losses and applied to the reserve, which is classified in "Debt securities available for sale" on the balance sheet. At June 30, 2024, a \$1.9 million reserve was reported, compared to \$1.3 million at December 31, 2023.

The Company maintains a reserve for credit losses on HTM debt securities at a level that management believes is adequate to absorb estimated probable losses. At June 30, 2024 and December 31, 2023, no reserve was reported on the balance sheet as 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.

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NOTE 9. 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 Balance Sheet as "Prepaid expenses and other assets" or "Accrued expenses and other liabilities".

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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 via over the counter ("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-rate interest 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.

A summary of the Company's outstanding interest rate swap agreements used to hedge variable rate debt at **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively is as follows:

(In thousands, except percentages and years)	March 31, 2024	December 31, 2023	June 30, 2024	December 31, 2023
Notional amount	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Fair value	\$ 805	\$ 918	\$ 614	\$ 918
Weighted average pay rate	0.83 %	0.83 %	0.83 %	0.83 %
Weighted average receive rate	5.62 %	5.27 %	5.61 %	5.27 %
Weighted average maturity in years	0.94	1.57	0.69	1.57
Number of contracts	1	1	1	1

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During the three and six months ended **March 31, 2024** **June 30, 2024**, the Company received variable rate Secured Overnight Financing Rate ("SOFR") payments from and paid fixed rates in accordance with its interest rate swap agreements. At **March 31, 2024** **June 30, 2024**, the unrealized gain relating to interest rate swaps was recorded as a derivative asset and is included in "Prepaid expenses and other assets" on the Company's Balance Sheet. Changes in the fair value of the 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 following table presents the net gains and losses recorded in other comprehensive income and the consolidated financial statements relating to the cash flow derivative instruments at **March 31, 2024** **June 30, 2024** and 2023, respectively:

(In thousands)	For the three months ended		For the three months ended		For the six months ended	
	March 31,		June 30,		June 30,	
	2024	2023	2024	2023	2024	2023
Loss recognized in OCI						
(Loss) gain recognized in OCI						
Gross of tax	\$ (113)	\$ (235)	\$ (191)	\$ 100	\$ (304)	\$ (135)
Net of tax	(81)	(185)	(139)	71	(220)	(96)
Gain reclassified from AOCI into net income						
Gross of tax	238	198	238	219	476	418
Net of tax	170	156	168	156	338	299

NOTE 10. 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 plans for the **three** **six** months ended **March 31, 2024** **June 30, 2024** are summarized in the following table:

	Weighted				Weighted			
	Weighted		average		Weighted		average	
	average	remaining	Aggregate	average	remaining	Aggregate	average	remaining
	exercise	contractual	intrinsic	exercise	contractual	intrinsic	exercise	contractual
	Shares	price	life in years	value	Shares	price	life in years	value
Outstanding at December 31, 2023	471,132	\$ 17.92	4.9	\$ 5,500,080	471,132	\$ 17.92	4.9	\$ 5,500,080
Options granted	—	—	—	—	—	—	—	—
Options exercised	(59,100)	15.47	—	—	(65,100)	15.99	—	—
Options forfeited	—	—	—	—	—	—	—	—
Options expired	—	—	—	—	—	—	—	—
Outstanding at March 31, 2024	412,032	\$ 18.27	4.8	\$ 3,845,636	406,032	\$ 18.22	4.5	\$ 4,606,659
Exercisable at March 31, 2024	412,032	\$ 18.27	4.8	\$ 3,845,636	406,032	\$ 18.22	4.5	\$ 4,606,659
Outstanding at June 30, 2024	—	—	—	—	406,032	\$ 18.22	4.5	\$ 4,606,659
Exercisable at June 30, 2024	—	—	—	—	406,032	\$ 18.22	4.5	\$ 4,606,659

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 **March 31, 2024** **June 30, 2024**, 281,500 options and 345,850 shares of restricted stock have been awarded from the plans. In addition, 16,162 unvested options and **17,187** **22,412** unvested shares of restricted stock were cancelled and returned to the plans leaving **405,999** **405,799** shares available for future grants.

The fair values of the options granted are estimated on the date of grant using the Black-Scholes option-pricing model. There were no options granted during the **three** **six** months ended **March 31, 2024** **June 30, 2024** or 2023.

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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 the **three** **six** months ended **March 31, 2024** **June 30, 2024** and 2023:

	For the three months ended March 31,		For the three months		For the six months ended	
			2024	2023	ended June 30,	June 30,
	Number of options exercised	59,100	37,201	6,000	13,734	65,100
Total intrinsic value of options exercised	\$ 764,901	\$ 241,904	\$ 39,961	\$ 74,099	\$ 804,862	\$ 316,003
Cash received from options exercised	412,791	753,894	126,740	244,991	1,041,009	998,885
Tax deduction realized from options	215,014	72,777	11,233	22,292	226,247	95,069

The following table summarizes information about stock options outstanding and exercisable at **March 31, 2024** **June 30, 2024**:

Options outstanding			Options exercisable			Options outstanding			Options exercisable		
Weighted average		Weighted	Weighted		Weighted	Weighted average		Weighted	Weighted		Weighted
Options	remaining contractual	average	Options	average	Options	Options	remaining contractual	average	Options	average	Options

Range of exercise prices	2023					2024				
	outstanding	life (in years)	exercise price	exercisable	exercise price	outstanding	life (in years)	exercise price	exercisable	exercise price
\$8.31-11.87	58,000	1.6	\$ 9.63	58,000	\$ 9.63	58,000	1.4	\$ 9.63	58,000	\$ 9.63
8.31-11.87										
11.88-15.44	9,000	2.7	14.60	9,000	14.60	9,000	2.5	14.60	9,000	14.60
15.45-19.01	128,932	5.5	17.58	128,932	17.58	128,932	5.2	17.58	128,932	17.58
19.02-22.57	216,100	5.3	21.14	216,100	21.14	210,100	5.0	21.14	210,100	21.14
Total	412,032	4.8	\$ 18.27	412,032	\$ 18.27	406,032	4.5	\$ 18.22	406,032	\$ 18.22

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 three and six months ended **March 31, 2024** **June 30, 2024** and 2023 are detailed in the following table:

(In thousands)	For the three months ended March 31,		For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023	2024	2023
	\$ 32	\$ 85	\$—	\$ 79 \$32	\$—	\$ 164
Compensation expense	\$ 32	\$ 85	\$—	\$ 79 \$32	\$—	\$ 164
Income tax benefit	\$ 9	\$ 25	\$—	\$ 23 \$ 9	\$—	\$ 47

As of **March 31, 2024** **June 30, 2024**, there was no unrecognized compensation costs related to nonvested share-based stock option compensation arrangements granted under the Company's plans was \$0, due to as all options being were fully vested.

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 generally 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 **three** **six** months ended **March 31, 2024** **June 30, 2024**:

	Average grant		Average grant	
	Shares	date fair value	Shares	date fair value
Nonvested restricted stock at December 31, 2023	164,634	\$ 24.46	164,634	\$ 24.46
Granted	77,950	28.84	77,950	28.84
Cancelled	(1,937)	27.55	(7,162)	26.83
Vested	(32,875)	24.43	(45,500)	23.51
Nonvested restricted stock at March 31, 2024	207,772	\$ 26.08		
Nonvested restricted stock at June 30, 2024	189,922	\$ 26.39		

Restricted stock awards granted during the three and six months ended **March 31, 2024** **June 30, 2024** and 2023 were as follows:

			For the three months ended March 31,		For the three months ended June 30,		For the six months ended June 30,	
			2024	2023	2024	2023	2024	2023
	Number of shares granted		77,950	18,000	—	37,500	77,950	55,500
Average grant date fair value		\$ 28.84	\$ 27.33	\$ —	\$ 20.64	\$ 28.84	\$ 22.81	

Compensation expense related to restricted stock for the three and six months ended **March 31, 2024** **June 30, 2024** and 2023 is detailed in the following table:

(In thousands)			For the three months ended March 31,		For the three months ended June 30,		For the six months ended June 30,	
			2024	2023	2024	2023	2024	2023
	Compensation expense		\$ 444	\$ 332	\$ 450	\$ 344	\$ 894	\$ 676
Income tax benefit		\$ 125	\$ 80	\$ 126	\$ 100	\$ 251	\$ 195	

As of **March 31, 2024** **June 30, 2024**, there was approximately **\$4.9 million** **\$4.3 million** of unrecognized compensation cost related to nonvested restricted stock awards granted under the Company's equity plans. That cost is expected to be recognized over a weighted average period of **3.02.8** years.

