WESTERN DIGITAL CORP
Form 4
January 20, 2015

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
DENERO HENRY T

(Last) (First) (Middle)

C/O WESTERN DIGITAL CORPORATION, 3355 MICHELSON DRIVE, SUITE 100

(Street)

IRVINE, CA 92612

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
WESTERN DIGITAL CORP [WDC]

3. Date of Earliest Transaction (Month/Day/Year)
01/15/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Dividend Equivalent Rights	(1)	01/15/2015		A		27.9279		(1)	(1)	Common Stock	27.9279

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DENERO HENRY T C/O WESTERN DIGITAL CORPORATION 3355 MICHELSON DRIVE, SUITE 100 IRVINE, CA 92612	X			

Signatures

By: /s/ Sandra Garcia Attorney-in-Fact For: Henry T. DeNero	01/20/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The dividend equivalent rights accrued on previously awarded restricted stock units (RSUs) which vest proportionately with the RSUs to which they relate. Each dividend equivalent right represents a contingent right to receive one share of the Issuer's common stock or the cash value thereof.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Level 2

Level 3

Total

Securities available for sale:

U.S. Government sponsored entities

$

-

$

5,479

$

-

$

5,479

State and political subdivisions

-

10,650

-

10,650

Residential mortgage-backed securities

-

30,283

-

30,283

Corporate and other securities

-

9,354

-

9,354

Total securities available for sale

$

-

$

55,766

$

-

$

55,766

Explanation of Responses:

Explanation of Responses:

December 31, 2014

(In thousands)

Level 1

Level 2

Level 3

Total

Securities available for sale:

U.S. Government sponsored entities

Explanation of Responses:

$

-

$

4,618

$

-

$

4,618

State and political subdivisions

-

11,132

-

11,132

Residential mortgage-backed securities

-

34,383

-

34,383

Corporate and other securities

-

9,940

-

9,940

Total securities available for sale

Explanation of Responses:

$

-

$

60,073

$

-

$

60,073

The following table summarizes changes in Level 3 assets during the three and six months ended June 30, 2015 and 2014, consisting of commercial mortgage-backed available for sale securities, measured at fair value on a recurring basis:

(In thousands)	For the three months ended June 30, 2015	2014	For the six ended June 30, 2015	2014
Commercial mortgage-backed securities:				
Balance, beginning of period	$ -	$ 499	$ -	$ 888
Payoffs	-	(342)	-	(714)
Principal paydowns	-	(153)	-	(173)
Total net losses included in:				
Other comprehensive income	-	(4)	-	(1)
Balance, end of period	$ -	$ -	$ -	$ -

There were no gains or losses (realized or unrealized) on Level 3 securities included in earnings for assets and liabilities held at June 30, 2015 or 2014.

Fair Value on a Nonrecurring Basis

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:

Appraisal Policy

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

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The Company requires current real estate appraisals on all loans that become OREO or in-substance foreclosure, loans that are classified substandard, doubtful or loss, or loans that are over $100,000 and nonperforming. Prior to each balance sheet date, the Company values impaired collateral-dependent loans and OREO based upon a third party appraisal, broker's price opinion, drive by appraisal, automated valuation model, updated market evaluation, or a combination of these methods. The amount is discounted for the decline in market real estate values (for original appraisals), for any known damage or repair costs, and for selling and closing costs. The amount of the discount ranges from 10 to 25 percent and is dependent upon the method used to determine the original value. The original appraisal is generally used when a loan is first determined to be impaired. When applying the discount, the Company takes into consideration when the appraisal was performed, the collateral's location, the type of collateral, any known damage to the property and the type of business. Subsequent to entering impaired status and the Company determining that there is a collateral shortfall, the Company will generally, depending on the type of collateral, order a third party appraisal, broker's price opinion, automated valuation model or updated market evaluation. After receiving the third party results, the Company will discount the value 8 to 10 percent for selling and closing costs.

OREO

The fair value of OREO is determined using appraisals, which may be discounted based on management's review and changes in market conditions (Level 3 Inputs).

Impaired Collateral-Dependent Loans

The fair value of impaired collateral-dependent loans is derived in accordance with FASB ASC Topic 310, "Receivables." Fair value is determined based on the loan's observable market price or the fair value of the collateral. Partially charged-off loans are measured for impairment based upon an appraisal for collateral-dependent loans. When an updated appraisal is received for a nonperforming loan, the value on the appraisal is discounted in the manner discussed above. 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 nine months of contractual payments and 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 impaired loans is included in the allowance for loan losses in the consolidated balance sheets. At June 30, 2015 and December 31, 2014, the valuation allowance for impaired loans was $1.2 million.

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

	Fair value at June 30, 2015			
(In thousands)	Level 1	Level 2	Level 3	Total
Financial assets:				
OREO	$ -	$ -	$ 2,265	$ 2,265
Impaired collateral-dependent loans	-	-	8,109	8,109

	Fair value at December 31, 2014			
(In thousands)	Level 1	Level 2	Level 3	Total
Financial assets:				
OREO	$ -	$ -	$ 1,162	$ 1,162
Impaired collateral-dependent loans	-	-	4,897	4,897

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 June 30, 2015 and December 31, 2014 have been determined using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop estimates of fair value. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange. The use of alternative market assumptions and estimation methodologies could have had a material effect on these estimates of fair value. The methodology for estimating the fair value of financial assets and liabilities that are measured on a recurring or nonrecurring basis are discussed above. The following methods and assumptions were used to estimate the fair value of other financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents

For these short-term instruments, the carrying value is a reasonable estimate of fair 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).

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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.

FHLB Stock

Federal Home Loan Bank stock is carried at cost. Carrying value approximates fair value based on the redemption provisions of the issues.

Servicing Assets

SBA servicing assets do not trade in an active, open market with readily observable prices. The Company estimates the fair value of servicing assets using discounted cash flow models incorporating numerous assumptions from the perspective of a market participant including market discount rates and prepayment speeds.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

OREO

The fair value of OREO is determined using appraisals, which may be discounted based on management's review and changes in market conditions (Level 3 Inputs).

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.

Standby Letters of Credit

At June 30, 2015, the Bank had standby letters of credit outstanding of $1.5 million, consistent with December 31, 2014. The fair value of these commitments is nominal.

The table below presents the carrying amount and estimated fair values of the Company's financial instruments presented as of June 30, 2015 and December 31, 2014:

		June 30, 2015		December 31, 2014	
(In thousands)	Fair value level	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets:					
Cash and cash equivalents	Level 1	$ 90,442	$ 90,442	$ 129,821	$ 129,821
Securities (1)	Level 2	74,375	74,495	80,082	80,354
SBA loans held for sale	Level 2	11,368	12,611	5,179	5,655
Loans, net of allowance for loan losses (2)	Level 2	797,924	800,478	744,095	748,093
FHLB stock	Level 2	5,635	5,635	6,032	6,032
Servicing assets	Level 3	872	872	753	753
Accrued interest receivable	Level 2	3,690	3,690	3,518	3,518
OREO	Level 3	2,265	2,265	1,162	1,162
Financial liabilities:					
Deposits	Level 2	815,427	815,799	794,341	794,436
Borrowed funds and subordinated debentures	Level 2	130,465	134,416	140,465	145,333
Accrued interest payable	Level 2	418	418	474	474

(1) Includes held to maturity ("HTM") commercial mortgage-backed securities that are considered Level 3. These securities had book values of $4.0 million at June 30, 2015 and December 31, 2014, and market values of $3.9 million and $4.0 million at June 30, 2015 and December 31, 2014, respectively.
(2) Includes collateral-dependent impaired loans that are considered Level 3 and reported separately in the tables under the "Fair Value on a Nonrecurring Basis" heading. Collateral-dependent impaired loans, net of specific reserves totaled $8.1 million and $4.9 million at June 30, 2015 and December 31, 2014, respectively.

