REFINITIV

DELTA REPORT

10-Q

UNTY - UNITY BANCORP INC /NJ/

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1441
CHANGES	423
DELETIONS	656
ADDITIONS	362

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 **September 30, 2023** **March 31, 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 October 31, 2023 April 30, 2024 common stock, no par value: 10,057,712 10,039,119 shares outstanding.

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PART I **CONSOLIDATED FINANCIAL INFORMATION**

ITEM 1 **Consolidated Financial Statements (Unaudited)**

Unity Bancorp, Inc.

Consolidated Balance Sheets

(Unaudited)

(In thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
ASSETS				
Cash and due from banks	**$ 26,224**	$ 19,699	**$ 20,619**	$ 20,668
Interest-bearing deposits	**135,223**	95,094	**162,367**	174,108
Cash and cash equivalents	**161,447**	114,793	**182,986**	194,776
Securities:				
Debt securities available for sale, at market value	**92,122**	95,393	**94,682**	91,765
Debt securities held to maturity, at amortized cost	**35,956**	35,760	**36,089**	36,122

Equity securities, at market value	**8,013**	9,793	**7,931**	7,802
Total securities	**136,091**	140,946	**138,702**	135,689
Loans:				
SBA loans held for sale	**19,387**	27,928	**18,439**	18,242
SBA loans held for investment	**40,873**	38,468	**39,009**	38,584
SBA PPP loans	**2,507**	5,908	**2,168**	2,318
Commercial loans	**1,276,156**	1,187,543	**1,291,319**	1,277,460
Residential mortgage loans	**628,628**	605,091	**627,464**	631,506
Consumer loans	**72,189**	78,164	**72,275**	72,676
Residential construction loans	**133,450**	163,457	**123,783**	131,277
Total loans	**2,173,190**	2,106,559	**2,174,457**	2,172,063
Allowance for credit losses	**(25,918)**	(25,196)	**(26,080)**	(25,854)
Net loans	**2,147,272**	2,081,363	**2,148,377**	2,146,209
Premises and equipment, net	**19,783**	20,002	**19,281**	19,567
Bank owned life insurance ("BOLI")	**25,223**	26,776	**25,295**	25,230
Deferred tax assets, net	**13,249**	12,345	**12,681**	12,552
Federal Home Loan Bank ("FHLB") stock	**19,882**	19,064	**15,896**	18,435
Accrued interest receivable	**16,101**	13,403	**13,165**	13,582
Goodwill	**1,516**	1,516	**1,516**	1,516
Prepaid expenses and other assets	**22,442**	14,740	**10,189**	10,951
Total assets	**$ 2,563,006**	$ 2,444,948	**$ 2,568,088**	$ 2,578,507
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities:				
Deposits:				
Noninterest-bearing demand	**$ 425,436**	$ 494,184	**$ 395,520**	$ 419,636
Interest-bearing demand	**297,705**	276,218	**325,174**	312,208
Savings	**548,325**	591,826	**504,210**	497,491
Brokered time deposits	**197,636**	189,644		
Brokered deposits			**235,755**	268,408
Time deposits	**415,808**	235,656	**500,611**	426,397
Total deposits	**1,884,910**	1,787,528	**1,961,270**	1,924,140
Borrowed funds	**388,610**	383,000	**299,397**	356,438
Subordinated debentures	**10,310**	10,310	**10,310**	10,310
Accrued interest payable	**1,412**	691	**1,551**	1,924
Accrued expenses and other liabilities	**25,380**	24,192	**28,799**	24,265
Total liabilities	**2,310,622**	2,205,721	**2,301,327**	2,317,077
Shareholders' equity:				
Common stock	**99,741**	97,204	**101,676**	100,426
Retained earnings	**182,557**	156,958	**199,380**	191,108
Treasury stock	**(25,954)**	(11,675)	**(31,443)**	(27,367)
Accumulated other comprehensive loss	**(3,960)**	(3,260)	**(2,852)**	(2,737)
Total shareholders' equity	**252,384**	239,227	**266,761**	261,430
Total liabilities and shareholders' equity	**$ 2,563,006**	$ 2,444,948	**$ 2,568,088**	$ 2,578,507
Shares issued	**11,411**	11,289	**11,555**	11,424
Shares outstanding	**10,115**	10,584	**10,044**	10,063
Treasury shares	**1,296**	705	**1,511**	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)

(In thousands, except per share amounts)	For the three months ended September 30, 2023	For the three months ended September 30, 2022	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022	For the three months ended March 31, 2024	For the three months ended March 31, 2023
INTEREST INCOME						
Interest-bearing deposits	$ 483	$ 168	$ 1,257	$ 416	$ 420	$ 333
FHLB stock	364	93	1,037	176	280	331
Securities:						
Taxable	1,848	1,397	5,385	3,164	1,849	1,739
Tax-exempt	17	18	55	34	18	19
Total securities	1,865	1,415	5,440	3,198	1,867	1,758
Loans:						
SBA loans	1,379	1,083	4,186	2,933	1,333	1,404
SBA PPP loans	25	277	129	1,546	8	77
Commercial loans	20,299	14,017	56,320	37,928	20,830	17,401
Residential mortgage loans	8,462	5,912	25,103	15,284	9,219	8,109
Consumer loans	1,525	1,075	4,351	2,914	1,402	1,354
Residential construction loans	2,588	2,184	7,911	6,018	2,578	2,586
Total loans	34,278	24,548	98,000	66,623	35,370	30,931
Total interest income	36,990	26,224	105,734	70,413	37,937	33,353
INTEREST EXPENSE						
Interest-bearing demand deposits	1,429	320	3,761	682	1,710	965
Savings deposits	3,178	878	7,632	1,635	3,144	1,554
Brokered deposits					2,295	1,562
Time deposits	5,033	600	11,637	1,499	4,699	1,563
Borrowed funds and subordinated debentures	3,817	688	11,740	1,199	2,248	3,799
Total interest expense	13,457	2,486	34,770	5,015	14,096	9,443
Net interest income	23,533	23,738	70,964	65,398	23,841	23,910
Provision for credit losses	534	1,517	1,419	2,526		
Provision for credit losses, loans					641	108
Provision for credit losses, off-balance sheet					2	—
Net interest income after provision for credit losses	22,999	22,221	69,545	62,872	23,198	23,802
NONINTEREST INCOME						
Branch fee income	278	336	741	892	243	235
Service and loan fee income	385	543	1,379	1,815	457	503
Gain on sale of SBA loans held for sale, net	—	—	896	852	238	309
Gain on sale of mortgage loans, net	488	280	1,195	1,231	320	244
BOLI income	679	170	843	494	65	80
Net security losses	(123)	(576)	(610)	(1,631)		
Net security gains (losses)					54	(322)
Other income	336	357	1,131	2,446	341	368
Total noninterest income	2,043	1,110	5,575	6,099	1,718	1,417
NONINTEREST EXPENSE						
Compensation and benefits	7,440	6,471	21,801	19,790	7,357	7,090
Processing and communications	705	708	2,172	2,166	906	804
Occupancy	763	702	2,312	2,205	798	770

Furniture and equipment	**645**	617	**2,024**	1,811	**684**	689
Professional services	**348**	221	**1,071**	1,060	**436**	427
Advertising	**405**	307	**1,108**	873	**400**	260
Other loan expenses	**125**	109	**298**	238		
Loan related expenses					**384**	175
Deposit insurance	**397**	233	**1,362**	752	**339**	348
Director fees	**209**	240	**629**	698	**247**	217
Loan collection expenses	**90**	45	**222**	138		
Other expenses	**868**	411	**2,175**	1,454	**581**	648
Total noninterest expense	**11,995**	10,064	**35,174**	31,185	**12,132**	11,428
Income before provision for income taxes	**13,047**	13,267	**39,946**	37,786	**12,784**	13,791
Provision for income taxes	**3,097**	3,325	**10,009**	9,285	**3,198**	3,504
Net income	**$ 9,950**	$ 9,942	**$ 29,937**	$28,501	**$ 9,586**	$10,287
Net income per common share – Basic	**$ 0.98**	$ 0.94	**$ 2.92**	$ 2.72	**$ 0.95**	$ 0.98
Net income per common share – Diluted	**$ 0.97**	$ 0.93	**$ 2.88**	$ 2.67	**$ 0.93**	$ 0.96
Weighted average common shares outstanding – Basic	**10,128**	10,522	**10,255**	10,491	**10,127**	10,538
Weighted average common shares outstanding – Diluted	**10,258**	10,714	**10,381**	10,694	**10,276**	10,686

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						For the three months ended					
	September 30, 2023			September 30, 2022			March 31, 2024			March 31, 2023		
(In thousands)	Before tax amount	Income tax expense (benefit)	Net of tax amount	Before tax amount	Income tax expense (benefit)	Net of tax amount	Before tax amount	Income tax expense (benefit)	Net of tax amount	Before tax amount	Income tax expense (benefit)	Net of ta amount
Net income	**$ 13,047**	**3,097**	**9,950**	13,267	3,325	9,942	**$ 12,784**	**3,198**	**9,586**	13,791	3,504	10,287
Other comprehensive (loss) income before reclassifications												
Debt securities available for sale:												
Unrealized holding losses on securities arising during the period	**(342)**	**(87)**	**(255)**	(1,238)	(281)	(957)						

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	**—**	**—**	**—**	(576)	(121)	(455)	**—**	**—**	**—**	—	—	—
Total unrealized losses on securities available for sale	**(342)**	**(87)**	**(255)**	(662)	(160)	(502)	**(44)**	**(10)**	**(34)**	359	93	266
Net unrealized (losses) gains from cash flow hedges:												
Unrealized holding (losses) gains on cash flow hedges arising during the period	**(377)**	**(125)**	**(252)**	452	128	324						
Less: reclassification adjustment for (gains) on cash flow hedges included in net income	**(238)**	**(68)**	**(170)**	—	—	—						
Total unrealized (losses) gains on cash flow hedges	**(139)**	**(57)**	**(82)**	452	128	324						
Total other comprehensive loss	**(481)**	**(144)**	**(337)**	(210)	(32)	(178)						
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	**$ 12,566**	**$ 2,953**	**$ 9,613**	$ 13,057	$ 3,293	$ 9,764	**$ 12,627**	**$ 3,156**	**$ 9,471**	$ 13,915	$ 3,547	$ 10,368

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 nine months ended					
	September 30, 2023			September 30, 2022		
(In thousands)	Before tax amount	Income tax expense (benefit)	Net of tax amount	Before tax amount	Income tax expense (benefit)	Net of tax amount
Net income	**$ 39,946**	**10,009**	**29,937**	37,786	9,285	28,501
Other comprehensive (loss) income						
Debt securities available for sale:						
Unrealized holding losses on securities arising during the period	**(660)**	**(155)**	**(505)**	(6,875)	(1,612)	(5,263)
Less: reclassification adjustment for losses on securities included in net income	**—**	**—**	**—**	(1,630)	(342)	(1,288)
Total unrealized losses on securities available for sale	**(660)**	**(155)**	**(505)**	(5,245)	(1,270)	(3,975)
Net unrealized (losses) gains from cash flow hedges:						
Unrealized holding (losses) gains on cash flow hedges arising during the period	**(929)**	**(265)**	**(664)**	1,190	337	853
Less: reclassification adjustment for (gains) on cash flow hedges included in net income	**(656)**	**(187)**	**(469)**	—	—	—
Total unrealized (losses) gains on cash flow hedges	**(273)**	**(78)**	**(195)**	1,190	337	853
Total other comprehensive loss	**(933)**	**(233)**	**(700)**	(4,055)	(933)	(3,122)
Total comprehensive income	**$ 39,013**	**$ 9,776**	**$ 29,237**	$ 33,731	$ 8,352	$ 25,379

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 and nine months ended September 30, 2023 and 2022

(Unaudited)

(In thousands)	Common Stock Shares	Common Stock Amount	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total shareholders' equity
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**

(In thousands)	Common Stock Shares	Common Stock Amount	Retained earnings	Treasury stock	Accumulated other comprehensive (loss) income	Total shareholders' equity	Common Stock Shares	Common Stock Amount	Retained earnings	Treasury stock	Accumulated other comprehensive (loss) income	Total shareholders' equity
Balance, December 31, 2022	**10,584**	**$97,204**	**$156,958**	**$(11,675)**	**$ (3,260)**	**$ 239,227**	10,584	$97,204	$156,958	$(11,675)	$ (3,260)	$ 239,227
Net income	**—**	**—**	**10,287**	**—**	**—**	**10,287**	—	—	10,287	—	—	10,287
Other comprehensive income, net of tax	**—**	**—**	**—**	**—**	**81**	**81**	—	—	—	—	81	81

Dividends on common stock ($0.12 per share)	**2**	**46**	**(1,261)**	**—**	**—**	**(1,215)**	2	46	(1,261)	—	—	(1,215)
Effect of adopting Accounting Standards Update ("ASU") No. 2016-13 ("CECL")	**—**	**—**	**(649)**	**—**	**—**	**(649)**	—	—	(649)	—	—	(649)
Share-based compensation (1)	**44**	**947**	**—**	**—**	**—**	**947**	44	947	—	—	—	947
Treasury stock purchased, at cost	**(338)**	**—**	**—**	**(8,219)**	**—**	**(8,219)**	(338)	—	—	(8,219)	—	(8,219)
Balance, March 31, 2023	**10,292**	**98,197**	**165,335**	**(19,894)**	**(3,179)**	**240,459**	10,292	$98,197	$165,335	$(19,894)$	(3,179)	$ 240,459
Net income	**—**	**—**	**9,700**	**—**	**—**	**9,700**						
Other comprehensive loss, net of tax	**—** A	**—**	**—**	**—**	**(444)**	**(444)**						
Dividends on common stock ($0.12 per share)	**2**	**47**	**(1,212)**	**—**	**—**	**(1,165)**						
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**						
Net income	**—**	**—**	**9,950**	**—**	**—**	**9,950**						
Other comprehensive loss, net of tax	**—**	**—**	**—**	**—**	**(337)**	**(337)**						
Dividends on common stock ($0.12 per share)	**2**	**47**	**(1,216)**	**—**	**—**	**(1,169)**						
Share-based compensation (1)	**22**	**784**	**—**	**—**	**—**	**784**						
Treasury stock purchased, at cost (2)	**(28)**	**—**	**—**	**(917)**	**—**	**(917)**						
Balance, September 30, 2023	**10,115**	**$99,741**	**$182,557**	**$(25,954)$**	**(3,960)**	**$ 252,384**						

(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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(In thousands)	Common Stock Shares	Common Stock Amount	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, December 31, 2021	10,391	$ 94,003	$ 123,037	$ (11,633)	$ 322	$ 205,729
Net income	—	—	9,108	—	—	9,108
Other comprehensive income, net of tax	—	—	—	—	286	286
Dividends on common stock ($0.10 per share)	—	37	(1,045)	—	—	(1,008)
Share-based compensation (1)	102	813	—	—	—	813
Balance, March 31, 2022	10,493	94,853	131,100	(11,633)	608	214,928
Net income	—	—	9,451	—	—	9,451
Other comprehensive loss, net of tax	—	—	—	—	(3,230)	(3,230)
Dividends on common stock ($0.11 per share)	—	43	(1,157)	—	—	(1,114)
Share-based compensation (1)	18	754	—	—	—	754
Balance, June 30, 2022	10,511	95,650	139,394	(11,633)	(2,622)	220,789
Net income	—	—	9,942	—	—	9,942
Other comprehensive loss, net of tax	—	—	—	—	(178)	(178)
Dividends on common stock ($0.11 per share)	—	41	(1,162)	—	—	(1,121)
Share-based compensation (1)	22	802	—	—	—	802

Balance, September 30, 2022	10,533	$ 96,493	$ 148,174	$ (11,633)	$ (2,800)	$ 230,234

(1) Includes the issuance of common stock under employee benefit plans, which includes nonqualified stock options and restricted stock expense related entries, employee option exercises and the tax benefit of options exercised.

(2) Includes an excise tax accrual of $0.1 million.