NOTE 11. 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 of 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 **risk weighted** capital ratio of 4.5%; (iii) a Tier 1 risk weighted capital ratio of 6%; and (iv) a total risk weighted 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 **risk weighted** capital ratio of 7.0%; (ii) a Tier 1 risk weighted capital ratio of 8.5%; and (iii) a total risk weighted 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.

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The following table shows information regarding the Company's and the Bank's regulatory capital levels at **March 31, 2024** **June 30, 2024** and at December 31, 2023.

To be Well						To be Well					
Required for Capital Adequacy			Capitalized Under Prompt Corrective Action			Required for Capital Adequacy			Capitalized Under Prompt Corrective Action		
Actual		Purposes		Regulations *		Actual		Purposes		Regulations *	
Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio

(Dollars in thousands)												
As of March 31, 2024												
As of June 30, 2024												
Total risk-based capital (to risk-weighted assets)												
Consolidated	\$ 303,846	14.63 %	\$ 166,101	8.00 %	\$ 207,627	10.00 %	\$ 310,599	15.05 %	\$ 165,147	8.00 %	\$ 206,434	10.00 %
Bank	295,499	14.36	164,659	8.00	205,824	10.00	301,701	14.67	164,485	8.00	205,606	10.00
Common equity tier 1 (to risk-weighted assets)												
Consolidated	267,884	12.90	93,432	4.50	134,957	6.50	274,783	13.31	92,895	4.50	134,182	6.50
Bank	269,759	13.11	92,621	4.50	133,786	6.50	275,988	13.42	92,523	4.50	133,644	6.50
Tier 1 capital (to risk-weighted assets)												
Consolidated	277,884	13.38	124,576	6.00	166,101	8.00	284,783	13.80	123,860	6.00	165,147	8.00
Bank	269,759	13.11	123,495	6.00	164,659	8.00	275,988	13.42	123,364	6.00	164,485	8.00
Tier 1 capital (to average total assets)												
Consolidated	277,884	11.39	97,580	4.00	121,975	5.00	284,783	11.67	97,579	4.00	121,974	5.00
Bank	269,759	11.10	97,204	4.00	121,504	5.00	275,988	11.35	97,235	4.00	121,543	5.00
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 %	\$ 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	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	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	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	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	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	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	261,584	10.74	97,355	4.00	121,693	5.00

*Prompt Corrective Action requirements only apply to the Bank.

NOTE 12. Subsequent Events

The Company has evaluated all events or transactions that occurred through the date the Company issued these financial statements.

On July 31, 2024, the Company announced a new stock repurchase plan. The approved plan allows the Company to repurchase up to 500 thousand shares upon exhausting the shares allowed to be repurchased in the 2023 Stock Repurchase Plan.

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ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the 2023 consolidated audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2023. When necessary, reclassifications have been made to prior period data throughout the following discussion and analysis for purposes of comparability. This Quarterly Report on Form 10-Q contains certain "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which may be identified by the use of such words as "believe", "expect", "anticipate", "should", "planned", "estimated" and "potential". Examples of forward looking statements include, but are not limited to, estimates with respect to the financial condition, results of operations and business of Unity Bancorp, Inc. that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, in addition to those items contained in the Company's Annual Report on Form 10-K under Item 1A-Risk Factors, as updated by our subsequent filings with the Securities and Exchange Commission, the following: changes in general, economic and market conditions, including the impact of inflation, legislative and regulatory conditions and the development of an interest rate environment that adversely affects Unity Bancorp, Inc.'s interest rate spread or other income anticipated from operations and investments and the impact of the COVID-19 pandemic health or other emergencies on our employees, operations and customers.

Overview

Unity Bancorp, Inc. (the "Parent Company") 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, 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 robust branch network located throughout 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.

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Earnings Summary

Net income totaled **\$9.6 million** **\$9.5 million**, or \$0.93 per diluted share for the quarter ended **March 31, 2024** **June 30, 2024**, compared to **\$10.3 million** **\$9.7 million**, or **\$0.96** **\$0.95** per diluted share for the same period in 2023. Return on average assets and **return on average common equity** for the quarter were **1.58** **1.56** percent and **14.49** **14.07** percent, respectively, compared to **1.72** **1.60** percent and **17.14** **16.19** percent for the same period in 2023.

First **Second** quarter highlights include:

- Net interest income decreased **0.3** **0.4** percent compared to the prior year's quarter, primarily due to the interest expense on deposits increasing faster than interest income on loans.
- Net interest margin equaled **4.09** **4.01** percent this quarter compared to **4.19** **4.04** percent in the prior year's quarter. The decrease was primarily due to the cost of interest-bearing liabilities increasing faster than the yield of interest-earning assets.
- The provision for credit losses on loans and off-balance sheet items was **\$643 thousand** **\$0.3 million** for the quarter ended **March 31, 2024** **June 30, 2024**, compared to **\$108 thousand** **\$0.7 million** in provision for credit losses on loans and off-balance sheet items for the prior year's quarter due to decreased general and specific provisions on loans.
- The provision for credit losses on AFS debt securities was \$0.6 million for the quarter ended June 30, 2024, as compared to no provision for the prior year's quarter. The impairment was entirely attributable to the same corporate debt security for which a partial provision was taken in the fourth quarter of 2023. The Company owns \$5 million in par of this position and moved the position into non-accrual status during the three months ending June 30, 2024. The net carrying value of the position was \$3.1 million as of June 30, 2024. This security is currently paying, and so subsequent to June 30, 2024 the carrying value of this security was \$2.9 million, as all payments have been applied to principal.
- Noninterest income increased **21.2** decreased 3.9 percent compared to the prior year's quarter, primarily due to an increase in net securities lower gains on sale of SBA loans held for sale and lower gains on sale of mortgage loans. The decrease was partially offset by increased BOLI income and net securities gains.
- Noninterest expense increased **6.2** **1.2** percent compared to the prior year's quarter, primarily due to increased compensation loan related and benefits, advertising processing and loan related communications expenses.
- The effective tax rate was **25.0** **24.7** percent compared to **25.4** **26.0** percent in the prior year's quarter.

The Company's performance ratios may be found in the table below.

	For the three months ended March 31,		For the three months ended June 30,		For the six months ended June 30,	
	2024		2023		2024	
	\$ 0.95	\$ 0.98	\$ 0.94	\$ 0.96	\$ 1.89	\$ 1.94
Net income per common share - Basic (1)	\$ 0.95	\$ 0.98	\$ 0.94	\$ 0.96	\$ 1.89	\$ 1.94
Net income per common share - Diluted (2)	\$ 0.93	\$ 0.96	\$ 0.93	\$ 0.95	\$ 1.86	\$ 1.91
Return on average assets	1.58 %	1.72 %	1.56 %	1.60 %	1.57 %	1.66 %
Return on average equity (3)	14.49 %	17.14 %	14.07 %	16.19 %	14.28 %	16.66 %
Efficiency ratio (4)	47.57 %	44.56 %	47.10 %	45.87 %	47.33 %	45.21 %
Equity to assets ratio (5)	10.39 %	9.71 %				

(1) Defined as net income divided by weighted average shares outstanding.
 (2) Defined as net income divided by the sum of the 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 less any gains or losses on securities.
 (5) Defined as equity divided by 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 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

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deposits. Interest-bearing liabilities include interest-bearing demand, savings, brokered and time deposits, FHLB advances and other borrowings.