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Explanation of Responses:

NOTE 7. Securities

This table provides the major components of AFS and HTM securities at amortized cost and estimated fair value at June 30, 2015 and December 31, 2014:

(In thousands)	June 30, 2015 Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	December 31, 2014 Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available for sale:								
U.S. Government sponsored entities	$ 5,564	$ -	$ (85)	$ 5,479	$ 4,711	$ -	$ (93)	$ 4,618
State and political subdivisions	10,708	73	(131)	10,650	11,055	112	(35)	11,132
Residential mortgage-backed securities	29,886	602	(205)	30,283	33,884	646	(147)	34,383
Corporate and other securities	9,540	71	(257)	9,354	10,188	63	(311)	9,940
Total securities available for sale	$ 55,698	$ 746	$ (678)	$ 55,766	$ 59,838	$ 821	$ (586)	$ 60,073
Held to maturity:								
U.S. Government sponsored entities	$ 4,220	$ -	$ (118)	$ 4,102	$ 4,440	$ -	$ (124)	$ 4,316
State and political subdivisions	2,413	207	-	2,620	2,417	277	-	2,694
Residential mortgage-backed securities	7,038	178	(50)	7,166	8,164	211	(29)	8,346
Commercial mortgage-backed securities	3,954	-	(71)	3,883	4,005	13	(53)	3,965
Corporate and other securities	984	-	(26)	958	983	-	(23)	960
Total securities held to maturity	$ 18,609	$ 385	$ (265)	$ 18,729	$ 20,009	$ 501	$ (229)	$ 20,281

This table provides the remaining contractual maturities and yields of securities within the investment portfolios. The carrying value of securities at June 30, 2015 is distributed by contractual maturity. Mortgage-backed securities and other securities, which may have principal prepayment provisions, are distributed based on contractual maturity. Expected maturities will differ materially from contractual maturities as a result of early prepayments and calls.

	Within one year		After one through five years		After five through ten years		After ten years		Total carrying value	
(In thousands, except percentages)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale at fair value:										
U.S. Government sponsored entities	$ -	- %	$ 2,015	1.35 %	$ 940	2.06 %	$ 2,524	2.04 %	$ 5,479	1.79 %
State and political subdivisions	39	6.48	856	2.56	6,258	2.41	3,497	2.56	10,650	2.49
Residential mortgage-backed securities	-	-	1,350	1.79	2,056	1.90	26,877	2.72	30,283	2.62
Corporate and other securities	-	-	2,417	1.04	1,384	1.16	5,553	1.27	9,354	1.19
Total securities available for sale	$ 39	6.48 %	$ 6,638	1.48 %	$ 10,638	2.12 %	$ 38,451	2.45 %	$ 55,766	2.28 %
Held to maturity at cost:										
U.S. Government sponsored entities	$ -	- %	$ -	- %	$ -	- %	$ 4,220	1.97 %	$ 4,220	1.97 %
State and political subdivisions	309	0.75	-	-	-	-	2,104	4.72	2,413	4.22
Residential mortgage-backed securities	-	-	329	4.86	236	5.20	6,473	2.56	7,038	2.76
Commercial mortgage-backed securities	-	-	-	-	-	-	3,954	2.76	3,954	2.76
Corporate and other securities	-	-	-	-	984	2.95	-	-	984	2.95
Total securities held to maturity	$ 309	0.75 %	$ 329	4.86 %	$ 1,220	3.39 %	$ 16,751	2.73 %	$ 18,609	2.78 %

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The fair value of securities with unrealized losses by length of time that the individual securities have been in a continuous unrealized loss position at June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015						
		Less than 12 months		12 months and greater		Total	
(In thousands, except number in a loss position)	Total number in a loss position	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss
Available for sale:							
U.S. Government sponsored entities	6	$ 2,933	$ (11)	$ 2,541	$ (74)	$ 5,474	$ (85)
State and political subdivisions	8	4,363	(131)	-	-	4,363	(131)
Residential mortgage-backed securities	10	7,273	(45)	5,172	(160)	12,445	(205)
Corporate and other securities	6	1,367	(48)	3,789	(209)	5,156	(257)
Total temporarily impaired securities	30	$ 15,936	$ (235)	$ 11,502	$ (443)	$ 27,438	$ (678)
Held to maturity:							
U.S. Government sponsored entities	2	$ -	$ -	$ 4,102	$ (118)	$ 4,102	$ (118)
Residential mortgage-backed securities	3	-	-	2,117	(50)	2,117	(50)
Commercial mortgage-backed securities	2	3,883	(71)	-	-	3,883	(71)
Corporate and other securities	1	958	(26)	-	-	958	(26)
Total temporarily impaired securities	8	$ 4,841	$ (97)	$ 6,219	$ (168)	$ 11,060	$ (265)

	December 31, 2014						
		Less than 12 months		12 months and greater		Total	
(In thousands, except number in a loss position)	Total number in a loss position	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss
Available for sale:							
U.S. Government sponsored entities	4	$ -	$ -	$ 4,590	$ (93)	$ 4,590	$ (93)
State and political subdivisions	7	-	-	4,103	(35)	4,103	(35)
Residential mortgage-backed securities	9	6,579	(16)	5,889	(131)	12,468	(147)
Corporate and other securities	7	1,053	(46)	3,736	(265)	4,789	(311)
Total temporarily impaired securities	27	$ 7,632	$ (62)	$ 18,318	$ (524)	$ 25,950	$ (586)
Held to maturity:							
U.S. Government sponsored entities	2	$ -	$ -	$ 4,316	$ (124)	$ 4,316	$ (124)
Residential mortgage-backed securities	3	-	-	2,586	(29)	2,586	(29)

Commercial mortgage-backed securities	1	-	-	1,822	(53)	1,822	(53)
Corporate and other securities	1	-	-	960	(23)	960	(23)
Total temporarily impaired securities	7	$ -	$ -	$ 9,684	$ (229)	$ 9,684	$ (229)

Unrealized Losses

The unrealized losses in each of the categories presented in the tables above are discussed in the paragraphs that follow:

U.S. government sponsored entities and state and political subdivision securities: The unrealized losses on investments in these types of securities were caused by the increase in interest rate spreads or the increase in interest rates at the long end of the Treasury curve. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company did not consider these investments to be other-than temporarily impaired as of June 30, 2015. There was no impairment on these securities at December 31, 2014.

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Residential and commercial mortgage-backed securities: The unrealized losses on investments in mortgage-backed securities were caused by increases in interest rate spreads or the increase in interest rates at the long end of the Treasury curve. The majority of contractual cash flows of these securities are guaranteed by the FNMA, GNMA, and the FHLMC. It is expected that the securities would not be settled at a price significantly less than the par value of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company did not consider these investments to be other-than-temporarily impaired as of June 30, 2015 or December 31, 2014.

Corporate and other securities: Included in this category are corporate debt securities, Community Reinvestment Act (“CRA”) investments, asset-backed securities, and one trust preferred security. The unrealized losses on corporate debt securities were due to widening credit spreads or the increase in interest rates at the long end of the Treasury curve and the unrealized losses on CRA investments were caused by decreases in the market value of underlying bonds and rate changes. The Company evaluated the prospects of the issuers and forecasted a recovery period; and as a result determined it did not consider these investments to be other-than-temporarily impaired as of June 30, 2015 or December 31, 2014. The unrealized loss on the trust preferred security was caused by an inactive trading market and changes in market credit spreads. At June 30, 2015 and December 31, 2014, this category consisted of one single-issuer trust preferred security. The contractual terms do not allow the security to be settled at a price less than the par value. Because the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, which may be at maturity, the Company did not consider this security to be other-than-temporarily impaired as of June 30, 2015 or December 31, 2014.