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)

	For the nine months ended September 30,		For the three months ended March 31,	
(In thousands)	**2023**	**2022**	**2024**	**2023**
OPERATING ACTIVITIES:				
Net income	**$ 29,937**	$ 28,501	**$ 9,586**	$ 10,287
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for credit losses	**1,419**	2,526		
Provision for credit losses, loans			**641**	108
Net amortization of purchase premiums and discounts on securities	**(195)**	26	**34**	36
Depreciation and amortization	**2,078**	2,112		
Depreciation and amortization (accretion)			**554**	(738)
PPP deferred fees and costs	**(90)**	(1,376)	**(3)**	(68)

Deferred income tax benefit	**(522)**	(2,064)		
Deferred income tax (benefit) expense			**(87)**	91
Net realized security gains	**(243)**	—	**(21)**	(222)
Stock compensation expense	**1,269**	1,239	**476**	417
Valuation writedowns on OREO			**—**	113
Gain on sale of mortgage loans, net	**(1,195)**	(1,231)	**(320)**	(244)
Gain on sale of SBA loans held for sale, net	**(896)**	(852)	**(238)**	(309)
BOLI income	**(843)**	(494)	**(65)**	(80)
Net change in other assets and liabilities	**(8,712)**	(18,830)	**5,205**	4,359
Net cash provided by operating activities	**22,007**	9,557	**15,762**	13,750
INVESTING ACTIVITIES				
Purchases of securities held to maturity	**—**	(26,748)		
Purchases of equity securities	**(126)**	(1,539)	**(166)**	(126)
Purchases of securities available for sale	**(650)**	(45,249)	**(4,000)**	—
Purchases of FHLB stock, at cost	**(818)**	(10,848)		
Proceeds from redemption of FHLB stock, at cost, net			**2,539**	376
Maturities and principal payments on securities held to maturity	**—**	5,185	**100**	—
Maturities, calls and principal payments on securities available for sale	**3,259**	3,901		
Maturities and principal payments on securities available for sale			**1,041**	1,639
Proceeds from sales of equity securities	**1,338**	—	**91**	1,269
Net decrease in SBA PPP loans	**3,491**	41,123	**153**	3,431
Net increase in loans	**(69,742)**	(332,650)	**(2,705)**	(26,339)
Proceeds from BOLI	**2,397**	468		
Purchases of premises and equipment	**(794)**	(240)	**(78)**	(195)
Net cash used in investing activities	**(61,645)**	(366,597)	**(3,025)**	(19,945)
FINANCING ACTIVITIES				
Net increase in deposits	**97,382**	37,716	**37,130**	36,393
Net proceeds from borrowings	**5,610**	240,000		
Repayments of short-term borrowings			**(61,400)**	(14,000)
Proceeds from long-term borrowings			**4,359**	5,000
Proceeds from exercise of stock options	**1,394**	1,395	**721**	530
Fair market value of shares withheld to cover employee tax liability	**(266)**	(266)		
Dividends on common stock	**(3,549)**	(3,243)	**(1,261)**	(1,215)
Purchase of treasury stock, including exise tax accrual	**(14,279)**	—	**(4,076)**	(8,219)
Net cash provided by financing activities	**86,292**	275,602		
Increase (decrease) in cash and cash equivalents	**46,654**	(81,438)		
Net cash (used in) provided by financing activities			**(24,527)**	18,489
(Decrease) increase in cash and cash equivalents			**(11,790)**	12,294
Cash and cash equivalents, beginning of year	**114,793**	244,818	**194,776**	114,793
Cash and cash equivalents, end of period	**$ 161,447**	$ 163,380	**$182,986**	$127,087
SUPPLEMENTAL DISCLOSURES				
Cash:				
Interest paid	**$ 34,049**	$ 4,851	**$ 14,469**	$ 9,202
Income taxes paid	**10,101**	9,357	**250**	3,557
Noncash activities:				
Establishment of lease liability and right-of-use asset	**—**	582	**—**	—
Capitalization of servicing rights	**430**	131	**76**	159
Transfer of loans to OREO	**251**	—	**—**	288

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

Unity Bancorp, Inc.
Notes to the Consolidated Financial Statements (Unaudited)
September 30, 2023 March 31, 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 deferred tax and 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 nine three months ended September 30, 2023 March 31, 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, 2022 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 rising 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 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 investment 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 in 2023 2024

Accounting Standards Update ("ASU") 2016-13, "Financial Instruments – Credit Losses 2023-07, "Segment Reporting (Topic 326) 280): Measurement of Credit Losses Improvements to Reportable Segment Disclosures" requires public entities to disclose detailed information about a reportable segment's expenses on Financial Instruments" amends 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 accounting guidance financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the impairment significant segment expense categories identified and disclosed in the period of financial instruments. The Financial Accounting Standards Board ("FASB") issued an amendment to replace the incurred loss impairment methodology under prior accounting guidance with a new current expected credit loss ("CECL") model. Under the new guidance, the Company is required to measure expected credit losses by utilizing forward-looking information to assess its allowance for credit losses. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. The measurement of expected credit losses under CECL methodology is applicable to financial assets measured at amortized cost, including loans and held to maturity debt securities. CECL also applies to certain off-balance sheet exposures.

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

For available for sale securities in an unrealized loss position, the Company first assesses whether it intends to sell, or is more likely than not that it will be required to sell the security before the recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities available for sale that do not meet the above criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost and adverse conditions related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of tax. The Company elected the practical expedient of zero loss estimates for securities issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major agencies and have a long history of no credit losses.

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

ASU 2022-01, "Derivatives and Hedging (Topic 815)": ASU 2022-01 was issued to clarify the guidance in ASC 815 on fair value hedge accounting of interest rate risk for portfolios and financial assets. Among other things, the amended guidance established the "last-of-layer" method for making the fair value hedge accounting for these portfolios more accessible and renamed that method the "portfolio layer" method. ASU 2022-01 is 2023-07 effective January 1, 2023. The Company adopted the guidance effective January 1, 2023 January 1, 2024, noting no material impact.

ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326)": ASU 2022-02 eliminates the guidance on troubled debt restructurings ("TDRs") and requires entities to evaluate all loan modifications to determine if they result in a new loan or a continuation of the existing loan. ASU 2022-02 requires that entities disclose if the modifications result in a new loan or a continuation of the existing loan. ASU 2022-02 also requires that entities disclose current-period gross charge-offs by year of origination for loans and leases. The Company adopted ASU 2022-02 effective January 1, 2023, noting no material impact.

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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:

	For the three months ended September 30,		For the nine months ended September 30,		For the three months ended March 31,	
(In thousands, except per share amounts)	**2023**	**2022**	**2023**	**2022**	**2024**	**2023**
Net income	**$ 9,950**	$ 9,942	**$ 29,937**	$ 28,501	**$ 9,586**	$10,287
Weighted average common shares outstanding - Basic	**10,128**	10,522	**10,255**	10,491	**10,127**	10,538
Plus: Potential dilutive common stock equivalents	**130**	192	**126**	203	**149**	148
Weighted average common shares outstanding - Diluted	**10,258**	10,714	**10,381**	10,694	**10,276**	10,686
Net income per common share - Basic	**$ 0.98**	$ 0.94	**$ 2.92**	$ 2.72	**$ 0.95**	$ 0.98
Net income per common share - Diluted	**0.97**	0.93	**2.88**	2.67	**0.93**	0.96
Stock options and common stock excluded from the income per share calculation as their effect would have been anti-dilutive	**—**	—	**—**	—	**—**	—

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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 nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, net of tax:

(In thousands)	For the three months ended September 30, 2023		
	Net unrealized losses on securities	Net unrealized gains (losses) from cash flow hedges	Accumulated other comprehensive loss
Balance, beginning of period	**$ (4,631)**	**$ 1,008**	**$ (3,623)**
Other comprehensive loss before reclassifications	**(255)**	**(252)**	**(507)**
Less amounts reclassified from accumulated other comprehensive loss	**—**	**(170)**	**(170)**
Period change	**(255)**	**(82)**	**(337)**
Balance, end of period	**$ (4,886)**	**$ 926**	**$ (3,960)**

(In thousands)	For the three months ended September 30, 2022			For the three months ended March 31, 2024		
	Net unrealized losses on securities	Net unrealized gains from cash flow hedges	Accumulated other comprehensive loss	Net unrealized losses on securities	Net unrealized gains (losses) from cash flow hedges	Accumulated other comprehensive loss
Balance, beginning of period	$ (3,444)	$ 822	$ (2,622)	**$ (3,408)**	**$ 671**	**$ (2,737)**
Other comprehensive (loss) income before reclassifications	(957)	324	(633)			
Other comprehensive loss before reclassifications				**(34)**	**(251)**	**(285)**
Less amounts reclassified from accumulated other comprehensive loss	(455)	—	(455)	**—**	**(170)**	**(170)**
Period change	(502)	324	(178)	**(34)**	**(81)**	**(115)**
Balance, end of period	$ (3,946)	$ 1,146	$ (2,800)	**$ (3,442)**	**$ 590**	**$ (2,852)**

(In thousands)	For the nine months ended September 30, 2023			For the three months ended March 31, 2023		
	Net unrealized (losses) on securities	Net unrealized gains (losses) from cash flow hedges	Accumulated other comprehensive loss	Net unrealized (losses) gains on securities	Net unrealized gains (losses) from cash flow hedges	Accumulated other comprehensive (loss) income
Balance, beginning of period	**$ (4,381)**	**$ 1,121**	**$ (3,260)**	$ (4,381)	$ 1,121	$ (3,260)
Other comprehensive loss before reclassifications	**(505)**	**(664)**	**(1,169)**			
Other comprehensive income (loss) before reclassifications				266	(341)	(75)
Less amounts reclassified from accumulated other comprehensive loss	**—**	**(469)**	**(469)**	—	(156)	(156)
Period change	**(505)**	**(195)**	**(700)**	266	(185)	81
Balance, end of period	**$ (4,886)**	**$ 926**	**$ (3,960)**	$ (4,115)	$ 936	$ (3,179)

(In thousands)	For the nine months ended September 30, 2022		
	Net unrealized gains (losses) on securities	Net unrealized gains from cash flow hedges	Accumulated other comprehensive income (loss)
Balance, beginning of period	$ 29	$ 293	$ 322
Other comprehensive (loss) income before reclassifications	(5,263)	853	(4,410)
Less amounts reclassified from accumulated other comprehensive loss	(1,288)	—	(1,288)

Period change		(3,975)		853		(3,122)
Balance, end of period	$	(3,946)	$	1,146	$	(2,800)

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NOTE 5. Fair Value

Fair Value Measurement

The Company follows *FASB 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:

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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 U.S. Government and sponsored entity agency mortgage-backed securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Inputs

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable, either directly or indirectly, for the term of the asset or liability (i.e. interest rates, yield curves, credit risks, prepayment speeds or volatilities) or "market corroborated inputs."

- Generally, this includes U.S. Government and sponsored entity mortgage-backed securities, corporate debt securities and derivative contracts.

Level 3 Inputs

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

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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 September 30, 2023 March 31, 2024, the fair value of the Company's AFS debt securities portfolio was $92.1 million $94.7 million. Most of the Company's AFS debt securities were classified as Level 2 assets at September 30, 2023 March 31, 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 two select corporate bonds which are classified as Level 3 assets at September 30, 2023 March 31, 2024. The valuation of these corporate bonds is 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 months ended March 31, 2024 and 2023:

	Collateralized Debt Obligations

(In thousands)	2024	2023
Balance of Recurring Level 3 assets at January 1	**$ 7,979**	$ 4,675
Activity		
Losses in other comprehensive income	—	(165)
Balance of recurring Level 3 assets at March 31	**$ 7,979**	$ 4,510

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 September 30, 2023 March 31, 2024, the fair value of the Company's equity securities portfolio was $8.0 million $7.9 million.

All of the Company's equity securities were classified as Level 1 assets at September 30, 2023 March 31, 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 September 30, 2023 March 31, 2024, as compared to the periods ended December 31, 2022 December 31, 2023 and September 30, 2022 March 31, 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

	Fair Value Measurements at September 30, 2023				Fair Value Measurements at March 31, 2024			
(In thousands)	Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:								
Assets:								

Debt securities available for sale:								
U.S. Government sponsored entities	**$ 16,325**	**$ —**	**$ 16,325**	**$ —**	**$ 15,264**	**$ —**	**$ 15,264**	**$ —**
State and political subdivisions	**362**	**—**	**362**	**—**	**350**	**—**	**350**	**—**
Residential mortgage-backed securities	**13,670**	**—**	**13,670**	**—**	**13,532**	**—**	**13,532**	**—**
Corporate and other securities	**61,765**	**—**	**57,502**	**4,263**	**65,536**	**—**	**57,557**	**7,979**
Total debt securities available for sale	**$ 92,122**	**$ —**	**$ 87,859**	**$ 4,263**	**$ 94,682**	**$ —**	**$ 86,703**	**$ 7,979**
Equity securities with readily determinable fair values	**8,013**	**8,013**	**—**	**—**	**$ 7,931**	**$ 7,931**	**$ —**	**$ —**
Total equity securities	**$ 8,013**	**$ 8,013**	**$ —**	**$ —**	**$ 7,931**	**$ 7,931**	**$ —**	**$ —**
Interest rate swap agreements	**1,264**	**—**	**1,264**	**—**	**$ 805**	**$ —**	**$ 805**	**$ —**
Total swap agreements	**$ 1,264**	**$ —**	**$ 1,264**	**$ —**	**$ 805**	**$ —**	**$ 805**	**$ —**

	Fair value Measurements at December 31, 2022				**Fair value Measurements at December 31, 2023**			
(In thousands)	**Assets/Liabilities Measured at Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Assets/Liabilities Measured at Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Measured on a recurring basis:								
Assets:								
Debt securities available for sale:								
U.S. Government sponsored entities	$ 16,305	$ —	$ 16,305	$ —	$ 16,033	$ —	$ 16,033	$ —

State and political subdivisions	613	—	613	—	360	—	360	—
Residential mortgage-backed securities	15,475	—	15,475	—	14,077	—	14,077	—
Corporate and other securities	63,000	—	58,325	4,675	61,295	—	53,316	7,979
Total debt securities available for sale	$ 95,393	$ —	$ 90,718	$ 4,675	$ 91,765	$ —	$ 83,786	$ 7,979
Equity securities with readily determinable fair values	9,793	—	9,793	—	$ 7,802	$ 7,802	$ —	$ —
Total equity securities	$ 9,793	$ —	$ 9,793	$ —	$ 7,802	$ 7,802	$ —	$ —
Interest rate swap agreements	1,537	—	1,537	—	$ 918	$ —	$ 918	$ —
Total swap agreements	$ 1,537	$ —	$ 1,537	$ —	$ 918	$ —	$ 918	$ —

There were no liabilities measured on a recurring basis as of September 30, 2023 March 31, 2024 or December 31, 2022 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):

	Fair Value Measurements at September 30, 2023				Fair Value Measurements at March 31, 2024			
(In thousands)	Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a non-recurring basis:								
Financial assets:								

OREO	**$ 251**	**$ —**	**$ —**	**$ 251**				
Collateral-dependent loans	**$ 13,738**	**$ —**	**$ —**	**$ 13,738**	**$ 8,083**	**$ —**	**$ —**	**$ 8,083**

	Fair Value Measurements at December 31, 2022				**Fair Value Measurements at December 31, 2023**			
(In thousands)	**Assets/Liabilities Measured at Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Assets/Liabilities Measured at Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Measured on a non-recurring basis:								
Financial assets:								
Collateral-dependent loans	$ 8,803	$ —	$ —	$ 8,803	$ 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 & OREO

Fair value is determined based on the fair value of the collateral. Partially charged-off loans are collateral and is measured for impairment based upon a third-party appraisal for collateral-dependent loans. 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 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. Consolidated Balance Sheets. At September 30, 2023 March 31, 2024, the valuation allowance for individually evaluated loans was $1.7 million $1.1 million, compared to $1.8 million $1.0 million at December 31, 2022 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 September 30, 2023 March 31, 2024 and December 31, 2022 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 are 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 impaired loans.