During the quarter ended **March 31, 2024** June 30, 2024, tax-equivalent net interest income amounted to **\$23.8 million** **\$23.4 million**, a decrease of \$0.1 million or **0.30.4** percent when compared to the same period in 2023. The net interest margin decreased **103** basis points to **4.09** **4.01** percent for the three months ended **March 31, 2024** June 30, 2024, compared to **4.19** **4.04** percent for the same period in 2023.

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During the three months ended **March 31, 2024** June 30, 2024, tax-equivalent interest income was \$38.0 million, an increase of **\$4.6 million** **\$2.6 million** or **13.7** **7.3** percent when compared to the same period in 2023. This increase was mainly driven by the increases in the yield on balance of average securities, the balance of average loans and the yield on loans, loans, partially offset by a decrease in the yield on securities and the balance of average FHLB stock.

- Of the **\$4.6 million** **\$2.6 million** net increase in interest income on a tax-equivalent basis, **\$4.2 million** **\$2.7 million** is due to an increase in yields on earning assets, and **\$0.4 million** is partially offset by **\$0.1 million** due to an increase a decrease in average earning assets.

- The average volume of interest-earning assets increased **\$29.6 million** **\$11.0 million** to \$2.3 billion for the **first** **second** quarter of 2024. This was due primarily to a **\$41.0 million** **\$18.5 million** increase in average loans and a **\$4.4 million** increase in average investment securities, partially offset by a **\$3.6 million** decrease in average investment securities and a **\$5.8 million** **\$9.3 million** decrease in average FHLB stock, stock and a **\$2.6 million** decrease in average interest-bearing deposits.
- The yield on total interest-earning assets increased **67.44** basis points to 6.51 percent for the three months ended **March 31, 2024** **June 30, 2024**, when compared to the same period in 2023. The yield on the loan portfolio increased **64.46** basis points to **6.46** **6.50** percent.

Total interest expense was **\$14.1 million** **\$14.6 million** for the three months ended **March 31, 2024** **June 30, 2024**, an increase of **\$4.7 million** **\$2.7 million** or **49.32** **22.7** percent compared to the same period in 2023. This increase was driven by the increased rates and volume of time deposits, increased rates and volume on savings deposits, increased rates and volume for demand deposits and increased rates and volume of brokered deposits, partially offset by a decline in volume of savings brokered deposits and decreased rates and volume of borrowed funds and subordinated debentures.

- Of the **\$4.7 million** **\$2.7 million** increase in interest expense, **\$4.8 million** **\$2.9 million** was due to increased costs of rate on average interest-bearing liabilities, partially offset by a **\$0.1 million** **\$0.2 million** decrease in volume and mix shift in liability categories.
- Interest-bearing liabilities averaged \$1.7 billion for the **first** **second** quarter of 2024, an increase of **\$50.3 million** **\$6.7 million** compared to the prior year's quarter.
- The average cost of total interest-bearing liabilities increased **99.62** basis points to **3.26** **3.37** percent. The cost of interest-bearing deposits increased **140.111** basis points to **3.10** **3.35** percent for the **first** **second** quarter of 2024 and the cost of borrowed funds and subordinated debentures decreased **3.118** basis points to **4.41** **3.63** percent.

During the six months ended June 30, 2024, tax-equivalent interest income was \$75.9 million, an increase of \$7.2 million or 10.4 percent when compared to the same period in the prior year. This increase was mainly driven by the increase in the rates on loans, securities, FHLB stock and interest-bearing deposits.

- Of the \$7.2 million net increase in interest income on a tax-equivalent basis, \$6.9 million is due to an increase in yields on the earning assets and \$0.3 million is due to an increase to average earning assets.
- The average volume of interest-earning assets increased \$20.2 million to \$2.3 billion for the six months ended June 30, 2024 compared to \$2.3 billion for the same period in 2023. This was due primarily to a \$29.7 million increase in average loans and a \$0.4 million increase in average investment securities.
- The yield on total interest-earning assets increased 55 basis points to 6.51 percent for the six months ended June 30, 2024 when compared to the same period in 2023. The yield on the loan portfolio increased 55 basis points to 6.48 percent.

Total interest expense was \$28.7 million for the six months ended June 30, 2024, an increase of \$7.3 million or 34.5 percent compared to the same period in 2023. This increase reflects increased volume and rates on interest-bearing deposits, offset by decreased volume and rates on borrowed funds and subordinated debentures compared to a year ago.

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- Of the \$7.3 million increase in interest expense, \$5.9 million was due to the increased volume of average interest bearing liabilities and \$1.4 million was due to an increase in the rates on interest-bearing liabilities.
- Interest-bearing liabilities averaged \$1.7 billion for the six months ended June 30, 2024, an increase of \$28.4 million or 1.7 percent compared to the prior year's period.
- The average cost of total interest-bearing liabilities increased 80 basis points to 3.32 percent for the six months ended June 30, 2024. The cost of interest-bearing deposits increased 126 basis points to 3.23 percent and the cost of borrowed funds and subordinated debentures decreased 51 basis points to 4.11 percent.

Consolidated Average Balance Sheets

(Dollar amounts in thousands, interest amounts and interest rates/yields on a fully tax-equivalent basis, assuming a federal tax rate of 21 percent.)

For the three months ended		For the three months ended	
March 31, 2024	March 31, 2023	June 30, 2024	June 30, 2023

	Average			Average			Average			Average		
	Balance	Interest	Rate/Yield									
ASSETS												
<i>Interest-earning assets:</i>												
Interest-bearing deposits	\$ 30,685	\$ 420	5.50 %	\$ 32,778	\$ 333	4.12 %	\$ 32,237	\$ 435	5.43 %	\$ 34,808	\$ 441	5.09 %
FHLB stock	11,000	280	10.23	16,776	331	7.99	7,951	180	9.12	17,252	343	7.97
Securities:												
Taxable	134,874	1,849	5.48	138,379	1,739	5.03	140,501	1,749	4.98	135,943	1,798	5.29
Tax-exempt	1,658	18	4.47	1,753	20	4.49	1,571	18	4.55	1,766	20	4.59
Total securities												
(A)	136,532	1,867	5.47	140,132	1,759	5.02	142,072	1,767	4.97	137,709	1,818	5.28
Loans:												
SBA loans	58,120	1,333	9.17	66,625	1,404	8.43	55,922	1,276	9.13	61,744	1,403	9.09
SBA PPP loans	2,215	8	1.38	4,243	77	7.26	1,782	11	2.49	2,561	27	4.20
Commercial loans	1,281,600	20,830	6.43	1,199,577	17,401	5.80	1,300,754	21,160	6.44	1,225,761	18,621	6.01
Residential mortgage loans	625,451	9,219	5.90	614,936	8,109	5.27	625,086	9,316	5.96	622,283	8,532	5.48
Consumer loans	70,250	1,402	7.90	77,121	1,354	7.02	69,943	1,390	7.86	76,741	1,471	7.59
Residential construction loans	129,720	2,578	7.86	163,821	2,586	6.31	112,272	2,453	8.64	158,165	2,737	6.85
Total loans (B)	2,167,356	35,370	6.46	2,126,323	30,931	5.82	2,165,759	35,606	6.50	2,147,255	32,791	6.04
Total interest-earning assets	\$ 2,345,573	\$ 37,937	6.51 %	\$ 2,316,009	\$ 33,354	5.84 %	\$ 2,348,019	\$ 37,988	6.51 %	\$ 2,337,024	\$ 35,393	6.07 %
<i>Noninterest-earning assets:</i>												
Cash and due from banks	23,220			22,738			23,547			21,967		
Allowance for credit losses	(26,059)			(25,778)			(26,202)			(26,270)		
Other assets	94,001			111,104			90,971			103,234		
Total noninterest-earning assets	91,162			108,064			88,316			98,931		
Total assets	\$ 2,436,735			2,424,073			\$ 2,436,335			2,435,955		
LIABILITIES AND SHAREHOLDERS' EQUITY												
<i>Interest-bearing liabilities:</i>												
Interest-bearing demand deposits	\$ 324,829	\$ 1,710	2.12 %	\$ 286,172	\$ 965	1.37 %	\$ 337,629	\$ 2,010	2.39 %	\$ 310,717	\$ 1,331	1.74 %
Savings deposits	503,071	3,144	2.51	536,021	1,554	1.18	504,685	3,349	2.67	503,979	1,993	1.60
Brokered deposits	243,592	2,295	3.79	236,724	1,562	2.68	228,276	2,181	3.84	229,872	1,857	3.28
Time deposits	465,166	4,699	4.06	286,354	1,563	2.21	535,444	5,832	4.38	344,883	2,564	3.02
Total interest-bearing deposits	1,536,658	11,848	3.10	1,345,271	5,644	1.70	1,606,034	13,372	3.35	1,389,451	7,745	2.24
Borrowed funds and subordinated debentures	201,335	2,248	4.41	342,398	3,799	4.44	129,763	1,191	3.63	339,599	4,125	4.81
Total interest-bearing liabilities	\$ 1,737,993	\$ 14,096	3.26 %	\$ 1,687,669	\$ 9,443	2.27 %	\$ 1,735,797	\$ 14,563	3.37 %	\$ 1,729,050	\$ 11,870	2.75 %