Realized Gains and Losses

Gross realized gains (losses) on securities for the three and six months ended June 30, 2015 and 2014 are detailed in the table below:

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands)	2015	2014	2015	2014
Available for sale:				
Realized gains	$ 28	$ 271	$ 28	$ 385
Realized losses	-	(3)	-	(7)
Total securities available for sale	28	268	28	378
Held to maturity:				
Realized gains	-	-	-	-
Realized losses	-	-	-	-

Total securities held to maturity	-	-	-	-
Net gains on sales of securities	$ 28	$ 268	$ 28	$ 378

The net realized gains are included in noninterest income in the Consolidated Statements of Income as net security gains. For the three and six months ended June 30, 2015 there was a gross realized gain of $28 thousand. The net realized gain during 2015 was a result of the following:

· For the three months ended June 30, 2015, the Company sold one corporate bond totaling $500 thousand in book value, resulting in pre-tax gains of approximately $28 thousand.

For the three and six months ended June 30, 2014, there were gross realized gains of $271 thousand and $385 thousand, respectively. For the three and six months ended June 30, 2014, there were gross realized losses of $3 thousand and $7 thousand, respectively. The net realized gains during 2014 were a result of the following:

· For the six months ended June 30, 2014, the Company sold approximately $15.5 million in book value of available for sale municipal securities, mortgage-backed securities, asset-backed securities, and corporate bonds, resulting in pre-tax gains of approximately $385 thousand.

Pledged Securities

Securities with a carrying value of $19.5 million and $50.4 million at June 30, 2015 and December 31, 2014, respectively, were pledged to secure Government deposits, secure other borrowings and for other purposes required or permitted by law. Securities pledged for Government deposits totaled $0 and $32.1 million at June 30, 2015 and December 31, 2014, respectively. In June 2015, the FHLB issued a letter of credit in the name of Unity Bank naming the NJ Dept. of Banking and Insurance as beneficiary. The letter of credit will take the place of securities previously pledged to the state for the Bank’s municipal deposits. For additional information on amounts pledged to secure Government deposits at June 30, 2015, see section titled “Borrowed Funds and Subordinated Debentures” under Item 2. Management Discussion and Analysis.

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Note 8. Loans

The following table sets forth the classification of loans by class, including unearned fees, deferred costs and excluding the allowance for loan losses as of June 30, 2015 and December 31, 2014:

(In thousands)	June 30, 2015	December 31, 2014
SBA loans held for investment	$ 39,663	$ 40,401
SBA 504 loans	29,125	34,322
Commercial loans		
Commercial other	40,578	40,607
Commercial real estate	361,866	339,693
Commercial real estate construction	25,927	21,649
Residential mortgage loans	243,259	220,878
Consumer loans		
Home equity	44,935	41,451
Consumer other	24,975	17,645
Total loans held for investment	$ 810,328	$ 756,646
SBA loans held for sale	11,368	5,179
Total loans	$ 821,696	$ 761,825

Loans are made to individuals as well as 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. As a preferred SBA lender, a portion of the SBA portfolio is to borrowers outside the Company's market area. However, during late 2008, the Company withdrew from SBA lending outside of its primary trade area, but continues to offer SBA loan products as an additional credit product within its primary trade area. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type. A description of the Company's different loan segments follows:

SBA Loans: SBA 7(a) loans, on which the SBA has historically provided guarantees of up to 90 percent of the principal balance, are considered a higher risk loan product for the Company than its other loan products. The guaranteed portion of the Company's SBA loans is generally sold in the secondary market with the nonguaranteed portion held in the portfolio as a loan held for investment. SBA loans are for the purpose of providing working capital, 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.

SBA 504 Loans: 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. SBA 504 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.

Commercial Loans: Commercial credit is extended primarily to middle market and small business customers. Commercial loans are generally made in the Company’s market place for the purpose of providing working capital, financing the purchase of equipment, inventory or commercial real estate and for other business purposes. Loans will generally be guaranteed in full or for a meaningful amount by the businesses' major owners. Commercial loans are made based primarily on the historical and projected cash flow of the business and secondarily on the underlying collateral provided.

Residential Mortgage and Consumer Loans: The Company originates mortgage and consumer loans including principally residential real estate and home equity lines and loans. Each loan type is evaluated on debt to income, type of collateral and loan to collateral value, credit history and Company’s 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 we initiate contact regarding a loan with a borrower. Documentation, including a borrower’s credit history, materials establishing the value and liquidity of potential collateral, the purpose of the loan, the source of funds for repayment of the loan, and other factors, are analyzed before a loan is submitted for approval. The loan portfolio is then subject to on-going internal reviews for credit quality 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. These policies and procedures are reviewed and approved by the Board of Directors on a regular basis.

Credit Ratings

For SBA 7(a), SBA 504 and commercial loans, management uses internally assigned risk ratings as the best indicator of credit quality. A loan's internal risk rating is updated at least annually and more frequently if circumstances warrant a change in risk rating. The Company uses a 1 through 10 loan grading system that follows regulatorily accepted definitions.

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

Special Mention: Criticized loans are assigned a risk rating of 7 and termed "Special Mention", as the borrowers exhibit potential credit weaknesses or downward trends deserving management's close attention. If not checked or corrected, these trends will weaken the Bank's collateral and position. While potentially weak, these borrowers are currently marginally acceptable and no loss of interest or principal is anticipated. As a result, special mention assets do not expose an institution to sufficient risk to warrant adverse classification. Included in "Special Mention" could be turnaround situations, such as borrowers with deteriorating trends beyond one year, borrowers in startup or deteriorating industries, or borrowers with a poor market share in an average industry. "Special Mention" loans may include an element of asset quality, financial flexibility, or below average management. Management and ownership may have limited depth or experience. Regulatory agencies have agreed on a consistent definition of "Special Mention" as an asset with potential weaknesses which, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. This definition is intended to ensure that the "Special Mention" category is not used to identify assets that have as their sole weakness credit data exceptions or collateral documentation exceptions that are not material to the repayment of the asset.

Substandard: Classified loans are assigned a risk rating of an 8 or 9, depending upon the prospect for collection, and deemed "Substandard". A risk rating of 8 is used for borrowers with well-defined weaknesses that jeopardize the orderly liquidation of debt. The loan is inadequately protected by the current paying capacity of the obligor or by the collateral pledged, if any. Normal repayment from the borrower is in jeopardy, although no loss of principal is envisioned. There is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified "Substandard".

A risk rating of 9 is used for borrowers that have all the weaknesses inherent in a loan with a risk rating of 8, with the added characteristic that the weaknesses make collection of debt in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely. The possibility of loss is extremely high, but because of certain important, reasonably specific pending factors that may work to strengthen the assets, the loans' classification as estimated losses is deferred until a more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures; capital injection; perfecting liens on additional collateral; and refinancing plans. Partial charge-offs are likely.

Loss: Once a borrower is deemed incapable of repayment of unsecured debt, the risk rating becomes a 10, the loan is termed a “Loss”, and charged-off immediately. Loans to such borrowers are considered uncollectible and of such little value that continuance as active assets of the Bank is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be affected in the future.