Deposit Liabilities

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

Borrowed Funds and Subordinated Debentures

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

The table below presents the carrying amount and estimated fair values of the Company's financial instruments presented as of September 30, 2023 and December 31, 2022:

	September 30, 2023			
(In thousands)	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Debt securities held to maturity	**$ 35,956**	**$ —**	**$ 27,155**	**$ —**
SBA loans held for sale	**19,387**	**—**	**20,322**	**—**
Loans, net of allowance for credit losses	**2,127,885**	**—**	**—**	**2,027,127**
Financial liabilities:				
Deposits	**1,884,910**	**—**	**1,871,627**	**—**
Borrowed funds and subordinated debentures	**398,920**	**—**	**397,323**	**—**

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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 and December 31, 2023:

	December 31, 2022				March 31, 2024			
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Carrying amount	Level 1	Level 2	Level 3
Financial assets:								
Debt securities held to maturity	$ 35,760	$ —	$ 28,578	$ —	**$ 36,089**	**$ —**	**$ 29,138**	**$ —**
SBA loans held for sale	27,928	—	30,141	—	**18,439**	**—**	**19,383**	**—**
Loans, net of allowance for credit losses	2,053,435	—	1,981,207	8,803	**2,129,938**	**—**	**2,018,402**	**8,083**
Financial liabilities:								
Deposits	1,787,528	—	1,772,270	—	**1,961,270**	**—**	**1,952,706**	**—**
Borrowed funds and subordinated debentures	393,310	—	391,312	—	**309,707**	**—**	**308,640**	**—**

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

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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

(In thousands)	September 30, 2023 Amortized cost	September 30, 2023 Gross unrealized gains	September 30, 2023 Gross unrealized losses	September 30, 2023 Estimated fair value	December 31, 2022 Amortized cost	December 31, 2022 Gross unrealized gains	December 31, 2022 Gross unrealized losses	December 31, 2022 Estimated fair value	March 31, 2024 Amortized cost	March 31, 2024 Gross unrealized gains	March 31, 2024 Gross unrealized losses	March 31, 2024 Allowance for credit losses	March 31, 2024 Estimated fair value
Available for sale:													
U.S. Government sponsored entities	**$17,133**	**$ —**	**$ (808)**	**$16,325**	$ 16,961	$ —	$ (656)	$16,305	**$ 15,749**	**$ —**	**$ (485)**	**$ —**	**$15,264**
State and political subdivisions	**407**	**—**	**(45)**	**362**	635	—	(22)	613	**379**	**—**	**(29)**	**—**	**350**
Residential mortgage-backed securities	**15,835**	**28**	**(2,193)**	**13,670**	17,097	32	(1,654)	15,475	**15,184**	**29**	**(1,681)**	**—**	**13,532**
Corporate and other securities	**65,202**	**121**	**(3,558)**	**61,765**	66,495	106	(3,601)	63,000	**69,203**	**250**	**(2,634)**	**(1,283)**	**65,536**
Total debt securities available for sale	**$98,577**	**$ 149**	**$ (6,604)**	**$92,122**	$101,188	$ 138	$ (5,933)	$95,393	**$100,515**	**$ 279**	**$ (4,829)**	**$ (1,283)**	**$94,682**
Held to maturity:													
U.S. Government sponsored entities	**$28,000**	**$ —**	**$ (6,096)**	**$21,904**	$ 28,000	$ —	$ (5,310)	$22,690	**$ 28,000**	**$ —**	**$ (4,656)**	**$ —**	**$23,344**
State and political subdivisions	**1,158**	**5**	**(3)**	**1,160**	1,115	67	—	1,182	**1,187**	**75**	**—**	**—**	**1,262**
Residential mortgage-backed securities	**6,798**	**—**	**(2,707)**	**4,091**	6,645	—	(1,939)	4,706	**6,902**	**—**	**(2,370)**	**—**	**4,532**
Total debt securities held to maturity	**$35,956**	**$ 5**	**$ (8,806)**	**$27,155**	$ 35,760	$ 67	$ (7,249)	$28,578	**$ 36,089**	**$ 75**	**$ (7,026)**	**$ —**	**$29,138**

The contractual maturities of available for sale and held for maturity debt securities at September 30, 2023 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 Cost	Fair Value
Available for sale:		
Due in one year	$ 2,133	$ 2,114

Due after one year through five years		30,779		29,404
Due after five years through ten years		10,984		9,616
Due after ten years		38,846		37,318
Residential mortgage-backed securities		15,835		13,670
Total	$	98,577	$	92,122
Held to maturity:				
Due in one year	$	—	$	—
Due after one year through five years		—		—
Due after five years through ten years		3,000		2,819
Due after ten years		26,158		20,245
Residential mortgage-backed securities		6,798		4,091
Total	$	35,956	$	27,155

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

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For three months ended March 31, 2024 and 2023 there was no provision for credit loss on AFS debt securities.

The contractual maturities of available for sale and held for maturity debt securities at March 31, 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 Cost		Fair Value
Available for sale:				
Due in one year	$	749	$	747
Due after one year through five years		33,780		31,358
Due after five years through ten years		13,289		11,558

Due after ten years	37,513	37,487
Residential mortgage-backed securities	15,184	13,532
Total	$ 100,515	$ 94,682
Held to maturity:		
Due in one year	$ —	$ —
Due after one year through five years	—	—
Due after five years through ten years	3,000	2,897
Due after ten years	26,187	21,709
Residential mortgage-backed securities	6,902	4,532
Total	$ 36,089	$ 29,138

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 maturitiy 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 are as follows:

	September 30, 2023						**March 31, 2024**					
	Less than 12 months		**12 months and greater**		**Total**		**Less than 12 months**		**12 months and greater**		**Total**	
(In thousands)	**Estimated fair value**	**Unrealized loss**	**Estimated fair value**	**Unrealized loss**	**Estimated fair value**	**Unrealized loss**	**Estimated fair value**	**Unrealized loss**	**Estimated fair value**	**Unrealized loss**	**Estimated fair value**	**Unrealized loss**
Available for sale:												
U.S. Government sponsored entities	**$ 2,114**	**$ (19)**	**$14,211**	**$ (789)**	**$16,325**	**$ (808)**	**$ 747**	**$ (2)**	**$14,517**	**$ (483)**	**$15,264**	**$ (485)**
State and political subdivisions	**—**	**—**	**362**	**(45)**	**362**	**(45)**	**—**	**—**	**350**	**(29)**	**350**	**(29)**
Residential mortgage-backed securities	**81**	**(3)**	**13,543**	**(2,190)**	**13,624**	**(2,193)**	**—**	**—**	**13,415**	**(1,681)**	**13,415**	**(1,681)**
Corporate and other securities	**4,692**	**(308)**	**54,452**	**(3,250)**	**59,144**	**(3,558)**	**4,696**	**(1,054)**	**33,526**	**(1,580)**	**38,222**	**(2,634)**
Total	**$ 6,887**	**$ (330)**	**$82,568**	**$ (6,274)**	**$89,455**	**$ (6,604)**	**$ 5,443**	**$ (1,056)**	**$61,808**	**$ (3,773)**	**$67,251**	**$ (4,829)**
Held to maturity:												
U.S. Government sponsored entities	**$ —**	**$ —**	**$21,904**	**$ (6,096)**	**$21,904**	**$ (6,096)**	**$ —**	**$ —**	**$23,344**	**$ (4,656)**	**$23,344**	**$ (4,656)**
State and political subdivisions	**571**	**(3)**	**—**	**—**	**571**	**(3)**						
Residential mortgage-backed securities	**—**	**$ —**	**4,091**	**(2,707)**	**4,091**	**(2,707)**	**—**	**$ —**	**4,532**	**(2,370)**	**4,532**	**(2,370)**
Total	**$ 571**	**$ (3)**	**$25,995**	**$ (8,803)**	**$26,566**	**$ (8,806)**	**$ —**	**$ —**	**$27,876**	**$ (7,026)**	**$27,876**	**$ (7,026)**

December 31, 2022

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

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	December 31, 2023					
(In thousands)	Less than 12 months Estimated fair value	Less than 12 months Unrealized loss	12 months and greater Estimated fair value	12 months and greater Unrealized loss	Total Estimated fair value	Total Unrealized loss
Available for sale:						
U.S. Government sponsored entities	$ —	$ —	$ 16,033	$ (457)	$ 16,033	$ (457)
State and political subdivisions	—	—	360	(28)	360	(28)
Residential mortgage-backed securities	—	—	13,949	(1,426)	13,949	(1,426)
Corporate and other securities	—	—	54,827	(2,876)	54,827	(2,876)
Total temporarily impaired 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.

Allowance for Credit Losses

The Company has zero-loss expectation for certain securities within is using the held practical expedient to maturity portfolio, and therefore is not required to estimate an allowance for exclude accrued interest receivable from credit losses related to these securities under the CECL standard. The Company does not provide credit quality indicators for held to maturity securities that have zero-loss expectation. After an evaluation loss measurement. At March 31, 2024, there was $1.5 million of various factors, the following security types are believed to qualify for this exclusion: U.S Government sponsored entities and residential mortgage-backed securities issued by Ginnie Mae, Fannie Mae or Freddie Mac.

After reviewing credit ratings accrued interest on securities within the portfolio, management recognized no impairment for held to maturity debt securities during the three and nine months ended September 30, 2023 and 2022. There securities. At December 31, 2023, there was no allowance for credit losses for held to maturity debt securities at September 30, 2023 and 2022.

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Available for sale debt securities in unrealized loss positions are evaluated for impairment accrued interest on a quarterly basis. The Company has evaluated available for sale securities that are in an unrealized loss position and has determined that the declines in fair value are attributable to market volatility, not credit quality or other factors. Management recognized no impairment during the three and nine months ended September 30, 2023 and 2022. There was no allowance for credit losses for available for sale debt securities at September 30, 2023 and 2022. securities.

Realized Gains and Losses on Debt Securities

Net realized gains 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 securities during the three and nine months ended September 30, 2023 March 31, 2024 and 2022. 2023. There was were no realized gain gains or loss losses for held for to maturity debt securities during the three and nine months ended September 30, 2023 March 31, 2024 and 2022. 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 nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

	For the three months ended September 30,		For the nine months ended September 30,		For the three months ended March 31,	
(In thousands)	2023	2022	2023	2022	2024	2023
Net unrealized losses occurring during the period on equity securities	**$ (144)**	$ (576)	**$ (853)**	$ (1,631)		
Net realized gains recognized during the period on equity securities sold during the period	**21**	—	**243**	—		
Net losses recognized during the reporting period on equity securities still held at the reporting date	**$ (123)**	$ (576)	**$ (610)**	$ (1,631)		
Net unrealized gains (losses) occurring during the period on equity securities					**$ 33**	$ (544)
Net gains recognized during the period on equity securities sold during the period					**21**	222
Gains (losses) recognized during the reporting period on equity securities					**$ 54**	$ (322)

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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 loan credit losses as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

(In thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
SBA loans held for investment	**$ 40,873**	$ 38,468	**$ 39,009**	$ 38,584
SBA PPP loans	**2,507**	5,908	**2,168**	2,318
Commercial loans				
SBA 504 loans	**31,808**	35,077	**38,128**	33,669
Commercial other	**130,967**	117,566		
Commercial & industrial			**133,409**	128,402
Commercial real estate	**968,801**	903,126	**977,437**	986,230
Commercial real estate construction	**144,580**	131,774	**142,345**	129,159
Residential mortgage loans	**628,628**	605,091	**627,464**	631,506
Consumer loans				
Home equity	**65,461**	68,310	**67,448**	67,037
Consumer other	**6,728**	9,854	**4,827**	5,639
Residential construction loans	**133,450**	163,457	**123,783**	131,277
Total loans held for investment	**$ 2,153,803**	$ 2,078,631	**$ 2,156,018**	$ 2,153,821
SBA loans held for sale	**19,387**	27,928	**18,439**	18,242
Total loans	**$ 2,173,190**	$ 2,106,559	**$ 2,174,457**	$ 2,172,063

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

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

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

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

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

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

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

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

Commercial Loans: Commercial credit is extended primarily to middle market and small business customers. Commercial loans are generally made in the Company's marketplace for the purpose of providing working capital, financing the purchase of equipment, inventory or commercial real estate and for other business purposes. The SBA 504 program consists of real estate backed commercial mortgages where the Company has the first mortgage and the SBA has the second mortgage on the property. Loans 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. Generally, the Company has a 50 percent loan to value ratio on SBA 504 program loans at origination.

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 the Company's 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 by an outside firm.

The Company's extension of credit is governed by the Credit Risk Policy which was established to control the quality of the Company's loans. 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 commercial 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.

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

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

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

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

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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.immediately, subject to government guarantee.

For residential mortgage consumer and residential construction 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.

At September 30, 2023, the Company owned $0.3 million in commercial properties that were included in Prepaid expenses and other assets in the Consolidated Balance Sheets, compared to none at December 31, 2022. Additionally, there were $12.5 million in loans in the process of foreclosure at September 30, 2023, compared to $2.1 million at December 31, 2022. At September 30, 2023, foreclosures in process included loans in the Commercial, SBA, Residential mortgage, Residential construction and Home equity categories.

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 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 and December 31, 2023:

	March 31, 2024						
(In thousands)	**30-59 days past due**	**60-89 days past due**	**90+ days and still accruing**	**Nonaccrual**	**Total past due**	**Current**	**Total loans**
SBA loans held for investment	**$ 169**	**$ 275**	**$ 138**	**$ 3,542**	**$ 4,124**	**$ 34,885**	**$ 39,009**
Commercial loans							
SBA 504 loans	**—**	**—**	**—**	**—**	**—**	**38,128**	**38,128**
Commercial & industrial	**321**	**—**	**—**	**112**	**433**	**132,976**	**133,409**
Commercial real estate	**4,324**	**384**	**—**	**2,303**	**7,011**	**970,426**	**977,437**
Commercial real estate construction	**—**	**—**	**—**	**—**	**—**	**142,345**	**142,345**
Residential mortgage loans	**12,178**	**—**	**—**	**7,440**	**19,618**	**607,846**	**627,464**
Consumer loans							
Home equity	**—**	**—**	**—**	**366**	**366**	**67,082**	**67,448**
Consumer other	**52**	**38**	**—**	**—**	**90**	**4,737**	**4,827**
Residential construction loans	**434**	**—**	**—**	**3,127**	**3,561**	**120,222**	**123,783**
Total loans held for investment, excluding SBA PPP	**17,478**	**697**	**138**	**16,890**	**35,203**	**2,118,647**	**2,153,850**
SBA loans held for sale	**508**	**—**	**—**	**—**	**508**	**17,931**	**18,439**
Total loans, excluding SBA PPP	**$ 17,986**	**$ 697**	**$ 138**	**$ 16,890**	**$ 35,711**	**$ 2,136,578**	**$ 2,172,289**

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	December 31, 2023						
(In thousands)	**30-59 days past due**	**60-89 days past due**	**90+ days and still accruing**	**Nonaccrual**	**Total past 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 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 set forth an aging analysis of past due and nonaccrual provide detail on the Company's loans individually evaluated in the Company's CECL evaluation with the associated allowance amount, if applicable, as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

	September 30, 2023							March 31, 2024		
(In thousands)	30-59 days past due	60-89 days past due	90+ days and still accruing	Nonaccrual	Total past due	Current	Total loans	Unpaid principal balance	Recorded investment	Allowance for Credit Losses Allocated
With no related allowance:										
SBA loans held for investment	$ 4,083	$ 420	$ —	$ 3,445	$ 7,948	$ 32,925	$ 40,873	$ 2,401	$ 2,323	$ —
Commercial loans										
SBA 504 loans	—	—	—	—	—	31,808	31,808			
Commercial other	—	—	—	668	668	130,299	130,967			
Commercial real estate	553	—	—	82	635	968,166	968,801	2,727	1,755	—
Commercial real estate construction	—	—	—	—	—	144,580	144,580			
Total commercial loans								2,727	1,755	—
Residential mortgage loans	4,961	3,347	260	10,270	18,838	609,790	628,628	3,706	3,700	—
Consumer loans										
Home equity	286	15	—	125	426	65,035	65,461	382	365	—
Consumer other	1,319	52	5	—	1,376	5,352	6,728			
Residential construction loans	—	—	—	3,201	3,201	130,249	133,450	547	547	—
Total loans held for investment, excluding SBA PPP	11,202	3,834	265	17,791	33,092	2,118,204	2,151,296			
SBA loans held for sale	815	—	—	—	815	18,572	19,387			

Total loans, excluding SBA PPP	$ 12,017	$ 3,834	$ 265	$ 17,791	$33,907	$ 2,136,776	$ 2,170,683			
Total individually evaluated loans with no related allowance								9,763	8,690	—
With an allowance:										
SBA loans held for investment								1,482	1,357	382
Commercial loans										
Commercial & industrial								718	112	112
Commercial real estate								699	548	225
Total commercial loans								1,417	660	337
Residential mortgage loans								3,772	3,740	300
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
Total individually evaluated loans:										
SBA loans held for investment								3,883	3,680	382
Commercial loans										
Commercial & industrial								718	112	112
Commercial real estate								3,426	2,303	225
Total commercial loans								4,144	2,415	337
Residential mortgage loans								7,478	7,440	300
Consumer loans										
Home equity								383	366	1
Residential construction loans								3,127	3,127	116
Total individually evaluated loans								$19,015	$ 17,028	$ 1,136

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

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

The Company is using the practical expedient to exclude accrued interest receivable from credit loss measurement. At September 30, 2023, there was $1.5 million of accrued interest on securities and $14.1 million of accrued interest on loans.