<i>Noninterest-bearing liabilities:</i>								
Noninterest-bearing demand deposits	403,847	468,407	401,146	440,289				
Other liabilities	28,747	24,541	29,139	26,275				
Total noninterest-bearing liabilities	432,594	492,948	430,285	466,564				
Total shareholders' equity	266,148	243,456	270,253	240,341				
Total liabilities and shareholders' equity	\$ 2,436,735	\$ 2,424,073	\$2,436,335	\$2,435,955				
Net interest spread	\$ 23,841	3.25 %	\$ 23,911	3.57 %	\$23,425	3.13 %	\$23,523	3.32 %
Tax-equivalent basis adjustment	—		(1)		(1)		(1)	
Net interest income	\$ 23,841		\$ 23,910		\$23,424		\$23,522	
Net interest margin		4.09 %		4.19 %				

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Net interest margin **4.01 %** **4.04 %**

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(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.

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

ASSETS	For the six months ended					
	June 30, 2024			June 30, 2023		
	Average balance	Interest	Rate/Yield	Average balance	Interest	Rate/Yield
<i>Interest-earning assets:</i>						

Interest-bearing deposits	\$ 31,461	\$ 855	5.46 %	\$ 33,798	\$ 775	4.62 %
FHLB stock	9,476	460	9.76	17,016	674	7.98
Securities:						
Taxable	137,688	3,598	5.23	137,154	3,537	5.16
Tax-exempt	1,615	36	4.51	1,760	40	4.54
Total securities (A)	139,303	3,634	5.22	138,914	3,577	5.15
Loans						
SBA loans	57,021	2,609	9.15	64,171	2,807	8.75
SBA PPP loans	1,999	19	1.87	3,397	104	6.12
Commercial loans	1,291,176	41,990	6.43	1,212,741	36,022	5.91
Residential mortgage loans	625,269	18,535	5.93	618,630	16,641	5.38
Consumer loans	70,096	2,792	7.88	76,930	2,825	7.30
Residential construction loans	120,996	5,031	8.22	160,978	5,323	6.58
Total loans (B)	2,166,557	70,976	6.48	2,136,847	63,722	5.93
Total interest-earning assets	\$ 2,346,797	\$ 75,925	6.51 %	\$ 2,326,575	\$ 68,748	5.96 %
Noninterest-earning assets:						
Cash and due from banks	23,383			22,350		
Allowance for credit losses	(26,130)			(26,025)		
Other assets	92,486			107,147		
Total noninterest-earning assets	89,739			103,472		
Total assets	\$ 2,436,536			\$ 2,430,047		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Interest-bearing demand deposits	\$ 331,229	\$ 3,720	2.26 %	\$ 298,511	\$ 2,296	3.09 %
Savings deposits	503,878	6,493	2.59	519,922	3,548	2.74
Brokered deposits	235,934	4,476	3.82	233,270	3,419	5.88
Time deposits	500,305	10,531	4.23	315,780	4,126	5.24
Total interest-bearing deposits	1,571,346	25,220	3.23	1,367,483	13,389	1.97
Borrowed funds and subordinated debentures	165,550	3,439	4.11	340,991	7,924	4.62
Total interest-bearing liabilities	\$ 1,736,896	\$ 28,659	3.32 %	\$ 1,708,474	\$ 21,313	2.52 %
Noninterest-bearing liabilities:						
Noninterest-bearing demand deposits	402,497			454,270		
Other liabilities	28,943			25,413		
Total noninterest-bearing liabilities	431,440			479,683		
Total shareholders' equity	268,200			241,890		
Total liabilities and shareholders' equity	\$ 2,436,536			\$ 2,430,047		
Net interest spread	\$ 47,266		3.19 %	\$ 47,435		3.44 %
Tax-equivalent basis adjustment	(1)			(2)		
Net interest income	\$ 47,265			\$ 47,433		
Net interest margin			4.05 %			4.11 %

(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.

(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.

(In thousands on a tax-equivalent basis)	For the three months ended March 31, 2024 versus March 31, 2023			For the three months ended June 30, 2024 versus June 30, 2023			For the six months ended June 30, 2024 versus June 30, 2023		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:			Increase (decrease) due to change in:		
	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net
<i>Interest income:</i>									
Interest-bearing deposits	\$ (23)	\$ 110	\$ 87	\$ (34)	\$ 28	\$ (6)	\$ (56)	\$ 136	\$ 80
FHLB stock	(132)	81	(51)	(206)	43	(163)	(343)	129	(214)
Securities	(47)	154	107	57	(108)	(51)	10	47	57
Loans	565	3,874	4,439	49	2,766	2,815	665	6,589	7,254
Total interest income	\$ 363	\$ 4,219	\$ 4,582	\$ (134)	\$ 2,729	\$ 2,595	\$ 276	\$ 6,901	\$ 7,177
<i>Interest expense:</i>									
Demand deposits	\$ 147	\$ 598	\$ 745	\$ 127	\$ 552	\$ 679	\$ 1,127	\$ 297	\$ 1,424
Savings deposits	(102)	1,692	1,590	3	1,353	1,356	1,063	1,882	2,945
Brokered deposits	48	685	733	(12)	336	324	184	873	1,057
Time deposits	1,340	1,796	3,136	1,801	1,467	3,268	7,201	(796)	6,405
Total interest-bearing deposits	1,433	4,771	6,204	1,919	3,708	5,627	9,575	2,256	11,831
Borrowed funds and subordinated debentures	(1,526)	(25)	(1,551)	(2,100)	(834)	(2,934)	(3,693)	(792)	(4,485)
Total interest expense	(93)	4,746	4,653	(181)	2,874	2,693	5,882	1,464	7,346
Net interest income - fully tax-equivalent	\$ 456	\$ (527)	\$ (71)	\$ 47	\$ (145)	\$ (98)	\$ (5,606)	\$ 5,437	\$ (169)
Increase in tax-equivalent adjustment			2						
Decrease in tax-equivalent adjustment									1
Net interest income		\$ (69)			\$ (98)			\$ (168)	

Provision for Credit Losses

The provision for credit losses for loans was \$0.6 million \$0.3 million and \$0.9 million during the three and six months ended March 31, 2024, June 30, 2024, respectively, compared to \$0.1 million \$0.8 million and \$0.9 million for the same period periods in 2023. The increase of \$0.5 million decrease in the quarterly period was primarily driven by increases decreases in the general and specific reserve calculations.

The provision for credit losses for off-balance sheet exposures totaled \$2.0 \$13 thousand and \$15 thousand for the three and six months ended March 31, 2024 June 30, 2024, respectively, compared to a release of \$84 thousand for the same periods in 2023.

The provision for credit losses for AFS debt security impairment was \$0.6 million for the three and six months ended June 30, 2024, compared to none for the same period prior year's periods. The impairment was entirely attributable to one corporate senior debt security in 2023, the AFS portfolio. The Company owns \$5 million in par value of this position and moved the position into non-accrual status during the three months

ended June 30, 2024. This security is currently paying, and so subsequent to June 30, 2024 the carrying value of this security was \$2.9 million, as all payments have been applied to principal.