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

At June 30, 2015, the Company owned $100 thousand of residential consumer properties that were included in OREO in the Consolidated Balance Sheets. Additionally, there were $1.8 million of residential consumer loans in the process of foreclosure.

The tables below detail the Company’s loan portfolio by class according to their credit quality indicators discussed in the paragraphs above as of June 30, 2015:

	June 30, 2015 SBA, SBA 504 & Commercial loans - Internal risk ratings			
(In thousands)	Pass	Special mention	Substandard	Total
SBA loans held for investment	$ 35,437	$ 2,064	$ 2,162	$ 39,663
SBA 504 loans	23,664	5,010	451	29,125
Commercial loans				
Commercial other	36,693	2,747	1,138	40,578
Commercial real estate	337,172	20,868	3,826	361,866
Commercial real estate construction	25,229	698	-	25,927
Total commercial loans	399,094	24,313	4,964	428,371
Total SBA, SBA 504 and commercial loans	$ 458,195	$ 31,387	$ 7,577	$ 497,159

	Residential mortgage & Consumer loans - Performing/Nonperforming		
(In thousands)	Performing	Nonperforming	Total
Residential mortgage loans	$ 241,500	$ 1,759	$ 243,259
Consumer loans			
Home equity	44,039	896	44,935
Consumer other	24,975	-	24,975
Total consumer loans	69,014	896	69,910
Total residential mortgage and consumer loans	$ 310,514	$ 2,655	$ 313,169

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, 2014:

	December 31, 2014 SBA, SBA 504 & Commercial loans - Internal risk ratings			
(In thousands)	Pass	Special mention	Substandard	Total
SBA loans held for investment	$ 35,827	$ 2,250	$ 2,324	$ 40,401
SBA 504 loans	24,415	5,967	3,940	34,322
Commercial loans				

Commercial other	38,054	1,270	1,283	40,607
Commercial real estate	315,015	20,555	4,123	339,693
Commercial real estate construction	21,649	-	-	21,649
Total commercial loans	374,718	21,825	5,406	401,949
Total SBA, SBA 504 and commercial loans	$ 434,960	$ 30,042	$ 11,670	$ 476,672

	Residential mortgage & Consumer loans - Performing/Nonperforming		
(In thousands)	Performing	Nonperforming	Total
Residential mortgage loans	$ 220,233	$ 645	$ 220,878
Consumer loans			
Home equity	40,908	543	41,451
Consumer other	17,643	2	17,645
Total consumer loans	58,551	545	59,096
Total residential mortgage and consumer loans	$ 278,784	$ 1,190	$ 279,974

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Explanation of Responses:

Nonperforming and Past Due Loans

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. Loans past due 90 days or more and still accruing interest are not included in nonperforming loans and generally represent loans that are well collateralized and in a continuing process expected to result in repayment or restoration to current status. The risk of loss is difficult to quantify and is subject to fluctuations in collateral values, general economic conditions and other factors. The improved state of the economy has resulted in a substantial reduction in nonperforming loans and loan delinquencies. 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 June 30, 2015 and December 31, 2014:

	June 30, 2015						
(In thousands)	30-59 days past due	60-89 days past due	90+ days and still accruing	Nonaccrual (1)	Total past due	Current	Total loans
SBA loans held for investment	$ 857	$ 77	$ -	$ 1,715	$ 2,649	$ 37,014	$ 39,663
SBA 504 loans	-	-	-	276	276	28,849	29,125
Commercial loans							
Commercial other	-	53	-	994	1,047	39,531	40,578
Commercial real estate	1,487	463	-	3,197	5,147	356,719	361,866
Commercial real estate construction	-	-	-	-	-	25,927	25,927
Residential mortgage loans	3,107	454	273	1,759	5,593	237,666	243,259
Consumer loans							
Home equity	449	-	-	896	1,345	43,590	44,935
Consumer other	-	-	-	-	-	24,975	24,975
Total loans held for investment	$ 5,900	$ 1,047	$ 273	$ 8,837	$ 16,057	$ 794,271	$ 810,328
SBA loans held for sale	-	-	-	-	-	11,368	11,368
Total loans	$ 5,900	$ 1,047	$ 273	$ 8,837	$ 16,057	$ 805,639	$ 821,696

(1) At June 30, 2015, nonaccrual loans included $2.8 million of TDRs and $267 thousand of loans guaranteed by the SBA. The remaining $3.4 million of TDRs are in accrual status because they are performing in accordance with their restructured terms.

(In thousands)	December 31, 2014 30-59 days past due	60-89 days past due	90+ days and still accruing	Nonaccrual (1)	Total past due	Current	Total loans
SBA loans held for investment	$ 1,093	$ 147	$ 161	$ 3,348	$ 4,749	$ 35,652	$ 40,401
SBA 504 loans	1,639	-	-	2,109	3,748	30,574	34,322
Commercial loans							
Commercial other	-	-	-	1,129	1,129	39,478	40,607
Commercial real estate	2,812	-	7	3,592	6,411	333,282	339,693
Commercial real estate construction	-	-	-	-	-	21,649	21,649
Residential mortgage loans	2,887	658	722	645	4,912	215,966	220,878
Consumer loans							
Home equity	639	213	-	543	1,395	40,056	41,451
Consumer other	-	6	-	2	8	17,637	17,645
Total loans held for investment	$ 9,070	$ 1,024	$ 890	$ 11,368	$ 22,352	$ 734,294	$ 756,646
SBA loans held for sale	-	-	-	-	-	5,179	5,179
Total loans	$ 9,070	$ 1,024	$ 890	$ 11,368	$ 22,352	$ 739,473	$ 761,825

(1) At December 31, 2014, nonaccrual loans included $3.0 million of TDRs and $1.6 million of loans guaranteed by the SBA. The remaining $3.5 million of TDRs are in accrual status because they are performing in accordance with their restructured terms.

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Impaired Loans

The Company has defined impaired loans to be all nonperforming loans individually evaluated for impairment and TDRs. Management considers a loan impaired 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. Impairment is evaluated on an individual basis for SBA, SBA 504, and commercial loans.

The following table provides detail on the Company's impaired loans that are individually evaluated for impairment with the associated allowance amount, if applicable, as of June 30, 2015:

	June 30, 2015		
(In thousands)	Unpaid principal balance	Recorded investment	Specific reserves
With no related allowance:			
SBA loans held for investment (1)	$ 827	$ 384	$ -
SBA 504 loans	2,015	2,015	-
Commercial loans			
Commercial other	973	972	-
Commercial real estate	1,684	1,684	-
Total commercial loans	2,657	2,656	-
Total impaired loans with no related allowance	5,499	5,055	-
With an allowance:			
SBA loans held for investment (1)	2,069	1,490	748
Commercial loans			
Commercial other	34	22	22
Commercial real estate	2,708	2,708	396
Total commercial loans	2,742	2,730	418
Total impaired loans with a related allowance	4,811	4,220	1,166
Total individually evaluated impaired loans:			
SBA loans held for investment (1)	2,896	1,874	748
SBA 504 loans	2,015	2,015	-
Commercial loans			
Commercial other	1,007	994	22
Commercial real estate	4,392	4,392	396
Total commercial loans	5,399	5,386	418
Total individually evaluated impaired loans	$ 10,310	$ 9,275	$ 1,166

(1) Balances are reduced by amount guaranteed by the SBA of $267 thousand at June 30, 2015.