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

(In thousands)	2024	2023	2022	2021	2020	2019 and Earlier	Revolving Loans Amortized Cost Basis	Total
	Term Loans Amortized Cost Basis by Origination Year, March 31, 2024							
SBA loans held for investment								
Risk Rating:								
Pass	$ 964	$ 1,878	$ 5,241	$ 4,843	$ 5,778	$ 13,240	$ -	$ 31,944
Special Mention	-	-	1,836	356	510	170	-	2,872
Substandard	-	-	1,256	2,186	176	575	-	4,193
Total SBA loans held for investment	$ 964	$ 1,878	$ 8,333	$ 7,385	$ 6,464	$ 13,985	$ -	$ 39,009
SBA PPP loans								
Risk Rating:								
Pass	$ -	$ -	$ -	$ 2,168	$ -	$ -	$ -	$ 2,168
Total SBA PPP loans	$ -	$ -	$ -	$ 2,168	$ -	$ -	$ -	$ 2,168
Commercial loans								
Risk Rating:								
Pass	$ 14,828	$ 152,337	$ 336,287	$ 180,893	$ 126,845	$ 365,085	$ 103,292	$ 1,279,567
Special Mention	-	-	490	1,464	-	6,431	395	8,780
Substandard	-	-	-	137	9	2,826	-	2,972
Total commercial loans	$ 14,828	$ 152,337	$ 336,777	$ 182,494	$ 126,854	$ 374,342	$ 103,687	$ 1,291,319

Commercial loans								
Current-period gross writeoffs	$ -	$ -	$ -	$ -	$ -	$ 98	$ -	$ 98
Residential mortgage loans								
Risk Rating:								
Performing	$ 23,064	$ 85,980	$ 249,423	$ 70,123	$ 48,833	$ 142,601	$ -	$ 620,024
Nonperforming	-	-	1,665	2,382	259	3,134	-	7,440
Total residential mortgage loans	$ 23,064	$ 85,980	$ 251,088	$ 72,505	$ 49,092	$ 145,735	$ -	$ 627,464
Consumer loans								
Risk Rating:								
Performing	$ 693	$ 2,973	$ 4,400	$ 3,035	$ 644	$ 11,255	$ 48,908	$ 71,908
Nonperforming	-	-	-	-	109	1	257	367
Total consumer loans	$ 693	$ 2,973	$ 4,400	$ 3,035	$ 753	$ 11,256	$ 49,165	$ 72,275
Consumer loans								
Current-period gross writeoffs	$ -	$ -	$ 21	$ 49	$ -	$ -	$ -	$ 70
Residential construction								
Risk Rating:								
Pass	$ 6,595	$ 34,782	$ 64,368	$ 12,511	$ 1,418	$ -	$ -	$ 119,674
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	2,580	547	982	-	4,109
Total residential construction loans	$ 6,595	$ 34,782	$ 64,368	$ 15,091	$ 1,965	$ 982	$ -	$ 123,783
Residential construction								
Current-period gross writeoffs	$ -	$ -	$ -	$ -	$ -	$ 277	$ -	$ 277
Total loans held for investment	$ 46,144	$ 277,950	$ 664,966	$ 282,678	$ 185,128	$ 546,300	$ 152,852	$ 2,156,018

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	Term Loans Amortized Cost Basis by Origination Year								**Term Loans Amortized Cost Basis by Origination Year, December 31, 2023**						
(In thousands)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018 and Earlier**	**Revolving Loans Amortized Cost Basis**	**Total**	**2023**	**2022**	**2021**	**2020**	**2019**	**2018 and Earlier**	
SBA loans held for investment															
Risk Rating:															
Pass	$ 1,057	$ 7,113	$ 5,151	$ 6,131	$ 2,669	$ 11,334	$ -	$ 33,455	$ 1,938	$ 5,339	$ 4,723	$ 6,083	$ 2,634	$ 10,996	$
Special Mention	-	1,797	-	510	-	778	-	3,085	-	1,765	356	510	-	31	
Substandard	-	1,256	2,225	190	-	662	-	4,333	-	1,256	2,186	190	-	577	

Total SBA loans held for investment	$ 1,057	$ 10,166	$ 7,376	$ 6,831	$ 2,669	$ 12,774	$ -	$ 40,873	$ 1,938	$ 8,360	$ 7,265	$ 6,783	$ 2,634	$ 11,604	$
SBA loans held for investment															
Current-period gross writeoffs	$ -	$ 100	$ -	$ -	$ 113	$ -	$ -	$ 213	$ -	$ 100	$ -	$ -	$ 113	$ -	$
SBA PPP loans															
Risk Rating:															
Pass	$ -	$ -	$ 2,507	$ -	$ -	$ -	$ -	$ 2,507	$ -	$ -	$ 2,318	$ -	$ -	$ -	$
Special Mention	-	-	-	-	-	-	-	-							
Substandard	-	-	-	-	-	-	-	-							
Total SBA PPP loans	$ -	$ -	$ 2,507	$ -	$ -	$ -	$ -	$ 2,507	$ -	$ -	$ 2,318	$ -	$ -	$ -	$
Commercial loans															
Risk Rating:															
Pass	$101,748	$358,414	$186,930	$136,850	$102,312	$278,861	$ 95,372	$1,260,487	$139,622	$343,755	$181,419	$128,165	$101,274	$271,469	$
Special Mention	-	82	212	-	1,727	10,307	645	12,973	-	-	1,815	-	1,570	7,423	
Substandard	-	-	-	236	-	2,460	-	2,696	-	-	59	14	288	3,204	
Total commercial loans	$101,748	$358,496	$187,142	$137,086	$104,039	$291,628	$ 96,017	$1,276,156	$139,622	$343,755	$183,293	$128,179	$103,132	$282,096	$
Commercial loans															
Current-period gross writeoffs	$ -	$ -	$ 150	$ -	$ 350	$ -	$ -	$ 500	$ -	$ -	$ 150	$ -	$ 350	$ 252	$
Residential mortgage loans															
Risk Rating:															
Performing	$ 83,675	$259,430	$ 73,961	$ 52,432	$ 32,944	$115,498	$ -	$ 617,940	$102,892	$253,919	$ 72,586	$ 51,999	$ 30,482	$109,302	$
Nonperforming	5,032	2,174	550	1,055	276	1,601	-	10,688	-	2,964	2,714	1,054	945	2,649	
Total residential mortgage loans	$ 88,707	$261,604	$ 74,511	$ 53,487	$ 33,220	$117,099	$ -	$ 628,628	$102,892	$256,883	$ 75,300	$ 53,053	$ 31,427	$111,951	$
Residential mortgage loans															
Current-period gross writeoffs									$ -	$ -	$ 25	$ -	$ -	$ 68	$
Consumer loans															
Risk Rating:															
Performing	$ 3,041	$ 5,103	$ 4,450	$ 696	$ 2,589	$ 8,045	$ 47,875	$ 71,799	$ 3,428	$ 4,777	$ 3,681	$ 670	$ 2,481	$ 7,507	$
Nonperforming	-	-	-	-	-	-	390	390	-	-	-	125	-	256	
Total consumer loans	$ 3,041	$ 5,103	$ 4,450	$ 696	$ 2,589	$ 8,045	$ 48,265	$ 72,189	$ 3,428	$ 4,777	$ 3,681	$ 795	$ 2,481	$ 7,763	$
Consumer loans															
Current-period gross writeoffs	$ -	$ -	$ 397	$ -	$ -	$ -	$ -	$ 397	$ -	$ 26	$ 552	$ -	$ -	$ -	$
Residential construction															
Risk Rating:															
Performing	$ 20,697	$ 72,544	$ 34,165	$ 1,550	$ 500	$ 732	$ -	$ 130,188	$ 28,827	$ 72,257	$ 25,395	$ 1,418	$ 491	$ 748	$
Nonperforming	-	-	377	547	-	1,303	1,035	3,262	-	-	-	547	-	1,594	
Total residential construction loans	$ 20,697	$ 72,544	$ 34,542	$ 2,097	$ 500	$ 2,035	$ 1,035	$ 133,450	$ 28,827	$ 72,257	$ 25,395	$ 1,965	$ 491	$ 2,342	$
Residential construction															
Current-period gross writeoffs	$ -	$ -	$ -	$ -	$ -	$ 500	$ 400	$ 900	$ -	$ -	$ -	$ -	$ -	$ 600	$
Total loans held for investment	$215,250	$707,913	$310,528	$200,197	$143,017	$431,581	$ 145,317	$2,153,803	$276,707	$686,032	$297,252	$190,775	$140,165	$415,756	$

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

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

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

Modifications

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

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

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

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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 nine twelve months ended September 30, 2023 March 31, 2024:

	Term Extension				
	Amortized Cost Basis September 30, 2023	% of Total Class of Gross Loans			
Commercial	$ 952	0.1 %			
	Principal Forgiveness/Deferment				
	Amortized Cost Basis September 30, 2023	% of Total Class of Gross Loans			
SBA	$ 9	0.0 %			

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

Modifications for the year made to borrowers experiencing financial difficulty added a weighted average of 7.7 years to the life of the modified loans, which reduced monthly payment amounts for the borrowers.

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 three and nine twelve months ended September 30, 2023 March 31, 2024 had a payment default during the period and all loans were current as of September 30, 2023 March 31, 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, 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 other & industrial and SBA 504. Consumer loans are divided into two classes as follows: home equity and other.

The standardized methodology used to assess the adequacy of the allowance includes the allocation of specific and general reserves. The same standard methodology is used, regardless of loan type. Specific reserves are evaluated for individually evaluated loans. The general reserve is set based upon a representative average historical net charge-off rate adjusted for the following environmental factors: delinquency and impairment trends, charge-off and recovery trends, volume and loan term trends, changes in risk and underwriting policy trends, staffing and experience changes, national and local economic trends, industry conditions and credit concentration changes. 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 credit score, delinquency status and type of collateral are evaluated. Factors are updated frequently to capture the recent behavioral characteristics of the subject portfolios, as well as any changes in loss mitigation or credit origination strategies, and adjustments to the reserve factors are made as needed.

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

The following tables detail the activity in the allowance for credit losses by portfolio segment for the three and nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

(In thousands)	For the three months ended September 30, 2023						For the three months ended March 31, 2024					
	SBA Held for Investment	Commercial	Residential	Consumer	Residential construction	Total	SBA Held for Investment	Commercial	Residential	Consumer	Residential construction	Total
Balance, beginning of period	**$ 1,556**	**$ 15,516**	**$ 6,437**	**$ 845**	**$ 1,634**	**$25,988**	**$ 1,221**	**$ 15,876**	**$ 6,529**	**$ 1,022**	**$ 1,206**	**$25,854**
Charge-offs	**(100)**	**(500)**	**—**	**(52)**	**—**	**(652)**	**—**	**(98)**	**—**	**(70)**	**(277)**	**(445)**
Recoveries	**1**	**10**	**—**	**37**	—	**48**	**8**	**12**	**—**	**10**	—	**30**
Net (charge-offs) recoveries	**(99)**	**(490)**	**—**	**(15)**	**—**	**(604)**						
Provision for (credit to) credit losses charged to expense	**199**	**325**	**(6)**	**130**	**(114)**	**534**						
Net recoveries (charge-offs)							**8**	**(86)**	**—**	**(60)**	**(277)**	**(415)**
(Credit to) provision for credit losses charged to expense							**(20)**	**397**	**(135)**	**(40)**	**439**	**641**
Balance, end of period	**$ 1,656**	**$ 15,351**	**$ 6,431**	**$ 960**	**$ 1,520**	**$25,918**	**$ 1,209**	**$ 16,187**	**$ 6,394**	**$ 922**	**$ 1,368**	**$26,080**

(In thousands)	For the three months ended September 30, 2022						For the three months ended March 31, 2023					
	SBA	Commercial	Residential	Consumer	Residential construction	Total	SBA Held for Investment	Commercial	Residential	Consumer	Residential construction	Total
Balance, beginning of period	$ 758	$ 14,908	$ 4,786	$ 803	$ 1,603	$22,858	$ 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	—	(501)	—	(50)	—	(551)	(113)	—	—	(120)	—	(233)
Recoveries	5	23	—	9	—	37	—	271	—	12	—	283
Net recoveries (charge-offs)	5	(478)	—	(41)	—	(514)						
Net (charge-offs) recoveries							(113)	271	—	(108)	—	50
Provision for (credit to) credit losses charged to expense	68	803	449	349	(152)	1,517	178	(395)	309	37	(21)	108
Balance, end of period	$ 831	$ 15,233	$ 5,235	$ 1,111	$ 1,451	$23,861	$ 1,103	$ 15,301	$ 6,135	$ 1,020	$ 2,642	$26,201

(In thousands)	For the nine months ended September 30, 2023 SBA Held for Investment	Commercial	Residential	Consumer	Residential 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	(213)	(500)	—	(397)	(900)	(2,010)
Recoveries	16	377	—	73	—	466
Net (charge-offs) recoveries	(197)	(123)	—	(324)	(900)	(1,544)
Provision for (credit to) loan losses charged to expense	815	49	605	193	(243)	1,419
Balance, end of period	$ 1,656	$ 15,351	$ 6,431	$ 960	$ 1,520	$ 25,918

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(In thousands)	For the nine months ended September 30, 2022 SBA	Commercial	Residential	Consumer	Residential construction	Total
Balance, beginning of period	$ 1,074	$ 15,053	$ 4,114	$ 671	$ 1,390	$ 22,302
Charge-offs	—	(1,001)	—	(96)	—	(1,097)
Recoveries	33	83	1	13	—	130
Net (charge-offs) recoveries	33	(918)	1	(83)	—	(967)
Provision (credit) for loan losses charged to expense	(276)	1,098	1,120	523	61	2,526
Balance, end of period	$ 831	$ 15,233	$ 5,235	$ 1,111	$ 1,451	$ 23,861

The following tables present loans and their related allowance for credit losses, by portfolio segment, as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

	September 30, 2023						March 31, 2024					
(In thousands)	SBA Held for Investment	Commercial	Residential	Consumer	Residential construction	Total	SBA Held for Investment	Commercial	Residential	Consumer	Residential construction	Total
Allowance for credit losses ending balance:												
Individually evaluated	$ 619	$ 369	$ 386	$ —	$ 285	$ 1,659	$ 382	$ 337	$ 300	$ 1	$ 116	$ 1,136

Collectively evaluated	**1,037**	**14,982**	**6,045**	**960**	**1,235**	**24,259**	**827**	**15,850**	**6,094**	**921**	**1,252**	**24,944**
Total	**$ 1,656**	**$ 15,351**	**$ 6,431**	**$ 960**	**$ 1,520**	**$ 25,918**	**$ 1,209**	**$ 16,187**	**$ 6,394**	**$ 922**	**$ 1,368**	**$ 26,080**
Loan ending balances:												
Individually evaluated	**$ 256**	**$ 750**	**$ 11,059**	**$ 131**	**$ 3,201**	**$ 15,397**	**$ 3,680**	**$ 2,415**	**$ 7,440**	**$ 366**	**$ 3,127**	**$ 17,028**
Collectively evaluated	**40,617**	**1,275,406**	**617,569**	**72,058**	**130,249**	**2,135,899**	**37,497**	**1,288,904**	**620,024**	**71,909**	**120,656**	**2,138,990**
Total	**$ 40,873**	**$1,276,156**	**$628,628**	**$72,189**	**$ 133,450**	**$2,151,296**	**$ 41,177**	**$1,291,319**	**$627,464**	**$72,275**	**$ 123,783**	**$2,156,018**

	December 31, 2022						**December 31, 2023**					
					Residential		**SBA**				**Residential**	
(In thousands)	**SBA**	**Commercial**	**Residential**	**Consumer**	**construction**	**Total**	**Held for Investment**	**Commercial**	**Residential**	**Consumer**	**construction**	**Total**
Allowance for credit losses ending balance:												
Individually evaluated for impairment	$ 115	$ 516	$ 36	$ —	$ 1,112	$ 1,779						
Collectively evaluated for impairment	760	14,738	5,414	990	1,515	23,417						
Individually evaluated							$ 348	$ 341	$ 306	$ —	$ —	$ 995
Collectively evaluated							873	15,535	6,223	1,022	1,206	24,859
Total	$ 875	$ 15,254	$ 5,450	$ 990	$ 2,627	$ 25,196	$ 1,221	$ 15,876	$ 6,529	$ 1,022	$ 1,206	$ 25,854
Loan ending balances:												
Individually evaluated for impairment	$ 690	$ 3,101	$ 3,361	$ —	$ 3,432	$ 10,584						
Collectively evaluated for impairment	71,614	1,184,442	601,730	78,164	160,025	2,095,975						
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	$72,304	$1,187,543	$605,091	$78,164	$ 163,457	$2,106,559	$ 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, a $0.5 million $0.6 million commitment reserve was reported on the balance sheet as “Accrued expenses and other liabilities” and reported on the income statement as “Other expenses” “Provision for credit losses, off-balance sheet”.