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 and expected economic conditions and other internal and external factors impacting the risk within the loan portfolio. Additional information

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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.

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Income Tax Expense

For the quarter ended **March 31, 2024** June 30, 2024, the Company reported income tax expense of **\$3.2 million** \$3.1 million for an effective tax rate of **25.0** 24.7 percent, compared to income tax expense of **\$3.5 million** \$3.4 million and an effective tax rate of **25.4** 26.0 percent for the prior year's quarter. For the six months ended June 30, 2024, the Company reported income tax expense of \$6.3 million for an effective tax rate of 24.9 percent, compared to an income tax expense of \$6.9 million and an effective tax rate of 25.7 percent for the six months ended June 30, 2023.

Financial Condition at **March 31, 2024** June 30, 2024

Total assets **decreased \$10.4 million** increased \$19.2 million or **0.4** 0.7 percent, to \$2.6 billion at **March 31, 2024** June 30, 2024, when compared to year end 2023. This **decrease** increase was primarily due to **decreases** increases of **\$11.8 million** \$2.6 million in cash and cash equivalents, \$9.5 million in securities and \$2.5 million \$12.1 million in prepaid expenses and other assets, partially offset by a decrease of \$3.5 million in FHLB stock partially offset by increases of \$3.0 million and \$1.8 million in securities and \$2.4 million in gross loans, driven by commercial loan growth, net loans.

Total shareholders' equity increased **\$5.3 million** \$12.0 million, when compared to year end 2023, primarily due to earnings and an increase in common stock, partially offset by the repurchase of shares and dividends paid during the **three** six months ended **March 31, 2024** June 30, 2024.

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

Securities Portfolio

The Company's securities portfolio consists of AFS debt securities, 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.

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, state and political subdivisions, mortgage-backed securities and corporate and other securities.

AFS debt securities totaled **\$94.7 million** **\$99.1 million** at **March 31, 2024** **June 30, 2024**, an increase of **\$2.9 million** **\$7.3 million** or **3.28%** percent, compared to \$91.8 million at December 31, 2023. This net increase was the result of:

- **\$4.0** **10.5** million in purchases,
- Which were partially offset by **\$1.0 million** **\$2.4 million** in principal payments and maturities,
- **\$0.6 million** provision for credit loss on AFS debt securities and
- **\$44** 163 thousand in depreciation in the market value of the portfolio. At **March 31, 2024** **June 30, 2024**, the portfolio had a net unrealized loss of **\$4.5 million** **\$4.7 million** compared to a net unrealized loss of \$4.5 million at December 31, 2023. These net unrealized losses are reflected net of tax in shareholder's equity as accumulated other comprehensive loss.

The weighted average life of AFS debt securities, adjusted for prepayments, amounted to **5.4** **5.3** years and 5.6 years at **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively. The effective duration of AFS debt securities amounted to 1.7 years at **March 31, 2024** **June 30, 2024** and December 31, 2023.

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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 primarily comprised of obligations of U.S. Government, state and political subdivisions and mortgage-backed securities.

HTM debt securities were **\$36.1 million** **\$36.2 million** at **March 31, 2024** **June 30, 2024**, a decrease an increase of **\$33** **\$35** thousand or 0.1 percent, compared to \$36.1 million at December 31, 2023.

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The weighted average life of HTM securities, adjusted for prepayments, amounted to **16.9** **16.7** years and 17.1 years at **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively. As of **March 31, 2024** **June 30, 2024** and December 31, 2023, the fair value of HTM securities was **\$29.1 million** **\$29.0 million** and \$29.7 million, respectively. The effective duration of HTM securities amounted to **10.6** **10.5** years and 10.9 years at **March 31, 2024** **June 30, 2024** and December 31, 2023, 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 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") mutual fund investments and the equity holdings of other financial institutions.

Equity securities totaled \$7.9 million \$9.9 million at **March 31, 2024** June 30, 2024, an increase of \$0.1 million \$2.1 million or 1.7 27.5 percent, compared to \$7.8 million at December 31, 2023. This net increase was the result of:

- \$2.2 million in purchases,
- \$0.1 million in fair value appreciation and
- Partially offset by \$0.2 million in sales.

Securities with a carrying value of \$9.6 million and \$9.7 million at **March 31, 2024** June 30, 2024 and December 31, 2023, respectively, were held at the FHLB or FRB and were pledged for borrowing purposes; however, all securities were unencumbered by borrowings at **March 31, 2024** June 30, 2024 and December 31, 2023.

Approximately 65 62 percent of the total debt security investment portfolio had a fixed rate of interest at **March 31, 2024** June 30, 2024.

See Note 6 to the accompanying Consolidated Financial Statements for more information regarding Securities.

Loan Portfolio

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 increased \$2.4 million decreased \$1.5 million or 0.1 percent to \$2.2 billion at **March 31, 2024** June 30, 2024, compared to year end 2023. Commercial and SBA held for investment loans increased \$13.9 million and \$0.4 million \$40.7 million, respectively, partially offset by decreases of \$7.5 million \$28.1 million, \$4.0 million \$6.6 million, \$0.4 million \$3.4 million, \$0.6 million and \$0.2 million \$0.6 million in residential construction, residential mortgage, consumer, SBA held for investment and SBA PPP loans, respectively. Below is a table of the geographic loan allocation of the Bank's portfolio at June 30, 2024:

	% of portfolio
New Jersey	86.1 %
New York	7.2
Pennsylvania	3.8
Other	2.9
Total loans	100.0 %

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Average loans increased \$41.0 million \$29.7 million or 1.9 1.4 percent to \$2.2 billion the **three six** months ended **March 31, 2024** June 30, 2024 from \$2.1 billion for the same period in 2023. The increase in average loans was due to increases in average commercial and residential mortgage loans, partially offset by decreases in average SBA, SBA PPP, consumer and residential construction loans. The yield on the overall loan portfolio increased 64 55 basis points to 6.46 6.48 percent for the **three six** months ended **March 31, 2024** June 30, 2024 when compared to the same period in 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 for the purposes of providing working capital or financing the purchase of equipment, inventory or commercial real estate. Generally, an SBA 7(a) loan has a deficiency in its credit profile that would not allow the borrower to qualify for a traditional commercial loan, which is why the SBA provides the guarantee. The deficiency may be a higher loan to value ("LTV") ratio, lower debt service coverage ("DSC") ratio or weak personal financial guarantees. In addition, many SBA 7(a) loans are for startup businesses where there is no history or financial information. Finally, many SBA borrowers do not have an ongoing and

continuous banking relationship with the Bank, but merely work with the Bank on a single transaction. The guaranteed portion of the Company's SBA loans may be sold in the secondary market.

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SBA 7(a) loans held for sale, carried at the lower of cost or market, amounted to \$18.4 million \$15.2 million at March 31, 2024 June 30, 2024, an increase a decrease of \$0.2 million \$3.1 million from \$18.2 million at December 31, 2023. SBA 7(a) loans held for investment amounted to \$39.0 million \$38.0 million at March 31, 2024 June 30, 2024, an increase a decrease of \$0.4 million \$0.6 million from \$38.6 million at December 31, 2023. The yield on SBA loans, which are generally floating and adjust quarterly to the Prime rate, was 9.17 9.15 percent for the three six months ended March 31, 2024 June 30, 2024, compared to 8.43 8.75 percent for the same period in the prior year. The Company sold \$2.4 million \$3.9 million of SBA loans during the three months ended March 31, 2024 ended June 30, 2024.