The following table provides detail on the Company’s impaired loans that are individually evaluated for impairment with the associated allowance amount, if applicable, as of December 31, 2014:

	December 31, 2014		
(In thousands)	Unpaid principal balance	Recorded investment	Specific reserves
With no related allowance:			
SBA loans held for investment (1)	$ 1,719	$ 1,093	$ -
SBA 504 loans	2,202	2,202	-
Commercial loans			
Commercial other	878	877	-
Commercial real estate	2,017	1,927	-
Total commercial loans	2,895	2,804	-
Total impaired loans with no related allowance	6,816	6,099	-
With an allowance:			
SBA loans held for investment (1)	1,521	1,127	502
SBA 504 loans	1,676	1,676	510
Commercial loans			
Commercial other	364	252	41
Commercial real estate	3,003	3,003	108
Total commercial loans	3,367	3,255	149
Total impaired loans with a related allowance	6,564	6,058	1,161
Total individually evaluated impaired loans:			
SBA loans held for investment (1)	3,240	2,220	502
SBA 504 loans	3,878	3,878	510
Commercial loans			
Commercial other	1,242	1,129	41
Commercial real estate	5,020	4,930	108
Total commercial loans	6,262	6,059	149
Total individually evaluated impaired loans	$ 13,380	$ 12,157	$ 1,161

(1) Balances are reduced by amount guaranteed by the SBA of $1.6 million at December 31, 2014.

The following tables present the average recorded investments in impaired loans and the related amount of interest recognized during the time period in which the loans were impaired for the six months ended June 30, 2015 and 2014. The average balances are calculated based on the month-end balances of impaired loans. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal under the cost recovery method, and therefore no interest income is recognized. The interest income recognized on impaired loans noted below represents primarily accruing TDRs and nominal amounts of income recognized on a cash basis for well-collateralized impaired loans.

	For the three months ended June 30,			
	2015		2014	
(In thousands)	Average recorded investment	Interest income recognized on impaired loans	Average recorded investment	Interest income recognized on impaired loans
SBA loans held for investment (1)	$ 1,873	$ 2	$ 3,167	$ 21
SBA 504 loans	1,996	26	2,238	27
Commercial loans				
Commercial other	1,073	38	75	1
Commercial real estate	4,521	9	6,256	54
Commercial real estate construction	-	-	115	-
Total	$ 9,463	$ 75	$ 11,851	$ 103

(1) Balances are reduced by the average amount guaranteed by the SBA of $269 thousand and $2.0 million for the three months ended June 30, 2015 and 2014, respectively.

	For the six months ended June 30,			
	2015		2014	
(In thousands)	Average recorded investment	Interest income recognized on impaired loans	Average recorded investment	Interest income recognized on impaired loans
SBA loans held for investment (1)	$ 1,935	$ 39	$ 3,108	$ 56
SBA 504 loans	2,933	53	2,468	55
Commercial loans				
Commercial other	1,095	56	71	2
Commercial real estate	4,778	71	7,143	123
Commercial real estate construction	-	-	146	-
Total	$ 10,741	$ 219	$ 12,936	$ 236

(1)

Balances are reduced by the average amount guaranteed by the SBA of $534 thousand and $1.4 million for the six months ended June 30, 2015 and 2014, respectively.

TDRs

The Company's loan portfolio also includes certain loans that have been modified as TDRs. TDRs occur when a creditor, for economic or legal reasons related to a debtor's financial condition, grants a concession to the debtor that it would not otherwise consider, unless it results in a delay in payment that is insignificant. These concessions typically include reductions in interest rate, extending the maturity of a loan, or a combination of both. When the Company modifies a loan, management evaluates for any possible impairment using either the discounted cash flows method, where the value of the modified loan is based on the present value of expected cash flows, discounted at the contractual interest rate of the original loan agreement, or by using the fair value of the collateral less selling costs if the loan is collateral-dependent. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment or class of loan, as applicable, through an allowance estimate or charge-off to the allowance. This process is used, regardless of loan type, and for loans modified as TDRs that subsequently default on their modified terms.

TDRs of $6.2 million and $6.5 million are included in the impaired loan numbers as of June 30, 2015 and December 31, 2014, respectively. The decrease was due to principal pay downs. At June 30, 2015, there were specific reserves of $591 thousand on TDRs, $182 thousand on performing TDRs and $409 thousand on nonperforming TDRs. At December 31, 2014, there were specific reserves of $223 thousand on TDRs, $24 thousand on performing TDRs and $199 thousand on nonperforming TDRs. At June 30, 2015, $2.8 million of TDRs were in nonaccrual status, compared to $3.0 million at December 31, 2014. The remaining TDRs are in accrual status since they continue to perform in accordance with their restructured terms.

To date, the Company's TDRs consisted of interest rate reductions and maturity extensions. There has been no principal forgiveness. There were no loans modified during the three or six months ended June 30, 2015 and 2014 that were deemed to be TDRs.

There were no loans modified as a TDR within the previous 12 months that subsequently defaulted at some point during the three or six months ended June 30, 2015. There was one loan modified as a TDR within the previous 12 months where a concession was made and the loan subsequently defaulted at some point during the three months ended June 30, 2014. In this case, subsequent default is defined as being transferred to nonaccrual status. There were no additional defaults during the previous year to date period.

	For the three months ended June 30,			
	2015		2014	
(In thousands, except number of contracts)	Number of contracts	Recorded investment	Number of contracts	Recorded investment
SBA loans held for investment	-	$ -	1	$ 131
Total	-	$ -	1	$ 131

Note 9. Allowance for Loan Losses and Reserve for Unfunded Loan Commitments

Allowance for Loan Losses

The Company has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. At a minimum, the adequacy of the allowance for loan losses is reviewed by management on a quarterly basis. For purposes of determining the allowance for loan losses, the Company has segmented the loans in its portfolio by loan type. Loans are segmented into the following pools: SBA 7(a), SBA 504, commercial, residential mortgages, and consumer 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, unsecured business line of credit and commercial other. 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 made to individual impaired loans and TDRs (see Note 1 for additional information on this term). 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, changes in the volume of restructured loans, volume and loan term trends, changes in risk and underwriting policy trends, staffing and experience changes, national and local economic trends, industry conditions and credit concentration changes. Within the five-year historical net charge-off rate, the Company weights the past three years more heavily as it believes it is more indicative of future charge-offs. 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), SBA 504 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 and consumer 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 loan losses as soon as a loan is recognized as uncollectable. All credits which are 90 days past due must be analyzed for the Company’s ability to collect on the credit. Once a loss is known to exist, the charge-off approval process is immediately expedited. This charge-off policy is followed for all loan types.

The allocated allowance is the total of identified specific and general reserves by loan category. The allocation is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of the portfolio. An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in methodologies for estimating allocated and general reserves in the portfolio. The unallocated portion of the allowance increased during the quarter ended June 30, 2015 due to improvements in current period charge off percentages offset by a larger loan portfolio requiring a larger general reserve.