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 Balance Sheet as “Prepaid expenses and other assets” or “Accrued expenses and other liabilities”.

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

Derivative instruments are generally either negotiated 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 and December 31, 2023, respectively is as follows:

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

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A summary of the Company's outstanding interest rate swap agreements used to hedge variable rate debt at September 30, 2023 and December 31, 2022, respectively is as follows:

(In thousands, except percentages and years)	September 30, 2023	December 31, 2022
Notional amount	**$ 20,000**	$ 20,000
Fair value	**$ 1,264**	$ 1,537
Weighted average pay rate	**0.83 %**	0.83 %
Weighted average receive rate	**5.56 %**	1.50 %
Weighted average maturity in years	**1.44**	2.57
Number of contracts	**1**	1

During the three and nine months ended September 30, 2023 March 31, 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 September 30, 2023 March 31, 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 September 30, 2023 March 31, 2024 and 2022, 2023, respectively:

	For the three months ended September 30,		For the nine months ended September 30,		For the three months ended March 31,	
(In thousands)	2023	2022	2023	2022	2024	2023
(Loss) Gain recognized in OCI	**$ (139)**	$ 452	**$ (273)**	$ 1,386		
Loss recognized in OCI						
Gross of tax					**$ (113)**	$ (235)
Net of tax					**(81)**	(185)
Gain reclassified from AOCI into net income	**$ 238**	$ —	**$ 656**	$ —		
Gross of tax					**238**	198
Net of tax					**170**	156

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 nine three months ended September 30, 2023 March 31, 2024 are summarized in the following table:

	Shares	Weighted average exercise price	Weighted average remaining contractual life in years	Aggregate intrinsic value	Shares	Weighted average exercise price	Weighted average remaining contractual life in years	Aggregate intrinsic value
Outstanding at December 31, 2022	559,499	$ 18.09	5.9	$ 5,168,740				
Outstanding at December 31, 2023					471,132	$ 17.92	4.9	$5,500,080
Options granted	—				—	—		
Options exercised	**(73,184)**	**19.04**			**(59,100)**	**15.47**		
Options forfeited	**(1,332)**	**18.64**			—	—		
Options expired	—				—	—		
Outstanding at September 30, 2023	**484,983**	**$ 17.95**	**5.2**	**$ 2,659,163**				
Exercisable at September 30, 2023	**445,825**	**$ 17.85**	**5.0**	**$ 2,488,426**				
Outstanding at March 31, 2024					**412,032**	**$ 18.27**	**4.8**	**$3,845,636**
Exercisable at March 31, 2024					**412,032**	**$ 18.27**	**4.8**	**$3,845,636**

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 September 30, 2023 March 31, 2024, 281,500 options and 267,900 345,850 shares of restricted stock have been awarded from the plans. In addition, 16,828 16,162 unvested options and 17,187 unvested shares of restricted stock were cancelled and returned to the plans leaving 405,999 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 months ended March 31, 2024 or 2023.

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16,999 unvested shares of restricted stock were cancelled and returned to the plans leaving 484,427 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 nine months ended September 30, 2023 or 2022.

Upon exercise, the Company issues shares from its authorized but unissued common stock to satisfy the options. The following table presents information about options exercised during the three and nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

	For the three months ended September 30,	For the nine months ended September 30,	For the three months ended March 31,

	2023	2022	2023	2022	2024	2023
Number of options exercised	**22,249**	23,168	**73,184**	85,877	**59,100**	37,201
Total intrinsic value of options exercised	**$ 164,978**	215,476	**$ 480,981**	$ 1,081,833	**$ 764,901**	$241,904
Cash received from options exercised	**$ 394,665**	441,272	**1,393,551**	1,394,809	**412,791**	753,894
Tax deduction realized from options	**$ 49,634**	64,826	**144,703**	325,469	**215,014**	72,777

The following table summarizes information about stock options outstanding and exercisable at September 30, 2023 March 31, 2024:

Range of exercise prices	Options outstanding: Options outstanding	Options outstanding: Weighted average remaining contractual life (in years)	Options outstanding: Weighted average exercise price	Options exercisable: Options exercisable	Options exercisable: Weighted average exercise price	Options outstanding: Options outstanding	Options outstanding: Weighted average remaining contractual life (in years)	Options outstanding: Weighted average exercise price	Options exercisable: Options exercisable	Options exercisable: Weighted average exercise price
$7.25 - 16.51	128,873	3.4	$ 12.01	128,873	$ 12.01					
16.52 - 19.26	120,499	6.0	18.03	97,674	18.04					
19.27 - 20.88	127,411	5.9	20.33	111,078	20.30					
20.89 - 22.57	108,200	5.8	22.11	108,200	22.11					
$8.31-11.87						58,000	1.6	$ 9.63	58,000	$ 9.63
11.88-15.44						9,000	2.7	14.60	9,000	14.60
15.45-19.01						128,932	5.5	17.58	128,932	17.58
19.02-22.57						216,100	5.3	21.14	216,100	21.14
Total	484,983	5.2	$ 17.95	445,825	$ 17.85	412,032	4.8	$ 18.27	412,032	$ 18.27

Financial Accounting Standards Board Accounting Standards Codification *("FASB ASC") 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 nine months ended September 30, 2023 March 31, 2024 and 2022 2023 are detailed in the following table:

(In thousands)	For the three months ended September 30, 2023	For the three months ended September 30, 2022	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022	For the three months ended March 31, 2024	For the three months ended March 31, 2023
Compensation expense	**$ 72**	$ 129	**$ 236**	$ 431	**$32**	$85
Income tax benefit	**$ 21**	$ 37	**$ 68**	$ 125	**$ 9**	$25

As of September 30, 2023 March 31, 2024, unrecognized compensation costs related to nonvested share-based stock option compensation arrangements granted under the Company's plans totaled approximately $104 thousand. That cost is expected was $0, due to be recognized over a weighted average period of 0.4 years. all options being fully vested.

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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 nine three months ended September 30, 2023 March 31, 2024:

	Shares	Average grant date fair value	Shares	Average grant date fair value
Nonvested restricted stock at December 31, 2022	164,570	$ 24.77		
Nonvested restricted stock at December 31, 2023			164,634	$ 24.46
Granted	**58,500**	**22.93**	**77,950**	**28.84**
Cancelled	**(4,599)**	**26.37**	**(1,937)**	**27.55**
Vested	**(41,973)**	**23.13**	**(32,875)**	**24.43**
Nonvested restricted stock at September 30, 2023	**176,498**	**$ 24.51**		
Nonvested restricted stock at March 31, 2024			**207,772**	**$ 26.08**

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Restricted stock awards granted during the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,		For the three months ended March 31,	
	2023	2022	2023	2022	2024	2023
Number of shares granted	**3,000**	2,000	**58,500**	73,000	**77,950**	18,000
Average grant date fair value	**$ 25.24**	$ 27.89	**$ 22.93**	$ 27.54	**$ 28.84**	$ 27.33

Compensation expense related to restricted stock for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 is detailed in the following table:

	For the three months ended September 30,		For the nine months ended September 30,		For the three months ended March 31,	
(In thousands)	2023	2022	2023	2022	2024	2023
Compensation expense	**$ 357**	$ 276	**$ 1,033**	$ 808	**$444**	$332
Income tax benefit	**$ 103**	$ 80	**$ 298**	$ 234	**$125**	$ 80

As of September 30, 2023 March 31, 2024, there was approximately $3.5 million $4.9 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 2.7 3.0 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 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 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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NOTE 11. Regulatory Capital

Under the Economic Growth, Regulatory Relief and Consumer Protection Act, the Bank is considered a qualifying community banking organization, which allows the Bank to elect to opt into the community bank leverage ratio ("CBLR") in its regulatory filings. The Bank has opted into the CBLR, and is therefore not required to comply with the Basel III capital requirements.

The following table shows information regarding the CBLR ratio for the Company Company's and the Bank as of September 30, 2023 Bank's regulatory capital levels at March 31, 2024 and December 31, 2022: at December 31, 2023.

	At September 30, 2023		At December 31, 2022		Actual		Required for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Regulations *	
	Company	**Bank**	**Company**	**Bank**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
CBLR	**10.76** %	**10.35** %	10.88 %	10.34 %						

(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

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**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.

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 2022 2023 consolidated audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022 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 IA-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 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.

Earnings Summary

Net income totaled $9.9 million, or $0.97 per diluted share for the quarter ended September 30, 2023, compared to $9.9 million $9.6 million, or $0.93 per diluted share for the quarter ended March 31, 2024, compared to $10.3 million, or $0.96 per diluted share for the same period in 2022. 2023. Return on average assets and average common equity for the quarter were 1.61 1.58 percent and 15.84 14.49 percent, respectively, compared to 1.85 1.72 percent and 17.39 17.14 percent for the same period in 2022. 2023.

Third First quarter highlights include:

- Net interest income decreased 0.9 0.3 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 3.96 4.09 percent this quarter compared to 4.61 4.19 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 $534 $643 thousand for the quarter ended September 30, 2023 March 31, 2024, compared to $1.5 million $108 thousand in provision for credit losses on loans and off-balance sheet items for the prior year's quarter. The decrease was primarily due to slower loan growth.
- Noninterest income increased 84.1 21.2 percent compared to the prior year's quarter, primarily due to an increase in BOLI income driven by non-taxable realized net securities gains associated with two separate claims. and gains on sale of mortgage loans.
- Noninterest expense increased 19.2 6.2 percent compared to the prior year's quarter, primarily due to increased professional services, deposit insurance, compensation and benefits, costs. advertising and loan related expenses.
- The effective tax rate was 23.7 25.0 percent compared to 25.1 25.4 percent in the prior year's quarter.

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

	For the three months ended September 30,		For the nine months ended September 30,		For the three months ended March 31,	
	2023	2022	2023	2022	2024	2023
Net income per common share - Basic (1)	**$ 0.98**	$ 0.94	**$ 2.92**	$ 2.72	**$ 0.95**	$ 0.98
Net income per common share - Diluted (2)	**$ 0.97**	$ 0.93	**$ 2.88**	$ 2.67	**$ 0.93**	$ 0.96
Return on average assets	**1.61 %**	1.85 %	**1.64 %**	1.83 %	**1.58 %**	1.72 %
Return on average equity (3)	**15.84 %**	17.39 %	**16.38 %**	17.45 %	**14.49 %**	17.14 %
Efficiency ratio (4)	**46.68 %**	39.59 %	**45.59 %**	42.64 %	**47.57 %**	44.56 %
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 deposits. Interest-bearing liabilities include interest-bearing demand, savings, brokered and time deposits, FHLB advances and other borrowings. Net interest income is determined by the difference between the yields earned on interest-earning assets and the rates paid on interest-bearing liabilities ("net interest spread") and the relative amounts of interest-earning assets and interest-bearing liabilities. The Company's net interest spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand, deposit flows and general levels of nonperforming assets.

During the quarter ended September 30, 2023 March 31, 2024, tax-equivalent net interest income amounted to $23.5 million $23.8 million, a decrease of $0.2 million $0.1 million or 0.9 0.3 percent when compared to the same period in 2022. 2023. The net interest margin decreased 65 10 basis points to 4.09 percent for the three months ended March 31, 2024, compared to 4.19 percent for the same period in 2023.

points to 3.96 percent for the three months ended September 30, 2023, compared to 4.61 percent for the same period in 2022.

During the three months ended September 30, 2023 March 31, 2024, tax-equivalent interest income was $37.0 million $38.0 million, an increase of $10.8 million $4.6 million or 41.1 13.7 percent when compared to the same period in 2022. 2023. This increase was mainly driven by the increases in the yield on securities, the balance of average loans and the yield on loans.

- Of the $10.8 million $4.6 million net increase in interest income on a tax-equivalent basis, $6.3 million $4.2 million is due to an increase in yields on earning assets and $4.5 million $0.4 million is due to an increase in average earning assets.
- The average volume of interest-earning assets increased $313.5 million $29.6 million to $2.4 billion $2.3 billion for the third first quarter of 2023 compared to $2.0 billion for the same period in 2022. 2024. This was due primarily to a $306.8 million $41.0 million increase in average loans, and a $9.3 million increase in average FHLB stock, partially offset by a $2.6 million $3.6 million decrease in average investment securities. securities and a $5.8 million decrease in average FHLB stock.
- The yield on total interest-earning assets increased 113 67 basis points to 6.22 6.51 percent for the three months ended September 30, 2023 March 31, 2024 when compared to the same period in 2022. 2023. The yield on the loan portfolio increased 96 64 basis points to 6.18 6.46 percent.

Total interest expense was $13.5 million $14.1 million for the three months ended September 30, 2023 March 31, 2024, an increase of $10.9 million $4.7 million or 441.3 49.3 percent compared to the same period in 2022. 2023. This increase was driven by the increased rates and volume of time deposits, increased rates 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 deposits increased rates for demand deposits, and increased decreased rates and volume of borrowed funds and subordinated debentures compared to a year ago. debentures.

- Of the $10.9 million $4.7 million increase in interest expense, $8.1 million was due to an increase in the rates on interest-bearing liabilities and $2.8 million $4.8 million was due to increased volume costs of average interest-bearing liabilities. liabilities, partially offset by a $0.1 million decrease volume and mix shift in liability categories.
- Interest-bearing liabilities averaged $1.7 billion for the third first quarter of 2023, 2024, an increase of $386.6 million $50.3 million compared to the prior year's quarter.
- The average cost of total interest-bearing liabilities increased 233 99 basis points to 3.05 3.26 percent. The cost of interest-bearing deposits increased 207 140 basis points to 2.64 3.10 percent for the third first quarter of 2023 2024 and the cost of borrowed funds and subordinated debentures increased 244 decreased 3 basis points to 4.97 4.41 percent.

During the nine months ended September 30, 2023, tax-equivalent net interest income amounted to $71.0 million, an increase of $5.6 million or 8.5 percent when compared to the same period in 2022. The net interest margin decreased 31 basis points to 4.06 percent for the nine months ended September 30, 2023, compared to 4.37 percent for the same period in 2022.

During the nine months ended September 30, 2023, tax-equivalent interest income was $105.7 million, an increase of $35.3 million or 50.2 percent when compared to the same period in the prior year. This increase was mainly driven by the increase in the balance of average loans and the increase in the average balance of securities and the rates on loans, securities, and interest-bearing deposits.