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 \$77.2 million \$73.5 million and \$75.6 million in SBA loans were sold but serviced by the Company at March 31, 2024 June 30, 2024 and December 31, 2023, respectively, and are not included on the Company's balance sheet. There is no 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 March 31, 2024 June 30, 2024, an increase of \$13.9 million \$40.7 million from year end 2023. The yield on commercial loans was 6.43 percent for the three six months ended March 31, 2024 June 30, 2024, compared to 5.80 5.91 percent for the same period in 2023. In most cases, these loans are secured by underlying real estate collateral. SBA 504 program loans, which consist of real estate backed commercial mortgages where the Company has the first mortgage and the SBA has the second mortgage on the property, are included in the Commercial loan portfolio. At June 30, 2024 Commercial Mortgage – Owner Occupied, Commercial Mortgage – Nonowner Occupied, and Commercial Construction represent 24.3 percent, 19.0 percent and 5.8 percent of the Company's loan portfolio, respectively. The commercial real estate sub-category includes both owner occupied Company will generally not exceed a combined loan-to-value ratio of 75 percent at origination. Unity continually evaluates and non-owner occupied commercial real estate related loans monitors its credit risk policies and procedures. Further, Unity continuously monitors loan portfolio concentrations across key credit characteristics (e.g., state and local geographies, industries, etc.). Loans are subject to periodic loan review procedures in accordance with the Company's Loan Policy. A portion of the loan reviews are performed by an independent and external loan review function.

Residential mortgage loans consist of loans secured by 1 to 4 family residential properties. These loans amounted to \$627.5 million \$624.9 million at March 31, 2024 June 30, 2024, a decrease of \$4.0 million \$6.6 million from year end 2023. Sales of conforming mortgage loans totaled \$12.2 million \$24.7 million for the three six months ended March 31, 2024 June 30, 2024, compared to sales of \$16.1 million \$26.9 million in the prior year period. The yield on residential mortgages was 5.90 5.93 percent for the three six months ended March 31, 2024 June 30, 2024, compared to 5.27 5.38 percent for the same period in 2023. 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

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portfolio of the Bank includes adjustable rate mortgages with rates that exceed the rates on conventional fixed-rate mortgage loan products but which are 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 to 4 family residences. These loans amounted to ~~\$72.3 million~~ \$69.3 million at June 30, 2024, a decrease of ~~\$0.4 million~~ \$3.4 million from year end 2023. The yield on consumer loans was ~~7.90~~ 7.88 percent for the three six months ended ~~March 31, 2024~~ June 30, 2024, compared to ~~7.02~~ 7.30 percent for the same period in 2023.

Residential construction loans consist of short-term loans for the purpose of funding the costs of building a home. These loans amounted to ~~\$123.8 million~~ \$103.2 million at ~~March 31, 2024~~ June 30, 2024, a decrease of ~~\$7.5 million~~ \$28.1 million from year end 2023. The yield on residential construction loans was ~~7.86~~ 8.22 percent for the three six months ended ~~March 31, 2024~~ June 30, 2024, compared to ~~6.31~~ 6.58 percent for the same period in 2023.

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, 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 designed to 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.

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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 ~~March 31, 2024~~ June 30, 2024 and December 31, 2023, approximately 96 percent of the Company's loan portfolio was secured by real estate.

The following table sets forth the classification of loans by loan type, including unearned fees, deferred costs and excluding the allowance for credit losses as of ~~March 31, 2024~~ June 30, 2024 and December 31, 2023:

<i>In thousands, except percentages</i>	March 31, 2024	%	December 31, 2023	%
SBA Loans				
SBA loans held for sale	\$ 18,439	0.8%	\$ 18,242	0.8%
SBA loans held for investment	39,009	1.8%	38,584	1.8%
SBA PPP	2,168	0.1%	2,318	0.1%
Total SBA Loans	59,616	2.7%	59,144	2.7%
Commercial Loans				
Commercial Construction	142,345	6.5%	129,159	6.0%
SBA 504	38,128	1.8%	33,669	1.6%
Commercial & Industrial	133,409	6.1%	128,402	5.9%
Commercial Mortgage - Owner Occupied	512,616	23.6%	502,397	23.1%
Commercial Mortgage - Nonowner Occupied	412,325	19.0%	424,490	19.5%

Other	52,496	2.4%	59,343	2.7%
Total Commercial Loans	1,291,319	59.4%	1,277,460	58.8%
Residential Mortgage loans	627,464	28.9%	631,506	29.1%
Consumer Loans				
Home equity	67,448	3.1%	67,037	3.0%
Consumer other	4,827	0.2%	5,639	0.3%
Total Consumer Loans	72,275	3.3%	72,676	3.3%
Residential Construction	123,783	5.7%	131,277	6.0%
Total Gross Loans	\$ 2,174,457	100.0%	\$ 2,172,063	100.0%

<i>In thousands, except percentages</i>	June 30, 2024	%	December 31, 2023	%
SBA loans				
SBA loans held for sale	\$ 15,159	0.6%	\$ 18,242	0.8%
SBA loans held for investment	38,017	1.8%	38,584	1.8%
SBA PPP	1,734	0.1%	2,318	0.1%
Total SBA loans	54,910	2.5%	59,144	2.7%
Commercial loans				
Commercial construction	125,749	5.8%	129,159	6.0%
SBA 504	39,195	1.8%	33,669	1.7%
Commercial & industrial	147,172	6.8%	128,402	5.9%
Commercial mortgage - owner occupied	527,498	24.3%	502,397	23.1%
Commercial mortgage - nonowner occupied	411,455	19.0%	424,490	19.5%
Other	67,139	3.0%	59,343	2.7%
Total commercial loans	1,318,208	60.7%	1,277,460	58.9%
Residential mortgage loans	624,949	28.8%	631,506	29.1%
Consumer loans				
Home equity	65,065	3.0%	67,037	3.0%
Consumer other	4,215	0.2%	5,639	0.3%
Total consumer loans	69,280	3.2%	72,676	3.3%

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Residential construction	103,188	4.8%	131,277	6.0%
Total gross loans	\$ 2,170,535	100.0%	\$ 2,172,063	100.0%

For additional information on loans, see Note 7 to the Consolidated Financial Statements.

Asset Quality

Nonperforming loans including loans more than 90 days delinquent and still accruing, were \$17.0 million \$12.1 million at March 31, 2024 June 30, 2024, a \$2.2 million \$7.1 million decrease from \$19.2 million at December 31, 2023 and a \$2.5 million increase \$4.1 million decrease from \$14.5 million \$16.2 million at March 31, 2023 June 30, 2023, respectively. Since year end 2023, nonperforming loans in the residential

mortgage, consumer and consumer segment residential construction segments decreased, offset by an increase in nonperforming loans in the SBA and commercial and residential construction loans segments. In addition, there were \$138 thousand \$0.4 million in loans past due 90 days or more and still accruing interest at **March 31, 2024** June 30, 2024, compared to \$946 thousand \$0.9 million at December 31, 2023 and none at **March 31, 2023** June 30, 2023. Further, there was no other real estate owned at **March 31, 2024** June 30, 2024 or December 31, 2023 and \$176 thousand in \$0.3 million of other real estate owned at **March 31, 2023** June 30, 2023.

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 \$12.8 million \$14.4 million at **March 31, 2024** June 30, 2024, a decrease of \$0.7 million from \$15.1 million at December 31, 2023.

Nonperforming securities were \$3.1 million at June 30, 2024, a \$3.1 million increase from none at December 31, 2023 and June 30, 2023. The Company owns \$5 million in par of this position and moved the position into non-accrual status during the three months ending June 30, 2024. This security is currently paying, and so subsequent to June 30, 2024 the carrying value of this security was \$2.9 million, as all payments have been applied to principal.

See Note 7 to the accompanying Consolidated Financial Statements for more information regarding Asset Quality.

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Allowance for Credit Losses and Reserve for Unfunded Loan Commitments

The allowance for credit losses totaled \$26.1 million at **March 31, 2024** June 30, 2024, compared to \$25.9 million at December 31, 2023 and \$26.2 million \$26.0 million at **March 31, 2023** June 30, 2023, with a resulting allowance to total loan ratio of 1.20 percent at **March 31, 2024** June 30, 2024, 1.19 percent at December 31, 2023 and 1.23 1.20 at **March 31, 2023** June 30, 2023. Net charge-offs amounted to \$415 thousand \$0.7 million for the three six months ended **March 31, 2024** June 30, 2024, compared to net recoveries charge-offs of \$50 thousand \$0.9 million for the same period in 2023.