The following tables detail the activity in the allowance for loan losses by portfolio segment for the three months ended June 30, 2015 and 2014:

(In thousands)	For the three months ended June 30, 2015 SBA held for investment	SBA 504	Commercial	Residential	Consumer	Unallocated	Total
Balance, beginning of period	$ 1,873	$ 1,162	$ 5,624	$ 2,341	$ 710	$ 471	$ 12,181
Charge-offs	(6)	-	(147)	-	(7)	-	(160)
Recoveries	2	-	370	10	1	-	383
Net (charge-offs) recoveries	(4)	-	223	10	(6)	-	223
Provision for loan losses charged to expense	129	(283)	212	194	52	(304)	-
Balance, end of period	$ 1,998	$ 879	$ 6,059	$ 2,545	$ 756	$ 167	$ 12,404

(In thousands)	For the three months ended June 30, 2014 SBA held for investment	SBA 504	Commercial	Residential	Consumer	Unallocated	Total
Balance, beginning of period	$ 2,346	$ 947	$ 6,402	$ 2,062	$ 705	$ 345	$ 12,807
Charge-offs	(199)	-	(134)	(5)	(203)	-	(541)
Recoveries	10	-	31	-	1	-	42
Net (charge-offs) recoveries	(189)	-	(103)	(5)	(202)	-	(499)
Provision for loan losses charged to expense	348	(18)	(17)	114	238	(115)	550
Balance, end of period	$ 2,505	$ 929	$ 6,282	$ 2,171	$ 741	$ 230	$ 12,858

The following tables detail the activity in the allowance for loan losses by portfolio segment for the six months ended June 30, 2015 and 2014:

(In thousands)	For the six months ended June 30, 2015 SBA held for investment	SBA 504	Commercial	Residential	Consumer	Unallocated	Total
Balance, beginning of period	$ 1,883	$ 1,337	$ 6,270	$ 2,289	$ 667	$ 105	$ 12,551
Charge-offs	(135)	(589)	(247)	-	(37)	-	(1,008)
Recoveries	40	-	571	49	1	-	661
Net (charge-offs) recoveries	(95)	(589)	324	49	(36)	-	(347)
Provision for loan losses charged to expense	210	131	(535)	207	125	62	200
Balance, end of period	$ 1,998	$ 879	$ 6,059	$ 2,545	$ 756	$ 167	$ 12,404

(In thousands)	For the six months ended June 30, 2014 SBA held for investment	SBA 504	Commercial	Residential	Consumer	Unallocated	Total
Balance, beginning of period	$ 2,587	$ 957	$ 6,840	$ 2,132	$ 573	$ 52	$ 13,141
Charge-offs	(253)	(92)	(588)	(177)	(382)	-	(1,492)
Recoveries	18	-	40	-	1	-	59
Net (charge-offs) recoveries	(235)	(92)	(548)	(177)	(381)	-	(1,433)
Provision for loan losses charged to expense	153	64	(10)	216	549	178	1,150
Balance, end of period	$ 2,505	$ 929	$ 6,282	$ 2,171	$ 741	$ 230	$ 12,858

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The following tables present loans and their related allowance for loan losses, by portfolio segment, as of June 30, 2015 and December 31, 2014:

(In thousands)	June 30, 2015 SBA held for investment	SBA 504	Commercial	Residential	Consumer	Unallocated	Total
Allowance for loan losses ending balance:							
Individually evaluated for impairment	$ 748	$ -	$ 418	$ -	$ -	$ -	$ 1,166
Collectively evaluated for impairment	1,250	879	5,641	2,545	756	167	11,238
Total	$ 1,998	$ 879	$ 6,059	$ 2,545	$ 756	$ 167	$ 12,404
Loan ending balances:							
Individually evaluated for impairment	$ 1,874	$ 2,015	$ 5,386	$ -	$ -	$ -	$ 9,275
Collectively evaluated for impairment	37,789	27,110	422,985	243,259	69,910	-	801,053
Total	$ 39,663	$ 29,125	$ 428,371	$ 243,259	$ 69,910	$ -	$ 810,328

(In thousands)	December 31, 2014 SBA held for investment	SBA 504	Commercial	Residential	Consumer	Unallocated	Total
Allowance for loan losses ending balance:							
Individually evaluated for impairment	$ 502	$ 510	$ 149	$ -	$ -	$ -	$ 1,161
Collectively evaluated for impairment	1,381	827	6,121	2,289	667	105	11,390
Total	$ 1,883	$ 1,337	$ 6,270	$ 2,289	$ 667	$ 105	$ 12,551
Loan ending balances:							
Individually evaluated for impairment	$ 2,220	$ 3,878	$ 6,059	$ -	$ -	$ -	$ 12,157
Collectively evaluated for impairment	38,181	30,444	395,890	220,878	59,096	-	744,489
Total	$ 40,401	$ 34,322	$ 401,949	$ 220,878	$ 59,096	$ -	$ 756,646

Changes in Methodology:

The Company did not make any changes to its allowance for loan losses methodology in the current period.

Reserve for Unfunded Loan Commitments

In addition to the allowance for loan losses, the Company maintains a reserve for unfunded loan commitments at a level that management believes is adequate to absorb estimated probable losses. Adjustments to the reserve are made through other expense and applied to the reserve which is classified as other liabilities. At June 30, 2015, a $193 thousand commitment reserve was reported on the balance sheet as an “other liability”, compared to a $151 thousand commitment reserve at December 31, 2014.

Note 10. New Accounting Pronouncements

ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU has three sections:

Section A – Summary and amendments that creates revenue from contracts with customers (Topic 606) and Other Assets and Deferred Costs – Contracts with Customers (Subtopic 340-40);

Section B – Conforming amendments to other topics and subtopics in the codification and status tables;

Section C – Background information and basis for conclusions.

The accounting changes in this update have been revised to defer the effective date for public business entities for annual reporting periods beginning after December 15, 2017 and the interim periods within that year. Early adoption is permitted as of the first interim or annual period beginning after December 15, 2016. The Company is currently evaluating the impact of the standard.

ASU 2015-01, “Income Statement-Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.” ASU 2015-01 seeks to eliminate from generally accepted accounting principles (“GAAP”) the concept of extraordinary items. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. The guidance was issued as part of an initiative to reduce complexity in accounting standards. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The effective date is the same for both public business entities and all other entities. The Company does not expect adoption of this guidance to have a material effect on the financial condition or results of operations of the Company.

ITEM 2Management'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 2014 consolidated audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014. 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" "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 Quarterly Reports on Form 10-Q, the following: changes in general, economic, and market conditions, legislative and regulatory conditions, or 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.

Overview

Unity Bancorp, Inc. (the "Parent Company") is incorporated in New Jersey and is registered as a bank holding company 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") was granted a charter 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 15 branch offices located in Hunterdon, Somerset, Middlesex, Union and Warren counties in New Jersey, and Northampton County in Pennsylvania as well as a loan production office in Bergen County, New Jersey. These services include the acceptance of demand, savings, and time deposits and the extension of consumer, real estate, SBA and other commercial credits. The Bank has multiple subsidiaries used to hold part of its investment and loan portfolios and OREO properties.

Unity (NJ) Statutory Trust II is a statutory business trust and wholly owned subsidiary of Unity Bancorp, Inc. On July 24, 2006, the Trust issued $10.0 million of trust preferred securities to investors. Unity (NJ) Statutory Trust III is a statutory business trust and wholly owned subsidiary of Unity Bancorp, Inc. On December 19, 2006, the Trust issued $5.0 million of trust preferred securities to investors. These floating rate securities are treated as subordinated debentures on the Company's financial statements. However, they qualify as Tier I Capital for regulatory capital compliance purposes, subject to certain limitations. The Company does not consolidate the accounts and related activity of any of its business trust subsidiaries.

Earnings Summary

Net income totaled $2.4 million, or $0.28 per diluted share for the quarter ended June 30, 2015, a 58.9 percent increase compared to $1.5 million, or $0.20 per diluted share for the same period a year ago. Return on average assets and average common equity for the quarter were 1.01% and 13.35%, respectively, compared to 0.68% and 10.31% for the same period a year ago. The continued improvement in our operating results is the product of our strategic initiatives, which include expansion of our in-market loan and deposit relationships, improving credit quality and core earnings growth.