- Of the $35.3 million net increase in interest income on a tax-equivalent basis, $18.3 million is due to an increase in yields on earning assets and $17.0 million is due to an increase in the volume of average earning assets.
- The average volume of interest-earning assets increased $338.1 million to $2.3 billion for the nine months ended September 30, 2023 compared to $2.0 billion for the same period in 2022. This was due primarily to a $20.0 million increase in average investment securities and a $387.0 million increase in average loans, partially offset by a $80.8 million decrease in interest-bearing deposits.
- The yield on total interest-earning assets increased 134 basis points to 6.05 percent for the nine months ended September 30, 2023 when compared to the same period in 2022. The yield on the loan portfolio increased 95 basis points to 6.01 percent.

Total interest expense was $34.8 million for the nine months ended September 30, 2023, an increase of $29.7 million or 593.3 percent compared to the same period in 2022. This increase reflects increased volume and rates on interest-bearing deposits and borrowed funds and subordinated debentures compared to a year ago.

- Of the $29.7 million increase in interest expense, $19.9 million was due to an increase in the rates on interest-bearing liabilities and $9.8 million was due to the increased volume of average interest-bearing liabilities.
- Interest-bearing liabilities averaged $1.7 billion for the nine months ended September 30, 2023, an increase of $406.8 million compared to the prior year's period.
- The average cost of total interest-bearing liabilities increased 219 basis points to 2.70 percent for the nine months ended September 30, 2023. The cost of interest-bearing deposits increased 180 basis points to 2.21 percent and the cost of borrowed funds and subordinated debentures increased 252 basis points to 4.73 percent.

The following table reflects the components of net interest income, setting forth for the periods presented herein: (1) average assets, liabilities and shareholders' equity, (2) interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities, (3) average yields earned on interest-earning assets and average rates paid on interest-bearing liabilities, (4) net interest spread, and (5) net interest income/margin on average earning assets. Rates/Yields are annualized and computed on a fully tax-equivalent basis, assuming a federal income tax rate of 21 percent in 2023 and 2022.

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Consolidated Average Balance Sheets

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

	For the three months ended					
	September 30, 2023			September 30, 2022		
	Average Balance	Interest	Rate/Yield	Average Balance	Interest	Rate/Yield
ASSETS						
Interest-earning assets:						
Interest-bearing deposits	**$ 34,597**	**$ 483**	**5.54 %**	$ 34,605	$ 168	1.92 %
Federal Home Loan Bank ("FHLB") stock	**15,485**	**364**	**9.32**	6,200	93	5.96
Securities:						
Taxable	**135,132**	**1,848**	**5.47**	137,590	1,397	4.03
Tax-exempt	**1,692**	**18**	**4.27**	1,841	20	4.27
Total securities (A)	**136,824**	**1,866**	**5.45**	139,431	1,417	4.03
Loans:						
SBA loans	**60,108**	**1,379**	**9.18**	65,941	1,083	6.52
SBA PPP loans	**2,523**	**25**	**3.94**	9,576	277	11.47
Commercial loans	**1,266,185**	**20,299**	**6.27**	1,069,917	14,017	5.20
Residential mortgage loans	**628,544**	**8,462**	**5.39**	504,787	5,912	4.65
Consumer loans	**75,246**	**1,525**	**7.93**	76,957	1,075	5.54
Residential construction loans	**139,045**	**2,588**	**7.28**	137,681	2,184	6.29
Total loans (B)	**2,171,651**	**34,278**	**6.18**	1,864,859	24,548	5.22
Total interest-earning assets	**$ 2,358,557**	**$ 36,991**	**6.22 %**	$ 2,045,095	$ 26,226	5.09 %
Noninterest-earning assets:						
Cash and due from banks	**22,841**			24,350		

Allowance for credit losses	**(26,478)**			(22,848)		
Other assets	**100,428**			83,168		
Total noninterest-earning assets	**96,791**			84,670		
Total assets	**$ 2,455,348**			$ 2,129,765		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Interest-bearing demand deposits	**$ 304,287**	**$ 1,429**	**1.86 %**	$ 269,486	$ 320	0.47 %
Savings deposits	**547,000**	**3,178**	**2.30**	674,486	878	0.52
Time deposits	**597,664**	**5,033**	**3.34**	310,842	600	0.77
Total interest-bearing deposits	**1,448,951**	**9,640**	**2.64**	1,254,814	1,798	0.57
Borrowed funds and subordinated debentures	**300,608**	**3,817**	**4.97**	108,135	688	2.53
Total interest-bearing liabilities	**$ 1,749,559**	**$ 13,457**	**3.05 %**	$ 1,362,949	$ 2,486	0.72 %
Noninterest-bearing liabilities:						
Noninterest-bearing demand deposits	**429,321**			516,898		
Other liabilities	**27,192**			23,130		
Total noninterest-bearing liabilities	**456,513**			540,028		
Total shareholders' equity	**249,276**			226,788		
Total liabilities and shareholders' equity	**$ 2,455,348**			$ 2,129,765		
Net interest spread		**$ 23,534**	**3.17 %**		$ 23,740	4.37 %
Tax-equivalent basis adjustment		**(1)**			(2)	
Net interest income		**$ 23,533**			$ 23,738	
Net interest margin			**3.96 %**			4.61 %

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(A) Yields related to securities exempt from federal and state income taxes are stated on a fully tax-equivalent basis. They are reduced by the nondeductible portion of interest expense, assuming a federal tax rate of 21 percent and applicable state rates.

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

	For the nine months ended						For the three months ended					
	September 30, 2023			September 30, 2022			March 31, 2024			March 31, 2023		
	Average balance	Interest	Rate/Yield	Average balance	Interest	Rate/Yield	Average Balance	Interest	Rate/Yield	Average Balance	Interest	Rate/Yield
ASSETS												
Interest-earning assets:												
Interest-bearing deposits	**$ 34,068**	**$ 1,257**	**4.93 %**	$ 114,901	$ 416	0.48 %	**$ 30,685**	**$ 420**	**5.50** %	$ 32,778	$ 333	4.12 %
FHLB stock	**16,500**	**1,037**	**8.41**	4,592	176	5.13	**11,000**	**280**	**10.23**	16,776	331	7.99

Securities:												
Taxable	**136,473**	**5,385**	**5.26**	116,816	3,164	3.62	**134,874**	**1,849**	**5.48**	138,379	1,739	5.03
Tax-exempt	**1,737**	**58**	**4.46**	1,366	39	3.80	**1,658**	**18**	**4.47**	1,753	20	4.49
Total securities (A)	**138,210**	**5,443**	**5.25**	118,182	3,203	3.62	**136,532**	**1,867**	**5.47**	140,132	1,759	5.02
Loans												
Loans:												
SBA loans	**62,802**	**4,186**	**8.89**	64,438	2,933	6.08	**58,120**	**1,333**	**9.17**	66,625	1,404	8.43
SBA PPP loans	**3,103**	**129**	**5.53**	23,388	1,546	8.84	**2,215**	**8**	**1.38**	4,243	77	7.26
Commercial loans	**1,230,752**	**56,320**	**6.03**	1,009,122	37,928	5.03	**1,281,600**	**20,830**	**6.43**	1,199,577	17,401	5.80
Residential mortgage loans	**621,971**	**25,103**	**5.38**	456,354	15,284	4.48	**625,451**	**9,219**	**5.90**	614,936	8,109	5.27
Consumer loans	**76,363**	**4,351**	**7.51**	78,108	2,914	4.99	**70,250**	**1,402**	**7.90**	77,121	1,354	7.02
Residential construction loans	**153,587**	**7,911**	**6.79**	130,205	6,018	6.18	**129,720**	**2,578**	**7.86**	163,821	2,586	6.31
Total loans (B)	**2,148,578**	**98,000**	**6.01**	1,761,615	66,623	5.06	**2,167,356**	**35,370**	**6.46**	2,126,323	30,931	5.82
Total interest-earning assets	**$ 2,337,356**	**$ 105,737**	**6.05** %	$ 1,999,290	$ 70,418	4.71 %	**$2,345,573**	**$37,937**	**6.51** %	$2,316,009	$33,354	5.84 %
Noninterest-earning assets:												
Cash and due from banks	**22,516**			24,026			**23,220**			22,738		
Allowance for credit losses	**(26,178)**			(22,454)			**(26,059)**			(25,778)		
Other assets	**104,883**			80,656			**94,001**			111,104		
Total noninterest-earning assets	**101,221**			82,228			**91,162**			108,064		
Total assets	**$ 2,438,577**			$ 2,081,518			**$2,436,735**			2,424,073		
LIABILITIES AND SHAREHOLDERS' EQUITY												
LIABILITIES AND SHAREHOLDERS' EQUITY												
Interest-bearing liabilities:												
Interest-bearing demand deposits	**$ 301,456**	**$ 3,761**	**1.67** %	$ 263,139	$ 682	0.35 %	**$ 324,829**	**$ 1,710**	**2.12** %	$ 286,172	$ 965	1.37 %
Savings deposits	**554,087**	**7,632**	**1.84**	687,177	1,635	0.32	**503,071**	**3,144**	**2.51**	536,021	1,554	1.18
Brokered deposits							**243,592**	**2,295**	**3.79**	236,724	1,562	2.68
Time deposits	**539,395**	**11,637**	**2.88**	292,484	1,499	0.69	**465,166**	**4,699**	**4.06**	286,354	1,563	2.21
Total interest-bearing deposits	**1,394,938**	**23,030**	**2.21**	1,242,800	3,816	0.41	**1,536,658**	**11,848**	**3.10**	1,345,271	5,644	1.70
Borrowed funds and subordinated debentures	**327,382**	**11,740**	**4.73**	72,724	1,199	2.21	**201,335**	**2,248**	**4.41**	342,398	3,799	4.44
Total interest-bearing liabilities	**$ 1,722,320**	**$ 34,770**	**2.70** %	$ 1,315,524	$ 5,015	0.51 %	**$1,737,993**	**$14,096**	**3.26** %	$1,687,669	$ 9,443	2.27 %
Noninterest-bearing liabilities:												

Noninterest-bearing demand deposits	**445,862**			525,405			**403,847**			468,407		
Other liabilities	**26,016**			22,186			**28,747**			24,541		
Total noninterest-bearing liabilities	**471,878**			547,591			**432,594**			492,948		
Total shareholders' equity	**244,379**			218,403								
Total liabilities and shareholders' equity	**$ 2,438,577**			$ 2,081,518								
Total shareholders' equity							**266,148**			243,456		
Total liabilities and shareholders' equity							**$2,436,735**			$2,424,073		
Net interest spread		**$ 70,967**	**3.35 %**		$ 65,403	4.20 %		**$23,841**	**3.25** %		$23,911	3.57 %
Tax-equivalent basis adjustment		**(3)**			(5)			**—**			(1)	
Net interest income		**$ 70,964**			$ 65,398			**$23,841**			$23,910	
Net interest margin			**4.06** %			4.37 %			**4.09** %			4.19 %

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(A) Yields related to securities exempt from federal and state income taxes are stated on a fully tax-equivalent basis. They are reduced by the nondeductible portion of interest expense, basis, assuming a federal tax rate of 21 percent and applicable state rates. 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.

	For the three months ended September 30, 2023 versus September 30, 2022			For the nine months ended September 30, 2023 versus September 30, 2022			For the three months ended March 31, 2024 versus March 31, 2023		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:			Increase (decrease) due to change in:		
(In thousands on a tax-equivalent basis)	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net
Interest income:									
Interest-bearing deposits	$ —	$ 315	$ 315	$ (480)	$ 1,321	$ 841	$ (23)	$ 110	$ 87
FHLB stock	196	75	271	690	171	861	(132)	81	(51)
Securities	(27)	476	449	613	1,627	2,240	(47)	154	107
Loans	4,331	5,399	9,730	16,218	15,159	31,377	565	3,874	4,439
Total interest income	$ 4,500	$ 6,265	$ 10,765	$ 17,041	$ 18,278	$ 35,319	$ 363	$ 4,219	$ 4,582
Interest expense:									

Demand deposits	$ 46	$ 1,063	$ 1,109	$ 114	$ 2,965	$ 3,079	$ 147	$ 598	$ 745
Savings deposits	(196)	2,496	2,300	(378)	6,375	5,997	(102)	1,692	1,590
Brokered deposits							48	685	733
Time deposits	960	3,473	4,433	2,130	8,008	10,138	1,340	1,796	3,136
Total interest-bearing deposits	810	7,032	7,842	1,866	17,348	19,214	1,433	4,771	6,204
Borrowed funds and subordinated debentures	2,029	1,100	3,129	7,951	2,590	10,541	(1,526)	(25)	(1,551)
Total interest expense	2,839	8,132	10,971	9,817	19,938	29,755	(93)	4,746	4,653
Net interest income - fully tax-equivalent	$ 1,661	$ (1,867)	$ (206)	$ 7,224	$ (1,660)	$ 5,564	$ 456	$ (527)	$ (71)
Increase in tax-equivalent adjustment			1			2			2
Net interest income			$ (205)			$ 5,566			$ (69)

Provision for Credit Losses

The provision for credit losses for loans was $0.5 million $0.6 million during the three months ended September 30, 2023 March 31, 2024, compared to $1.5 million during the three months ended September 30, 2022. For the nine months ended September 30, 2023, the provision for credit losses totaled $1.4 million, compared to $2.5 million $0.1 million for the same period in 2022. 2023. The decrease increase of $0.5 million was primarily driven by lower loan growth levels over increases in the comparative periods. general and specific reserve calculations.

The provision for credit losses for off-balance sheet exposures totaled $2.0 thousand for the three months ended March 31, 2024, compared to none for the same period in 2023.

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

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Income Tax Expense

For the quarter ended September 30, 2023 March 31, 2024, the Company reported income tax expense of $3.1 million $3.2 million for an effective tax rate of 23.7 25.0 percent, compared to income tax expense of $3.3 million $3.5 million and an effective tax rate of 25.1 25.4 percent for the prior year's quarter. For the nine months ended September 30, 2023, the Company reported income tax expense of $10.0 million for an effective tax rate of 25.1 percent, compared to an income tax expense of $9.3 million and an effective tax rate of 24.6 percent for the nine months ended September 30, 2022. During the third quarter, the New Jersey Legislature did not extend the 2.5% Corporation Business Tax (CBT) beyond December 31, 2023, which is reflected in the third quarter's tax provision.

Unity Bancorp maintins a captive insurance subsidiary, Unity Risk Management Inc. Treasury recently issued proposed regulations which, if adopted in their current form, may adversely impact the ability of the Company to achieve tax benefits under their arrangement. Management is closely monitoring these developments and is anticipating regulatory resolution in Q4 2023. The captive insurance subsidiary currently saves between an estimated $0.3 million to $0.4 million of federal tax expenses per year.

Financial Condition at September 30, 2023 March 31, 2024

Total assets increased $118.1 million decreased $10.4 million or 4.8 0.4 percent, to $2.6 billion at September 30, 2023 March 31, 2024, when compared to year end 2022. 2023. This increase decrease was primarily due to decreases of $11.8 million in cash and cash equivalents and $2.5 million in FHLB stock, partially offset by increases of $66.6 million $3.0 million in securities and $2.4 million in gross loans, driven by commercial and residential mortgage loan growth and $46.7 million in cash and cash equivalents, partially offset by a decrease of $4.9 million in total securities. growth.

Total shareholders' equity increased $13.2 million $5.3 million, when compared to year end 2022, 2023, due to earnings and an increase in common stock, partially offset by the repurchase of shares and dividends paid during the nine three months ended September 30, 2023 March 31, 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 $92.1 million $94.7 million at September 30, 2023 March 31, 2024, a decrease an increase of $3.3 million $2.9 million or 3.4 3.2 percent, compared to $95.4 million $91.8 million at December 31, 2022 December 31, 2023. This net decrease increase was the result of:

- $3.3 4.0 million principal payments, maturities and called bonds, in purchases,
- Which were partially offset by $1.0 million in principal payments and maturities, and
- $0.7 million 44 thousand in depreciation in the market value of the portfolio. At September 30, 2023 March 31, 2024, the portfolio had a net unrealized loss of $6.5 million $4.5 million compared to a net unrealized loss of $5.8 million $4.5 million at December 31, 2022 December 31, 2023. These net unrealized losses are reflected net of tax in shareholder's equity as accumulated other comprehensive loss.
- The above were partially offset by $0.7 million in purchases.