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 **March 31, 2024** June 30, 2024 and December 31, 2023, the commitment reserve totaled \$0.6 million.

See Note 8 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.

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Total deposits increased \$37.1 million \$86.7 million to \$2.0 billion at March 31, 2024 June 30, 2024 from year-end 2023. This increase was due to increases of \$74.2 million \$133.4 million in time deposits, \$13.0 million \$8.1 million in interest-bearing demand savings deposits and \$6.7 million \$2.3 million in savings noninterest-bearing demand deposits, partially offset by a decrease of \$32.7 million \$46.4 million in brokered deposits and \$24.1 million \$10.7 million in noninterest-bearing interest bearing demand deposits. The change in the composition of the portfolio from December 31, 2023 reflects a 17.4 31.3 percent increase in time deposits, 4.2 percent increase in interest-bearing demand deposits, and a 1.4 1.6 percent increase in savings deposits and a 0.6 percent increase in noninterest-bearing demand deposits, partially offset by a 12.2 17.3 percent decrease in brokered deposits and a 5.7 3.4 percent decrease in noninterest-bearing interest bearing demand deposits.

As of March 31, 2024 June 30, 2024, 17.2 18.3 percent of total deposits were uninsured or uncollateralized. The Company's deposit composition as of March 31, 2024 June 30, 2024, consisted of 20.2 21.0 percent in noninterest-bearing demand deposits, 16.6 15.0 percent in interest-bearing demand deposits, 28.8 27.5 percent in savings deposits and 34.4 36.5 percent in time deposits.

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 loans collateralize these borrowings.

Borrowed funds and subordinated debentures totaled \$309.7 million \$285.1 million and \$366.7 million at March 31, 2024 June 30, 2024 and December 31, 2023, respectively, and are broken down in the following table:

(In thousands)	March 31, 2024	December 31, 2023	June 30, 2024	December 31, 2023
FHLB borrowings:				
Non-overnight, fixed rate advances	\$ 53,797	\$ 109,438	\$ 53,798	\$ 109,438
Overnight advances	215,600	217,000	181,000	217,000
Puttable advances	30,000	30,000	40,000	30,000
Subordinated debentures	10,310	10,310	10,310	10,310
Total borrowed funds and subordinated debentures	\$ 309,707	\$ 366,748	\$ 285,108	\$ 366,748

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In March June 2024, the FHLB issued a \$165.0 million \$185.0 million municipal deposit 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. The FHLB issued an additional \$25.0 million \$28.0 million municipal deposit 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 March 31, 2024 June 30, 2024, the Company held \$183.0 million \$197.4 million of cash and cash equivalents. Further, the Company maintained approximately \$546.0 million \$610.5 million of funding available from various funding sources, including the FHLB, FRB Discount Window and other lines of credit. Additionally, the Company can pledge securities for further borrowing capacity. Total available funding plus cash on hand represented 215.6% of uninsured or uncollateralized deposits.

For the three six months ended March 31, 2024 June 30, 2024, average FHLB Borrowings were \$191.0 million \$155.2 million with a weighted average cost of 4.35% 3.98%.

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. The floating interest rate on the subordinated debentures is the daily compounded SOFR rate with a 0.262 percent spread. The floating interest rate was 7.172 7.199 percent at March 31, 2024 June 30, 2024 and 7.212 percent at December 31, 2023.

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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 **March 31, 2024** **June 30, 2024** and December 31, 2023:

<i>(In thousands, except percentages)</i>	Estimated Increase/ (Decrease) in EVE			Estimated 12 mo. Increase/ (Decrease) In NII			Estimated Increase/ (Decrease) in EVE			Estimated 12 mo. Increase/ (Decrease) in NII		
	EVE	Amount	Percent	NII	Amount	Percent	EVE	Amount	Percent	NII	Amount	Percent
March 31, 2024												
June 30, 2024												
+300	\$ 213,785	\$ (56,042)	(20.77)%	\$ 89,741	\$ (8,617)	(8.76)%	\$ 230,162	\$ (52,009)	(18.43)%	\$ 90,084	\$ (7,740)	
+200	234,739	(35,088)	(13.00)	92,641	(5,717)	(5.81)	248,391	(33,780)	(11.97)	92,728	(5,096)	
+100	253,460	(16,367)	(6.07)	95,467	(2,891)	(2.94)	266,513	(15,658)	(5.55)	95,284	(2,540)	
0	269,827	—	—	98,358	—	—	282,171	—	—	97,824	—	
-100	281,736	11,909	4.41	100,482	2,124	2.16	294,861	12,690	4.50	99,666	1,842	
-200	287,421	17,594	6.52	101,927	3,569	3.63	299,611	17,440	6.18	100,816	2,992	
-300	287,929	18,102	6.71	102,883	4,525	4.60	300,113	17,942	6.36	101,639	3,815	
December 31, 2023												
+300	\$ 215,239	\$ (53,748)	(19.98)%	\$ 91,747	\$ (7,977)	(8.00)%	\$ 215,239	\$ (53,748)	(19.98)%	\$ 91,747	\$ (7,977)	
+200	235,749	(33,238)	(12.36)	94,405	(5,319)	(5.33)	235,749	(33,238)	(12.36)	94,405	(5,319)	
+100	254,242	(14,745)	(5.48)	96,984	(2,740)	(2.75)	254,242	(14,745)	(5.48)	96,984	(2,740)	
0	268,987	—	—	99,724	—	—	268,987	—	—	99,724	—	
-100	273,517	4,530	1.68	101,391	1,667	1.67	273,517	4,530	1.68	101,391	1,667	
-200	286,813	17,826	6.63	102,987	3,263	3.27	286,813	17,826	6.63	102,987	3,263	
-300	281,661	12,674	4.71	102,858	3,134	3.14	281,661	12,674	4.71	102,858	3,134	

Liquidity, Off Balance Sheet Arrangements and Contractual Obligations

The following table shows the amounts and expected maturities or payment periods of off-balance sheet arrangements and contractual obligations as of **March 31, 2024** **June 30, 2024**:

(In thousands)	One year or less	One to three years	Three to five years	Over five years	Total
<i>Off-balance sheet arrangements:</i>					
Standby letters of credit	\$ 3,718	\$ 30	\$ 920	\$ 907	\$ 5,575
<i>Contractual obligations:</i>					
Time deposits and brokered time deposits	589,484	73,792	12,425	108	675,809
Borrowed funds and subordinated debentures	260,038	4,359	35,000	10,310	309,707
Total off-balance sheet arrangements and contractual obligations	\$ 853,240	\$ 78,181	\$ 48,345	\$ 11,325	\$ 991,091

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(In thousands)	One year or less	One to three years	Three to five years	Over five years	Total
<i>Off-balance sheet arrangements:</i>					
Standby letters of credit	\$ 3,477	\$ 830	\$ 120	\$ 906	\$ 5,333
<i>Contractual obligations:</i>					
Time deposits	624,057	96,942	12,281	108	733,388
Borrowed funds and subordinated debentures	229,798	—	45,000	10,310	285,108
Total off-balance sheet arrangements and contractual obligations	\$ 857,332	\$ 97,772	\$ 57,401	\$ 11,324	\$ 1,023,829

Standby letters of credit represent guarantees of payment issued by the Bank on behalf of a client that is used as "payments of last resort" should the client fail to fulfill a contractual commitment with a third party. Standby letters of credit are typically short-term in duration, maturing in one year or less.

Time deposits have stated maturity dates and include brokered time deposits.

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Borrowed funds and subordinated debentures include fixed and adjustable 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.

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. Our liquidity is monitored by management and the Board of Directors, which reviews historical funding requirements, our 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. Our goal is to maintain sufficient asset-based liquidity to cover potential funding requirements in order to minimize our 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. At **March 31, 2024** **June 30, 2024**, the balance of cash and cash equivalents was **\$183.0 million** **\$197.4 million**, a **decrease** **an increase** of **\$11.8 million** **\$2.6 million** from December 31, 2023. A discussion of the cash provided by on- and used in operating, investing and financing activities off-balance sheet liquidity follows.