Second quarter highlights include:

× 7.9% loan growth since year-end 2014 – 18.3% growth in consumer loans, 10.1% growth in residential mortgage loans, and 6.6% growth in commercial loans.
× 14.7% increase in noninterest-bearing demand deposits since year-end 2014.
× 14.6% increase in net interest income compared to the prior year's quarter due to strong loan growth.
× Net interest margin of 3.70% this quarter compared to 3.49% in the prior year's quarter.
× Improved credit quality metrics and reduced loan loss provision – net recoveries posted compared to net charge-offs in the prior year's quarter and a 25.9% decrease in nonperforming loans.

For the six months ended June 30, 2015, net income totaled $4.4 million, or $0.51 per diluted share, compared to $2.8 million or $0.37 per diluted share in the prior year's period. Return on average assets and average common equity for the six month periods were 0.92% and 12.23%, respectively, compared to 0.64% and 9.70% for the same period a year ago.

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The Company's quarterly and year-to-date performance ratios may be found in the table below.

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Net income per common share - Basic (1)	$ 0.29	$ 0.20	$ 0.52	$ 0.37
Net income per common share - Diluted (1)	$ 0.28	$ 0.20	$ 0.51	$ 0.37
Return on average assets	1.01 %	0.68 %	0.92 %	0.64 %
Return on average equity (2)	13.35 %	10.31 %	12.23 %	9.70 %
Efficiency ratio	64.99 %	70.81 %	66.12 %	71.36 %

(1) Defined as net income divided by weighted average shares outstanding.
(2) Defined as net income divided by average shareholders' equity.

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 earning assets and fees earned on loans, and interest paid on interest-bearing liabilities. Earning assets include loans to individuals and businesses, investment securities, interest-earning deposits and federal funds sold. Interest-bearing liabilities include interest-bearing demand, savings and time deposits, FHLB advances and other borrowings. Net interest income is determined by the difference between the yields earned on earning assets and the rates paid on interest-bearing liabilities ("net interest spread") and the relative amounts of 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 June 30, 2015, tax-equivalent net interest income amounted to $8.4 million, an increase of $1.1 million or 14.4 percent when compared to the same period in 2014. The net interest margin increased 21 basis points to 3.70 percent for the quarter ended June 30, 2015, compared to 3.49 percent for the same period in 2014. The net interest spread was 3.49 percent for the second quarter of 2015, an 18 basis point increase compared to the same period in 2014.

During the three months ended June 30, 2015, tax-equivalent interest income was $10.3 million, an increase of $1.1 million or 12.1 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:

× Of the $1.1 million net increase in interest income on a tax-equivalent basis, $1.2 million of the increase was due to increased average earning assets, primarily loans, partially offset by $106 thousand in reduced interest income due to decreased yields on the security and loan portfolios.
× The average volume of interest-earning assets increased $66.3 million to $909.9 million for the second quarter of 2015 compared to $843.7 million for the same period in 2014. This was due primarily to a $118.9 million increase in average loans, primarily commercial and residential mortgage loans, partially offset by a $27.6 million decrease in federal funds sold and interest-bearing deposits and a $24.6 million decrease in average investment securities.
× The yield on interest-earning assets increased 18 basis points to 4.52 percent for the three months ended June 30, 2015 when compared to the same period in 2014. The yield on the loan portfolio decreased 5 basis points to 4.82 percent.

Total interest expense was $1.8 million for the three months ended June 30, 2015, an increase of $52 thousand or 2.9 percent compared to the same period in 2014. This increase was driven by the increase in average savings deposits and increased rates on savings deposits compared to a year ago:

× Of the $52 thousand increase in interest expense, $46 thousand was due to increased rates on interest-bearing liabilities, and $6 thousand was due to an increase in the volume of average interest-bearing liabilities, primarily savings and time deposits.
× Interest-bearing liabilities averaged $719.9 million for the second quarter of 2015, an increase of $26.0 million or 3.7 percent, compared to the prior year's quarter. The increase in interest-bearing liabilities was a result of an increase in average savings deposits and time deposits, partially offset by a decrease in average interest-bearing demand deposits.
× The average cost of interest-bearing liabilities remained flat at 1.03 percent. The cost of interest-bearing deposits increased 4 basis points to 0.70 percent for the second quarter of 2015 and the cost of borrowed funds and subordinated debentures decreased 9 basis points to 3.42 percent.

During the six months ended June 30, 2015, tax-equivalent net interest income amounted to $16.5 million, an increase of $1.8 million or 12.1 percent when compared to the same period in 2014. The net interest margin increased 14 basis points to 3.67 percent for the six months ended June 30, 2015, compared to 3.53 percent for the same period in 2014. The net interest spread was 3.46 percent for the first six months of 2015, an 11 basis point increase compared to the same period in 2014.

During the six months ended June 30, 2015, tax-equivalent interest income was $20.2 million, an increase of $2.0 million or 10.7 percent when compared to the same period in the prior year. This increase was driven by the increase in the balance of average loans:

× Of the $2.0 million net increase in interest income on a tax-equivalent basis, $2.1 million of the increase was due to increased average earning assets, primarily loans, partially offset by $188 thousand in reduced interest income due to decreased yields on the security and loan portfolios.
× The average volume of interest-earning assets increased $64.6 million to $903.3 million for the first half of 2015 compared to $838.6 million for the same period in 2014. This was due primarily to a $108.7 million increase in average loans, primarily commercial and residential mortgage loans, partially offset by a $27.6 million decrease in average investment securities and a $16.2 million decrease in federal funds sold and interest-bearing deposits.
× The yield on interest-earning assets increased 13 basis points to 4.50 percent for the six months ended June 30, 2015 when compared to the same period in 2014. The yield on the loan portfolio remained flat at 4.86 percent.

Total interest expense was $3.7 million for the six months ended June 30, 2015, an increase of $180 thousand or 5.1 percent compared to the same period in 2014. This increase was driven by the increase in average savings deposits and increased rates on savings deposits compared to a year ago:

× Of the $180 thousand increase in interest expense, $149 thousand was due to increased rates on interest-bearing liabilities, and $31 thousand was due to an increase in the volume of average interest-bearing liabilities, primarily savings and time deposits.
× Interest-bearing liabilities averaged $719.9 million for first half of 2015, an increase of $26.0 million or 3.7 percent, compared to the prior year’s quarter. The increase in interest-bearing liabilities was a result of an increase in average savings deposits and time deposits, partially offset by a decrease in average interest-bearing demand deposits.
× The average cost of interest-bearing liabilities increased 2 basis points to 1.04 percent for the six months ended June 30, 2015. The cost of interest-bearing deposits increased 5 basis points to 0.69 percent for the first half of 2015 and the cost of borrowed funds and subordinated debentures decreased 1 basis point to 3.49 percent.

Although our net interest income has increased over the periods noted above, we have been impacted by the sustained low interest rate environment. Recent remarks by the Federal Reserve Open Market Committee (“FOMC”) of the Federal Reserve Board indicate that an increase to the federal funds target rate will be appropriate when the committee sees further improvement in the labor market and inflation moves back to its 2 percent objective over the medium term.

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 computed on a fully tax-equivalent basis, assuming a federal income tax rate of 34 percent.