The weighted average life of AFS debt securities, adjusted for prepayments, amounted to 5.8 5.4 years and 6.4 5.6 years at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. The effective duration of AFS debt securities amounted to 1.9 1.7 years for both September 30, 2023 at March 31, 2024 and December 31, 2022 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 $36.0 million $36.1 million at September 30, 2023 March 31, 2024, an increase a decrease of $0.2 million $33 thousand or 0.5 0.1 percent, compared to $35.8 million $36.1 million at December 31, 2022 December 31, 2023. This net increase was the result of:

- $0.2 million in net accretion

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The weighted average life of HTM securities, adjusted for prepayments, amounted to 17.9 16.9 years and 18.0 17.1 years at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. As of September 30, 2023 March 31, 2024 and December 31, 2023, the fair value of HTM securities was $27.2 million $29.1 million and $28.6 million at December 31, 2022. $29.7 million, respectively. The effective duration of HTM securities amounted to 11.5 10.6 years and 10.5 10.9 years at September 30, 2023 March 31, 2024 and December 31, 2022 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 interest rate risk, to take advantage of market conditions that create economically attractive returns and as an additional source of earnings. Equity securities consist of Community Reinvestment Act ("CRA") mutual fund investments and the equity holdings of other financial institutions.

Equity securities totaled $8.0 million $7.9 million at September 30, 2023 March 31, 2024, a decrease an increase of $1.8 million $0.1 million or 18.2 1.7 percent, compared to $9.8 million $7.8 million at December 31, 2022 December 31, 2023. This net decrease was the result of:

- $1.3 million in sales and
- $0.6 million in net losses.
- The above were partially offset by $0.1 million in purchases.

Securities with a carrying value of $9.5 million $9.6 million and $835 thousand $9.7 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively, were held at the FHLB or FRB and were pledged for borrowing purposes; however, all securities are were unencumbered by borrowings as of September 30, 2023 at March 31, 2024 and December 31, 2023.

Approximately 64 65 percent of the total debt security investment portfolio had a fixed rate of interest at September 30, 2023 March 31, 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 $66.6 million $2.4 million or 3.2 0.1 percent to $2.2 billion at September 30, 2023 March 31, 2024, compared to year end 2022. 2023. Commercial residential mortgage and SBA held for investment loans increased $88.6 million, $23.5 million $13.9 million and $2.4 million $0.4 million, respectively, partially offset by decreases of $30.0 million $7.5 million, $6.0 million $4.0 million, $0.4 million and $3.4 million $0.2 million in residential construction, residential mortgage, consumer and SBA PPP loans, respectively.

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The following table sets forth the classification of loans by major category, including unearned fees and deferred costs and excluding the allowance for credit losses as of September 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022	
(In thousands, except percentages)	Amount	% of total	Amount	% of total
SBA loans held for investment	**$ 40,873**	**1.9 %**	$ 38,468	1.8 %
SBA PPP loans	**2,507**	**0.1**	5,908	0.3
Commercial loans	**1,276,156**	**58.7**	1,187,543	56.4
Residential mortgage loans	**628,628**	**28.9**	605,091	28.7
Consumer loans	**72,189**	**3.3**	78,164	3.7
Residential construction loans	**133,450**	**6.2**	163,457	7.8
Total loans held for investment	**$ 2,153,803**	**99.1** %	$ 2,078,631	98.7 %
SBA loans held for sale	**19,387**	**0.9**	27,928	1.3
Total loans	**$ 2,173,190**	**100.0** %	$ 2,106,559	100.0 %

Average loans increased $387.0 million $41.0 million or 22.0 1.9 percent to $2.1 billion $2.2 billion the nine three months ended September 30, 2023 March 31, 2024 from $1.8 billion $2.1 billion for the same period in 2022. 2023. The increase in average loans was due to increases in average commercial residential mortgage and residential construction loans, mortgage, partially offset by decreases in average SBA, SBA PPP, consumer and consumer residential construction loans. The yield on the overall loan portfolio increased 95 64 basis points to 6.01 6.46 percent for the nine three months ended September 30, 2023 March 31, 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 is generally may be sold in the secondary market with the nonguaranteed portion held in the portfolio as a loan held for investment. market.

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SBA 7(a) loans held for sale, carried at the lower of cost or market, amounted to $19.4 million $18.4 million at September 30, 2023 March 31, 2024, a decrease an increase of $8.5 million $0.2 million from $27.9 million $18.2 million at December 31, 2022 December 31, 2023. SBA 7(a) loans held for investment amounted to $40.9 million $39.0 million at September 30, 2023 March 31, 2024, an increase of $2.4 million $0.4 million from $38.5 million $38.6 million at December 31, 2022 December 31, 2023. The yield on SBA loans, which are generally floating and adjust quarterly to the Prime rate, was 8.89 9.17 percent for the nine three months ended September 30, 2023 March 31, 2024, compared to 6.08 8.43 percent for the same period in the prior year. The Company sold $2.4 million of SBA loans during the three months ended March 31, 2024.

The guarantee rates on SBA 7(a) loans range from 50 percent to 90 percent. percent, with the majority of the portfolio having a guarantee rate of 75 percent at origination. The guarantee rates are determined by the SBA and can vary from year to year depending on government funding and the goals of the SBA program. Approximately $75.6 million $77.2 million and $72.1 million $75.6 million in SBA loans were sold but serviced by the Company at September 30, 2023 March 31, 2024 and December 31, 2022 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 September 30, 2023 March 31, 2024, an increase of $88.6 million $13.9 million from year end 2022. 2023. The yield on commercial loans was 6.03 6.43 percent for the nine three months ended September 30, 2023 March 31, 2024, compared to 5.03 5.80 percent for the same period in 2022. 2023. 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. Generally, the Company has a 50 percent LTV ratio on SBA 504 program loans at origination. The commercial real estate sub-category includes both owner occupied and non-owner occupied commercial real estate related loans.

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Residential mortgage loans consist of loans secured by 1 to 4 family residential properties. These loans amounted to $628.6 million $627.5 million at September 30, 2023 March 31, 2024, an increase a decrease of $23.5 million $4.0 million from year end 2022. 2023. Sales of conforming mortgage loans totaled $44.8 million $12.2 million for the nine three months ended September 30, 2023 March 31, 2024, compared to sales of $64.1 million $16.1 million in the prior years period. Furthermore, sales of nonconforming mortgage loans totaled $13.4 million for the nine months ended September 30, 2023, compared to none in the prior years year period. The yield on residential mortgages was 5.38 5.90 percent for the nine three months ended September 30, 2023 March 31, 2024, compared to 4.48 5.27 percent for the same period in 2022. 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 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 the personal property being purchased. 1 to 4 family residences. These loans amounted to $72.2 million $72.3 million, a decrease of $6.0 million $0.4 million from year end 2022. 2023. The yield on consumer loans was 7.51 7.90 percent for the nine three months ended September 30, 2023 March 31, 2024, compared to 4.99 7.02 percent for the same period in 2022. 2023.

Residential construction loans consist of short-term loans for the purpose of funding the costs of building a home. These loans amounted to $133.5 million $123.8 million at March 31, 2024, a decrease of $30.0 million $7.5 million from year end 2022. 2023. The yield on residential construction loans was 6.79 7.86 percent for the nine three months ended September 30, 2023 March 31, 2024, compared to 6.18 6.31 percent for the same period in 2022. 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, or debt service ratios, construction loans with payments made from interest reserves and multiple loans supported by the same collateral (e.g. home equity loans) are examples of such products. However, these products are not material to the Company's financial position and are closely managed via credit controls 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.

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 September 30, 2023 March 31, 2024 and December 31, 2022 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 and December 31, 2023:

In thousands, except percentages	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%

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 $18.1 million $17.0 million at September 30, 2023 March 31, 2024, a $9.0 million $2.2 million decrease from $19.2 million at December 31, 2023 and a $2.5 million increase from $9.1 million $14.5 million at December 31, 2022 and an $10.1 million increase from $8.0 million at September 30, 2022 March 31, 2023, respectively. Since year end 2022, 2023, nonperforming loans in the residential construction mortgage and commercial consumer segment decreased, offset by an increase in nonperforming SBA, consumer commercial and residential mortgage construction loans. In addition, there were $265 $138 thousand in loans past due 90 days or more and still accruing interest at September 30, 2023 March 31, 2024, compared to $946 thousand at December 31, 2023 and none at December 31, 2022 and $75 thousand at September 30, 2022 March 31, 2023. Further, there was $251 thousand of no other real estate owned at September 30, 2023, compared to none March 31, 2024 or December 31, 2023 and $176 thousand in other real estate owned at December 31, 2022 and September 30, 2022 March 31, 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 $18.5 million $12.8 million at September 30, 2023 March 31, 2024.

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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 $25.9 million $26.1 million at September 30, 2023 March 31, 2024, compared to $25.2 million $25.9 million at December 31, 2022 December 31, 2023 and $23.9 million $26.2 million at September 30, 2022 March 31, 2023, with a resulting allowance to total loan ratio of 1.20 percent at March 31, 2024, 1.19 percent at September 30, 2023, 1.20 percent at December 31, 2022 December 31, 2023 and 1.23 at September 30, 2022 March 31, 2023. Net chargeoffs charge-offs amounted to $1.5 million $415 thousand for the nine three months ended September 30, 2023 March 31, 2024, compared to $1.0 million net recoveries of $50 thousand for the same period in 2022. 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 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.

Total deposits increased $97.4 million $37.1 million to $1.9 billion $2.0 billion at September 30, 2023 March 31, 2024 from year-end 2022. 2023. This increase was due to increases of $188.1 million $74.2 million in time deposits, of which $8.0 million was $13.0 million in brokered time interest-bearing demand deposits and $21.5 million $6.7 million in interest-bearing demand savings deposits, partially offset by a decrease of $68.7 million $32.7 million in brokered deposits and $24.1 million in noninterest-bearing demand deposits and $43.5 million in savings deposits. The change in the composition of the portfolio from December 31, 2022 December 31, 2023 reflects a 44.2 17.4 percent increase in time deposits, and an 7.8 4.2 percent increase in interest-bearing demand deposits, and a 1.4 percent increase in savings deposits, partially offset by a 13.9 12.2 percent decrease in brokered deposits and a 5.7 percent decrease in noninterest-bearing demand deposits and a 7.4 percent decrease in savings deposits.

As of September 30, 2023 the Bank had $326.1 million in uninsured/uncollateralized deposits, or 17.3 March 31, 2024, 17.2 percent of total deposits. Further, the Bank's deposits were uninsured or uncollateralized. The Company's deposit base was 45.4 composition as of March 31, 2024, consisted of 20.2 percent retail, 26.1 in noninterest-bearing demand deposits, 16.6 percent business, 18.0 in interest-bearing demand deposits, 28.8 percent municipal in savings deposits and 10.5 34.4 percent brokered 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 $398.9 million $309.7 million and $393.3 million $366.7 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively, and are broken down in the following table:

(In thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
FHLB borrowings:				
Non-overnight, fixed rate advances	**$ 160,000**	$ 180,000	**$ 53,797**	$ 109,438
Overnight advances	**228,610**	203,000	**215,600**	217,000
Puttable advances			**30,000**	30,000
Subordinated debentures	**10,310**	10,310	**10,310**	10,310
Total borrowed funds and subordinated debentures	**$ 398,920**	$ 393,310	**$ 309,707**	$ 366,748

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In September 2023, March 2024, the FHLB issued a $142.0 million $165.0 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 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.

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At September 30, 2023 March 31, 2024, the Company had $302.4 million held $183.0 million of additional credit cash and cash equivalents. Further, the Company maintained approximately $546.0 million of funding available at from various funding sources, including the FHLB. Pledging additional collateral in FHLB, FRB Discount Window and other lines of credit. Additionally, the form Company can pledge securities for further borrowing capacity. Total available funding plus cash on hand represented 215.6% of 1 to 4 family residential mortgages, commercial loans and investment securities can increase the line with the FHLB. uninsured or uncollateralized deposits.

For the nine three months ended September 30, 2023 March 31, 2024, average FHLB Borrowings were $317.1 million. FHLB Borrowings outstanding as of September 30, 2023 had $191.0 million with a weighted average cost of 4.39%. The maximum borrowing during the year was $423.0 million 4.35%.

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 7.25 7.172 percent at September 30, 2023 March 31, 2024 and 6.32 7.212 percent at December 31, 2022 December 31, 2023.

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 asset and liability management function RMC are to establish prudent risk management guidelines, evaluate and control the level of interest-rate 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 the Board approved Board-approved guidelines. The Company seeks to reduce the vulnerability of operations to changes in interest rates and actions in this regard are taken under the guidance of the Asset/Liability Management Committee ("ALCO") of the Board of Directors. The ALCO RMC reviews the maturities and re-pricing repricing of loans, investments, deposits and borrowings, cash flow needs, current market conditions and interest rate levels.

The Company utilizes Modified Duration of Equity and Economic Value of Equity ("EVE") models to measure the impact of longer-term asset and liability mismatches beyond two years. The modified duration of equity measures the potential price risk of equity to changes in interest rates. A longer modified duration of equity indicates a greater degree of risk to rising interest rates. Because of balance sheet optionality, an EVE analysis is also used to dynamically model the present value of asset and liability cash flows with rate shocks of 200 basis points. The EVE is likely to be different as interest rates change. Results falling outside prescribed ranges require action by the ALCO. The Company's variance in the EVE, as a percentage of assets with rate shocks of 200 basis points at September 30, 2023, is a decrease of 15.2 percent in a rising-rate environment and an increase of 11.8 percent in a falling-rate environment. The variances in the EVE at September 30, 2023 are within the Board-approved guidelines of +/- 20.0 percent. In a falling rate environment with a rate shock of 200 basis points, benchmark interest rates are assumed to have floors of 0.0 percent. At December 31, 2022, the EVE as a percentage of assets with rate shocks of 200 basis points was a decrease of 13.8 percent in a rising-rate environment and an increase of 6.5 percent in a falling-rate environment. The variances in the EVE at December 31, 2022 are within the Board-approved guidelines of +/- 20.0 percent.

The following table presents the Company's EVE and Net Interest Income("NII") NII sensitivity exposure related to an instantaneous and sustained parallel shift in market interest rates rate of 100, 200 and 300 bps, which were all in compliance with Board approved tolerances at September 30, 2023 March 31, 2024 and December 31, 2022. December 31, 2023:

	Estimated Increase/ (Decrease) in EVE			Estimated 12 mo. Increase/ (Decrease) In NII			Estimated Increase/ (Decrease) in EVE			Estimated 12 mo. Increase/ (Decrea		
(In thousands, except percentages)	EVE	Amount	Percent	NII	Amount	Percent	EVE	Amount	Percent	NII	Amount	P
September 30, 2023												
March 31, 2024												
+300	**$ 204,737**	**$ (61,016)**	**(22.96)%**	**$ 89,213**	**$ (7,808)**	**(8.05)%**	**$ 213,785**	**$ (56,042)**	**(20.77)%**	**$ 89,741**	**$ (8,617)**	
+200	**225,477**	**(40,276)**	**(15.16)**	**91,775**	**(5,246)**	**(5.41)**	**234,739**	**(35,088)**	**(13.00)**	**92,641**	**(5,717)**	
+100	**246,194**	**(19,559)**	**(7.36)**	**94,314**	**(2,707)**	**(2.79)**	**253,460**	**(16,367)**	**(6.07)**	**95,467**	**(2,891)**	
0	**265,753**	**—**	**—**	**97,021**	**—**	**—**	**269,827**	**—**	**—**	**98,358**	**—**	
-100	**287,458**	**21,705**	**8.17**	**99,271**	**2,250**	**2.32**	**281,736**	**11,909**	**4.41**	**100,482**	**2,124**	
-200	**297,136**	**31,383**	**11.81**	**100,284**	**3,263**	**3.36**	**287,421**	**17,594**	**6.52**	**101,927**	**3,569**	
-300	**302,525**	**36,772**	**13.84**	**100,056**	**3,035**	**3.13**	**287,929**	**18,102**	**6.71**	**102,883**	**4,525**	
December 31, 2022												
December 31, 2023												
+300	$ 269,493	$ (61,049)	(22.65)%	$ 92,822	$ (8,275)	(8.19)%	$ 215,239	$ (53,748)	(19.98)%	$ 91,747	$ (7,977)	
+200	290,558	(39,984)	(13.76)	95,567	(5,530)	(5.79)	235,749	(33,238)	(12.36)	94,405	(5,319)	
+100	311,453	(19,089)	(6.13)	98,280	(2,817)	(2.87)	254,242	(14,745)	(5.48)	96,984	(2,740)	
0	330,542	—	—	101,097	—	—	268,987	—	—	99,724	—	
-100	346,750	16,208	4.67	102,688	1,591	1.55	273,517	4,530	1.68	101,391	1,667	
-200	352,944	22,402	6.35	101,927	830	0.81	286,813	17,826	6.63	102,987	3,263	
-300	353,361	22,819	6.46	100,183	(914)	(0.91)	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 September 30, 2023 March 31, 2024:

(In thousands)	One year or less	One to three years	Three to five years	Over five years	Total	One year or less	One to three years	Three to five years	Over five years	Total
Off-balance sheet arrangements:										
Standby letters of credit	$ 3,943	$ 250	$ 920	$ 981	$ 6,094	$ 3,718	$ 30	$ 920	$ 907	$ 5,575
Contractual obligations:										
Time deposits and brokered time deposits	517,311	83,421	12,605	107	613,444	589,484	73,792	12,425	108	675,809
Borrowed funds and subordinated debentures	368,610	—	20,000	10,310	398,920	260,038	4,359	35,000	10,310	309,707
Total off-balance sheet arrangements and contractual obligations	$ 889,864	$ 83,671	$ 33,525	$ 11,398	$ 1,018,458	$853,240	$ 78,181	$48,345	$11,325	$991,091

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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 of or less.