Operating activities provided \$15.8 million and \$13.6 million of net cash for the three months ended March 31, 2024 and 2023, respectively. The primary sources of funds were net income from operations and adjustments to net income, such as stock compensation expense and the net change in other assets and liabilities.

Investing activities used \$3.0 million and \$19.9 million in net cash for the three months ended March 31, 2024 and 2023, respectively. Cash was primarily used to fund new loans and purchase securities.

- **Securities.** The Company's available for sale investment portfolio amounted to **\$94.7 million** **\$99.1 million** and \$91.8 million at **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively. Projected cash flows from securities based on current estimates over the next twelve months are **\$8.1 million** **\$13.1 million**.
- **Loans.** The SBA loans held for sale portfolio amounted to **\$18.4 million** **\$15.2 million** and \$18.2 million at **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively. Sales of these loans provide an additional source of liquidity for the Company.
- **Commitments.** The Company was committed to advance approximately **\$289.5 million** **\$291.6 million** to its borrowers as of **March 31, 2024** **June 30, 2024**, compared to \$312.5 million at December 31, 2023. At **March 31, 2024** **June 30, 2024**, **\$131.5 million** **\$144.5 million** of these commitments expire within one year, compared to \$149.3 million at December 31, 2023. The Company had **\$5.6 million** **\$5.3 million** and \$5.7 million in standby letters of credit at **March 31, 2024** **June 30, 2024** and December 31, 2023, 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.

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Financing activities used \$24.5 million and provided \$18.5 million in net cash for the three months ended March 31, 2024 and 2023, primarily due to net increase in deposits, offset by repayments of short-term borrowings.

- **Deposits.** As of **March 31, 2024** **June 30, 2024**, deposits included **\$373.2 million** **\$363.1 million** of government deposits, as compared to \$346.3 million at year end 2023. 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 **\$344.4 million** **\$329.6 million** of deposits from **2021** 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 \$299.4 million \$274.8 million and \$374.0 million \$356.4 million as of **March 31, 2024** June 30, 2024 and December 31, 2023, 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 **March 31, 2024** June 30, 2024, pledging provided an additional \$546.0 million \$610.5 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.

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For further detail on cash flow activity, refer to the Consolidated Statements of Cash Flows.

Regulatory Capital

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 **March 31, 2024** June 30, 2024, Unity Bank exceeded all capital requirements of the federal banking regulators and was considered well capitalized.

The following table presents See Note 11 to the accompanying Consolidated Financial Statements for more information regarding the Company's consolidated capital levels, as well as, the Bank's regulatory capital levels at March 31, 2024 and December 31, 2023.

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							To be Well Capitalized Under Prompt Corrective Action Regulations*			
	Actual		Required for Capital Adequacy Purposes		Regulations*					
	Amount	Ratio	Amount	Ratio	Amount	Ratio	(Dollars in thousands)			
As of March 31, 2024										
Total risk-based capital (to risk-weighted assets)										
Consolidated	\$ 303,846	14.63 %	\$ 166,101	8.00 %	\$ 207,627	10.00 %				
Bank	295,499	14.36	164,659	8.00	205,824	10.00				
Common equity tier 1 (to risk-weighted assets)										
Consolidated	267,884	12.90	93,432	4.50	134,957	6.50				
Bank	269,759	13.11	92,621	4.50	133,786	6.50				
Tier 1 capital (to risk-weighted assets)										
Consolidated	277,884	13.38	124,576	6.00	166,101	8.00				
Bank	269,759	13.11	123,495	6.00	164,659	8.00				
Tier 1 capital (to average total assets)										
Consolidated	277,884	11.39	97,580	4.00	121,975	5.00				

Bank	269,759	11.10	97,204	4.00	121,504	5.00
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

*Prompt Corrective Action requirements only apply to the Bank. Regulatory Capital

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Shareholders' Equity

Repurchase Plan

On April 27, 2023, the Board authorized a new repurchase plan of up to 500 thousand shares, or approximately 5.0% of the Company's outstanding common stock. A total **149,997** **68,771** shares were repurchased at a weighted average price of **\$27.14** **\$26.77** during the three months ended **March 31, 2024** **June 30, 2024**. As of **March 31, 2024** **June 30, 2024**, **264** **195** thousand shares are available for repurchase. The timing and amount of additional purchases, if any, will depend upon a number of 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				Maximum Number of Shares that may be Purchased			
	Number of Shares Purchased	Average Price per Share	as Part of Publicly Announced Under the Plans		Number of Shares Purchased	Average Price per Share	as Part of Publicly Announced Under the Plans	
			or Programs	or Programs			or Programs	or Programs
January 1, 2024 through January 31, 2024	—	\$ —	—	—	413,747			
February 1, 2024 through February 29, 2024	28,709	26.86	28,709	385,038				
March 1, 2024 through March 31, 2024	121,288	27.20	121,288	263,750				
April 1, 2024 through April 30, 2024					4,190	\$ 26.73	4,190	259,560
May 1, 2024 through May 31, 2024					35,100	26.99	35,100	224,460
June 1, 2024 through June 30, 2024					29,481	26.51	29,481	194,979

Impact of Inflation and Changing Prices

The financial statements and notes thereto, presented elsewhere herein have been prepared in accordance with U.S. GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of operations. Unlike most industrial companies, nearly all the Company's assets and liabilities are monetary. As a result, interest rates have a greater impact on performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

ITEM 3 Quantitative and Qualitative Disclosures about Market Risk

During the ~~three~~ six months ended ~~March 31, 2024~~ June 30, 2024, there have been no significant changes in the Company's assessment of market risk as reported in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2023. (See Interest Rate Sensitivity in Management's Discussion and Analysis herein.)

ITEM 4 Controls and Procedures

- a) The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of ~~March 31, 2024~~ June 30, 2024. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer

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concluded that the Company's disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information the Company is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms.

- b) No significant change in the Company's internal control over financial reporting has occurred during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's controls over financial reporting.

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PART II OTHER INFORMATION

ITEM 1 Legal Proceedings

From time to time, the Company is subject to other 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 the results of the operation of the Company.

ITEM 1A Risk Factors

Information regarding this item as of **March 31, 2024** **June 30, 2024** appears under the heading, "Risk Factors" within the Company's Form 10-K for the year ended December 31, 2023.

ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

See the discussion under the heading "Shareholders Equity - Repurchase Plan" under Item 2 "Management's Discussion and Analysis of Financial Condition and results of Operations."

ITEM 3 Defaults upon Senior Securities – None

ITEM 4 Mine Safety Disclosures - N/A

ITEM 5 Other Information – None

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ITEM 6 Exhibits

(a) Exhibits	Description
Exhibit 31.1	Certification of Chief Executive Officer Pursuant to Rule 13a 14(a) or Rule 15d 14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer Pursuant to Rule 13a 14(a) or Rule 15d 14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a 14(b) or Rule 15d 14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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EXHIBIT INDEX

QUARTERLY REPORT ON FORM 10-Q

Exhibit No.	Description

<u>31.1</u>	Exhibit 31.1-Certification of James A. Hughes. Required by Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
<u>31.2</u>	Exhibit 31.2-Certification of George Boyan. Required by Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
<u>32.1</u>	Exhibit 32.1-Certification of James A. Hughes and George Boyan. Required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
**101.INS	Inline XBRL Instance Document
**101.SCH	Inline XBRL Taxonomy Extension Schema Document
**101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
**101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
**101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
**101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
**104	Cover Page Interactive Data File (formatted as Inline XBRL and contained as Exhibit 101)

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SIGNATURES

Pursuant to the requirements 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.
Dated: <u>May 08, August 06, 2024</u>	/s/ George Boyan
	George Boyan

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EXHIBIT 31.1

I, James A. Hughes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: May 8, August 6, 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 Quarterly Report on Form 10-Q 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: **May 8, August 6, 2024**

/s/ George Boyan

George Boyan

Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, 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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2024 (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: **May 8, August 6, 2024**

/s/ James A. Hughes

James A. Hughes

President and Chief Executive Officer

Dated: **May 8, August 6, 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.

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