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

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

Consolidated Bank 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 September 30, 2023 March 31, 2024, the balance of cash and cash equivalents was $161.4 million $183.0 million, an increase a decrease of $46.7 million $11.8 million from December 31, 2022 December 31, 2023. A discussion of the cash provided by and used in operating, investing and financing activities follows.

Operating activities provided $21.1 million $15.8 million and $9.6 million $13.6 million of net cash for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 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.

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Investing activities used $60.7 million $3.0 million and $366.6 million $19.9 million in net cash for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. Cash was primarily used to fund new loans. loans and purchase securities.

- *Securities.* The Consolidated Bank's Company's available for sale investment portfolio amounted to $92.1 million $94.7 million and $95.4 million $91.8 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. This excludes the Parent Company's securities discussed under the heading "Parent Company Liquidity" below. Projected cash flows from securities based on current estimates over the next twelve months are $4.8 million $8.1 million.
- *Loans.* The SBA loans held for sale portfolio amounted to $19.4 million $18.4 million and $27.9 million $18.2 million at September 30, 2023 March 31, 2024 and December 31, 2022 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 $424.3 million $289.5 million to its borrowers as of September 30, 2023 March 31, 2024, compared to $514.8 million $312.5 million at December 31, 2022 December 31, 2023. At September 30, 2023 March 31, 2024, $192.1 million $131.5 million of these commitments expire within one year, compared to $177.7 million $149.3 million at December 31, 2022 December 31, 2023. The Company had $6.1 million $5.6 million and $5.6 million $5.7 million in standby letters of credit at September 30, 2023 March 31, 2024 and December 31, 2022 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 $86.3 million and $275.6 million $18.5 million in net cash for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, primarily due to net increase in deposits. deposits, offset by repayments of short-term borrowings.

- *Deposits.* As of September 30, 2023 March 31, 2024, deposits included $339.2 million $373.2 million of government deposits, as compared to $296.5 million $346.3 million at year end 2022. 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 $318.3 million $344.4 million of deposits from 18 20 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 $388.6 million $299.4 million and $383.0 million $374.0 million as of September 30, 2023 March 31, 2024 and December 31, 2022 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 September 30, 2023 March 31, 2024, pledging provided an additional $302.4 million $546.0 million in borrowing capacity potential from the FHLB. 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.

Parent Company Liquidity

The Parent Company's cash needs are funded by dividends paid by and rental payments on corporate headquarters from the Bank. Other than its investment in the Bank, Unity Risk Management, Inc. and Unity Statutory Trust II, the Parent Company does not actively engage in other transactions or business. Only expenses specifically for the benefit of the Parent Company are paid using its cash, which typically includes the payment of operating expenses, cash dividends on common stock and payments on trust preferred debt.

At September 30, 2023, the Parent Company had $0.3 million in cash and cash equivalents and $3.9 million in investment securities valued at fair market value, compared to $2.2 million and $5.7 million at December 31, 2022.

Regulatory Capital

On September 17, 2019Consistent 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, Unity Bank exceeded all capital requirements of the federal banking agencies issued a final rule providing simplified regulators and was considered well capitalized.

The following table presents information regarding the Company's consolidated capital requirements for certain community banking organizations (banks levels, as well as, the Bank's regulatory capital levels at March 31, 2024 and holding companies) with less than $10 billion in total consolidated assets, implementing provisions of The Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA") December 31, 2023. Under the proposal, a qualifying community banking organization ("QCBO") would be eligible to elect the community bank leverage ratio framework, or continue to measure capital under the existing Basel III requirements. The new rule, effective beginning January 1, 2020, allowed qualifying community banking organizations to opt into the new community bank leverage ratio ("CBLR") in their call report beginning in the first quarter of 2020.

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A QCBO is defined as a bank, a savings association, a bank holding company or a savings and loan holding company with:

- A leverage capital ratio of greater than 9.0 percent;

	Actual		Required for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Regulations*	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of 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

- Total consolidated assets of less than $10.0 billion;
- Total off-balance sheet exposures (excluding derivatives other than credit derivatives and unconditionally cancelable commitments) of 25 percent or less of total consolidated assets; and
- Total trading assets and trading liabilities of 5 percent or less of total consolidated assets.

The numerator of the CBLR is Tier 1 capital, as calculated under the Basel III rules. The denominator of the CBLR is the QCBO's average assets, calculated in accordance with the QCBO's Call Report instructions less assets deducted from Tier 1 capital.

The Bank has opted into the CBLR, and is therefore not required to comply with the Basel III capital requirements.

The following table shows the CBLR ratio for the Company and the Bank at September 30, 2023 and at December 31, 2022.
In addition, the table below also shows the ratios required under the Basel III risk-based capital guidelines for the Company and the Bank at September 30, 2023 and December 31, 2022, all of which are above minimum capital requirements:

	At September 30, 2023		At December 31, 2022	
	Company	Bank	Company	Bank
CBLR (Tier 1 Leverage Capital)	**10.76 %**	**10.35 %**	10.88 %	10.34 %

Common Equity Tier 1 Capital	**12.16**	**12.19**	11.76	11.69
Tier 1 Risk-based Capital	**12.64**	**12.19**	12.25	11.69
Total Risk-based Capital	**13.88**	**13.44**	13.48	12.93

Pursuant to a Federal Reserve policy applicable to bank holding companies with less than $3.0 billion in consolidated assets, the Parent Company is not subject to any consolidated regulatory capital requirements.

For additional information on regulatory capital, see Note 11*Prompt Corrective Action requirements only apply* *to the* *Consolidated Financial Statements.* *Bank.*

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Shareholders' Equity

Shareholders' equity increased $13.2 million to $252.4 million at September 30, 2023 compared to $239.2 million at December 31, 2022, primarily due to net income of $29.9 million partially offset by $14.3 million treasury stock purchased, at cost. Other items impacting shareholders' equity included $3.5 million in dividends paid on common stock, $2.4 million from the issuance of common stock under employee benefit plans and a one-time adjustment to retained earnings of $649 thousand relating to ASU No. 2016-13 ("CECL"). The issuance of common stock under employee benefit plans includes nonqualified stock options and restricted stock expense related entries, employee option exercises and the tax benefit of options exercised.

Repurchase Plan

On September 5, 2023, the 2021 repurchase plan was fully exhausted. 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 33,479 149,997 shares were repurchased at an a weighted average price of $23.97 $27.14 during the three months ended September 30, 2023 March 31, 2024. As of September 30, 2023 March 31, 2024, 474 264 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 loan credit losses and the market price of the Company's stock.

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		Total Number of	Maximum Number			Total Number of	Maximum Number
Total	Weighted	Shares Purchased	of Shares that may	Total	Weighted	Shares Purchased	of Shares that may

Period	Number of Shares Purchased	Average Price Paid per Share	as Part of Publicly Announced Plans or Programs	yet be Purchased Under the Plans or Programs	Number of Shares Purchased	Average Price Paid per Share	as Part of Publicly Announced Plans or Programs	yet be Purchased Under the Plans or Programs
July 1, 2023 through July 30, 2023	—	$ —	—	507,199				
August 1, 2023 through August 31, 2023	6,934	24.14	6,934	500,265				
September 1, 2023 through September 30, 2023	21,658	23.91	21,658	478,607				
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

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 nine three months ended September 30, 2023 March 31, 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, 2022 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 September 30, 2023 March 31, 2024. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer 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 September 30, 2023 March 31, 2024 appears under the heading, “Risk Factors” within the Company’s Form 10-K for the year ended December 31, 2022, in addition to the following:

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Risks Related to Recent Events Impacting the Financial Services Industry

Recent events impacting the financial services industry, including the failure of Silicon Valley Bank and Signature Bank, have resulted in decreased confidence in banks among consumer and commercial depositors, other counter parties and investors, as well as significant disruption, volatility and reduced valuations of equity and other securities of banks in the capital markets. These events occurred during a period of rapidly rising interest rates which, among other things, has resulted in unrealized losses in longer duration securities and loans held by banks, more competition for bank deposits and may increase the risk of a potential recession. These recent events have, and could continue to, adversely impact the market price and volatility of the Company’s common stock.

These recent events may also result in potentially adverse changes to laws or regulations governing banks and bank holding companies or result in the impositions of restrictions through supervisory or enforcement activities, including higher capital requirements, which could have a material impact on our business. Inability to access short-term funding, loss of client deposits or changes in our credit ratings could increase the cost of funding, limit access to capital markets or negatively impact our overall liquidity or capitalization. We may be impacted by concerns regarding the soundness or creditworthiness of other financial institutions, which can cause substantial and cascading disruption within the financial markets and increased expenses. The cost of resolving the recent bank failures may prompt the FDIC to increase its premiums above the recently increased levels or to issue additional special assessments. 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 10.2	Change in Control Agreement for SVP, Chief Lending Officer James Donovan
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

EXHIBIT INDEX

QUARTERLY REPORT ON FORM 10-Q

Exhibit No.	**Description**
10.2	Change in Control Agreement for SVP, Chief Lending Officer James Donovan
31.1	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
31.2	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
32.1	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)

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: November May 08, 2023 2024	/s/ George Boyan
	George Boyan
	Executive Vice President and Chief Financial Officer

CHANGE IN CONTROL AGREEMENT

CHANGE IN CONTROL AGREEMENT (this "Agreement") made as of this 9th day of May, 2023, by and among **UNITY BANK**, a New Jersey state bank with its principal place of business located at 64 Old Highway 22, Clinton, New Jersey 08809 (the "Bank"), **UNITY BANCORP, INC.** a New Jersey corporation with its principal place of business located at 64 Old Highway 22, Clinton, New Jersey 08809 ("Unity") (Bank and Unity collectively, "Employer"), and **James Donovan**, an individual, residing at 4369 Stonebridge Drive, Bethlehem, Pa., 18015(the "Executive").

WITNESSETH:

WHEREAS, Executive holds the position of Senior Vice President and Chief Lending Officer; and

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

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

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

2.Change in Control

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

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

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

(iii)the occurrence of an event of a nature that would be required to be reported in response to Item 1 of the Current Report on Form 8-K, as then in effect, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); or (iv)Without limitation, a "change in control" shall be deemed to have occurred at such time as any "person" (as the term is used in Section 13(d) and 14(d) of the Exchange Act) other than Unity or the trustees or any administrator of any employee stock ownership plan and trust, or any other employee benefit plans, established by Employer from time-to-time is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly, of securities of Unity representing 35% or more of Unity's outstanding securities ordinarily having the right to vote at the election of directors; or

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

(vi)A tender offer is made for 35% or more of the voting securities of Unity and shareholders owning beneficially or of record 35% or more of the outstanding securities of Unity have tendered

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or offered to sell their shares pursuant to such tender and such tendered shares have been accepted by the tender offeror.

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

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

Board of the resulting entity are members of the Incumbent Board and (ii) a majority of the "senior officer positions" of the resulting entity are held by individuals who held "senior officer positions" with the Employer prior to such transaction.

For purposes hereof, the "senior officer positions" shall include such of the following positions as the Employer shall separately maintain prior to any such transaction: the Chairman, Chief Executive Officer, President, Chief Financial Officer, Chief Operating Officer, and Chief Administrative Officer/Director of Sales.

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

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

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

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

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

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

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

Notice given as provided in this Section 4 shall be deemed effective: (i) on the date hand delivered; (ii) on the first business day following the sending thereof by overnight courier; (iii) on the seventh calendar day (or, if it is not a business day, then the next succeeding business day thereafter) after the depositing thereof into the exclusive custody of the U.S. Postal Service; or (iv) on the date telecopied.

5.Term. This Agreement shall have a term of three years from the date hereof; provided, however, that in the event the term of this Agreement would terminate at any time after the Employer has engaged in substantive negotiations regarding a transaction which would lead to a Change in Control, this Agreement shall continue to remain in full force in effect until the earlier to occur of (i) the effectuation of such transaction leading to a Change in Control or (ii) the termination of the negotiations for the proposed transaction which would have resulted in the Change in Control. Notwithstanding the preceding sentence or any other provision of this Agreement, the term of this Agreement shall immediately end upon: (i) the Bank or Unity entering into a Memorandum of Understanding with the Federal Deposit Insurance Corporation ("FDIC") or the New Jersey

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

6.Confidential Information.

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

Notwithstanding the above, Confidential Information does not include information which: (i) is or becomes public knowledge without breach of this Agreement; or (ii) is received by Executive from a third party without any violation of any obligation of confidentiality and without confidentiality restrictions; provided, however, that nothing in this Agreement shall prevent the Executive from participating in or disclosing documents or information in connection with any judicial or administrative investigation, inquiry or proceeding to the extent that such participation or disclosure is required under applicable law; provided further, however, that the Executive will provide the Employer with prompt notice of such request so that the Employer may seek (with the cooperation of the Executive, if so requested by the Employer), a protective order or other appropriate remedy and/or waiver in writing of compliance with the provisions of this Agreement. If a particular portion or aspect of Confidential Information becomes subject to any of the foregoing exceptions, all other portions or aspects of such information shall remain subject to all of the provisions of this Agreement.

(b)At all times, both during the period of Executive's services for the Employer and after termination of Executive's services, the Executive will keep in strictest confidence and trust all Confidential Information and the Executive will not directly or indirectly use or disclose to any third-party any Confidential Information, except as may be necessary in the ordinary course of performing the Executive’s duties for the Employer, or disclose any Confidential Information, or permit or encourage any other person or entity to do so, without the prior written consent of the Employer except as may be necessary in the ordinary course of performing the Executive’s duties for the Employer.

(c)The Executive agrees to return promptly all Confidential Information in tangible form, including, without limitation, all photocopies, extracts and summaries thereof, and any such information

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stored electronically on tapes, computer disks, mobile or remote computers (including personal digital assistants) or in any other manner to the Employer at any time that the Employer makes such a request and automatically, without request, within five days after the termination of the Executive's performance of services for the Employer for any reason.

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

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

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

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

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

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

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

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

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

16.Legal Representation. The Executive hereby acknowledges that Executive was given the opportunity to consult with independent legal counsel regarding this Agreement prior to his execution of this Agreement.

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

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

19.Termination of Prior Agreement. Executive acknowledges that that certain Change in Control Agreement between Executive and Employer dated January 2, 2018 has terminated pursuant to its terms and is no longer in force or effect.

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

ATTEST: UNITY BANK

BY: ______________________

James A. Hughes, President and CEO

ATTEST: UNITY BANCORP,INC.

BY: ______________________

James A. Hughes, President and CEO

WITNESS EMPLOYEE

BY: ______________________

JAMES DONOVAN

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: November May 8, 2023 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: November May 8, 2023 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 September 30, 2023 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: November May 8, 2023 2024

/s/ James A. Hughes
James A. Hughes
President and Chief Executive Officer

Dated: November May 8, 2023 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.

DISCLAIMER

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