Explanation of Responses:

Consolidated Average Balance Sheets

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

	For the three months ended							
	June 30, 2015				June 30, 2014			
	Average Balance	Interest	Rate/Yield		Average Balance	Interest	Rate/Yield	
ASSETS								
Interest-earning assets:								
Federal funds sold and interest-bearing deposits	$ 20,259	$ 6	0.12	%	$ 47,859	$ 10	0.08	%
FHLB stock	3,720	38	4.10		4,149	40	3.87	
Securities:								
Taxable	63,834	363	2.28		85,598	552	2.58	
Tax-exempt	11,803	105	3.57		14,608	133	3.64	
Total securities (A)	75,637	468	2.48		100,206	685	2.73	
Loans:								
SBA loans	47,249	605	5.14		53,965	643	4.77	
SBA 504 loans	29,539	369	5.01		34,415	433	5.05	
Commercial loans	422,371	5,276	5.01		370,345	4,738	5.13	
Residential mortgage loans	243,821	2,716	4.47		185,016	2,052	4.44	
Consumer loans	67,353	774	4.61		47,737	544	4.57	
Total loans (B)	810,333	9,740	4.82		691,478	8,410	4.87	
Total interest-earning assets	$ 909,949	$ 10,252	4.52	%	$ 843,692	$ 9,145	4.34	%
Noninterest-earning assets:								
Cash and due from banks	24,768				24,368			
Allowance for loan losses	(12,430)				(13,037)			
Other assets	43,596				45,410			
Total noninterest-earning assets	55,934				56,741			
Total assets	$ 965,883				$ 900,433			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Interest-bearing liabilities:								
Total interest-bearing demand deposits	$ 123,663	$ 103	0.33	%	$ 128,351	$ 109	0.34	%
Total savings deposits	287,911	271	0.38		261,419	188	0.29	
Total time deposits	220,403	725	1.32		213,122	693	1.30	
Total interest-bearing deposits	631,977	1,099	0.70		602,892	990	0.66	
Borrowed funds and subordinated debentures	87,944	750	3.42		91,069	807	3.51	
Total interest-bearing liabilities	$ 719,921	$ 1,849	1.03	%	$ 693,961	$ 1,797	1.03	%
Noninterest-bearing liabilities:								
Noninterest-bearing demand deposits	168,585				143,720			
Other liabilities	4,413				3,332			
Total noninterest-bearing liabilities	172,998				147,052			

Total shareholders' equity	72,964				59,420			
Total liabilities and shareholders' equity	$ 965,883				$ 900,433			
Net interest spread		$ 8,403	3.49	%		$ 7,348	3.31	%
Tax-equivalent basis adjustment		(34)				(43)		
Net interest income		$ 8,369				$ 7,305		
Net interest margin			3.70	%			3.49	%

(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 34 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.

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Consolidated Average Balance Sheets

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

	For the six months ended June 30, 2015				June 30, 2014			
	Average Balance	Interest	Rate/Yield		Average Balance	Interest	Rate/Yield	
ASSETS								
Interest-earning assets:								
Federal funds sold and interest-bearing deposits	$ 28,722	$ 16	0.11	%	$ 44,960	$ 19	0.09	%
FHLB stock	3,783	81	4.32		4,069	87	4.31	
Securities:								
Taxable	65,431	750	2.31		89,183	1,278	2.87	
Tax-exempt	11,893	212	3.59		15,718	289	3.68	
Total securities (A)	77,324	962	2.51		104,901	1,567	2.99	
Loans:								
SBA loans	47,824	1,284	5.41		54,375	1,226	4.51	
SBA 504 loans	31,457	715	4.58		33,075	832	5.07	
Commercial loans	414,278	10,342	5.03		367,360	9,340	5.13	
Residential mortgage loans	235,022	5,298	4.55		183,048	4,110	4.49	
Consumer loans	64,868	1,473	4.58		46,843	1,039	4.47	
Total loans (B)	793,449	19,112	4.86		684,701	16,547	4.86	
Total interest-earning assets	$ 903,278	$ 20,171	4.50	%	$ 838,631	$ 18,220	4.37	%
Noninterest-earning assets:								
Cash and due from banks	27,324				23,881			
Allowance for loan losses	(12,565)				(13,222)			
Other assets	43,403				44,510			
Total noninterest-earning assets	58,162				55,169			
Total assets	$ 961,440				$ 893,800			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Interest-bearing liabilities:								
Total interest-bearing demand deposits	$ 125,120	$ 209	0.34	%	$ 129,761	$ 220	0.34	%
Total savings deposits	288,953	535	0.37		263,856	370	0.28	
Total time deposits	215,939	1,411	1.32		209,148	1,337	1.29	
Total interest-bearing deposits	630,012	2,155	0.69		602,765	1,927	0.64	
Borrowed funds and subordinated debentures	89,916	1,558	3.49		91,167	1,606	3.50	

Total interest-bearing liabilities	$ 719,928	$ 3,713	1.04 %	$ 693,932	$ 3,533	1.02 %
Noninterest-bearing liabilities:						
Noninterest-bearing demand deposits	165,176			137,976		
Other liabilities	4,359			3,251		
Total noninterest-bearing liabilities	169,535			141,227		
Total shareholders' equity	71,977			58,641		
Total liabilities and shareholders' equity	$ 961,440			$ 893,800		
Net interest spread		$ 16,458	3.46 %		$ 14,687	3.35 %
Tax-equivalent basis adjustment		(69)			(94)	
Net interest income		$ 16,389			$ 14,593	
Net interest margin			3.67 %			3.53 %

(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 34 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

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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 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 34 percent.

	For the three months ended June 30, 2015 versus June 30, 2014 Increase (decrease) due to change in:			For the six months ended June 30, 2015 versus June 30, 2014 Increase (decrease) due to change in:		
(In thousands on a tax-equivalent basis)	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Federal funds sold and interest-bearing deposits	$ (8)	$ 4	$ (4)	$ (7)	$ 4	$ (3)
FHLB stock	(4)	2	(2)	(6)	-	(6)
Securities	(155)	(62)	(217)	(375)	(230)	(605)
Loans	1,380	(50)	1,330	2,527	38	2,565
Total interest income	$ 1,213	$ (106)	$ 1,107	$ 2,139	$ (188)	$ 1,951
Interest expense:						
Demand deposits	$ (3)	$ (3)	$ (6)	$ (11)	$ -	$ (11)
Savings deposits	20	63	83	38	127	165
Time deposits	22	10	32	43	31	74
Total interest-bearing deposits	39	70	109	70	158	228
Borrowed funds and subordinated debentures	(33)	(24)	(57)	(39)	(9)	(48)
Total interest expense	6	46	52	31	149	180
Net interest income - fully tax-equivalent	$ 1,207	$ (152)	$ 1,055	$ 2,108	$ (337)	$ 1,771
Decrease in tax-equivalent adjustment			9			25
Net interest income			$ 1,064			$ 1,796

Provision for Loan Losses

There was no provision for loan losses for the three months ended June 30, 2015, compared to $550 thousand for the three months ended June 30, 2014. For the six months ended June 30, 2015, the provision for loan losses totaled $200 thousand, compared to $1.2 million for the same period in 2014. Each period's loan loss provision is the result of management's analysis of the loan portfolio and reflects changes in the size and composition of the portfolio, the level of net charge-offs, delinquencies, current economic conditions and other internal and external factors impacting the risk within the loan portfolio. Additional information may be found under the captions "Financial Condition - Asset Quality" and "Financial Condition - Allowance for Loan Losses and Reserve for Unfunded Loan Commitments." The current provision is considered appropriate under management's assessment of the adequacy of the allowance for loan losses.

Noninterest Income

The following table shows the components of noninterest income for the three and six months ended June 30, 2015 and 2014:

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands)	2015	2014	2015	2014
Branch fee income	$ 373	$ 342	$ 719	$ 718
Service and loan fee income	466	285	762	580
Gain on sale of SBA loans held for sale, net	-	255	363	337
Gain on sale of mortgage loans, net	687	188	1,031	553
BOLI income	95	96	189	192
Net security gains	28	268	28	378
Other income	244	206	442	408
Total noninterest income	$ 1,893	$ 1,640	$ 3,534	$ 3,166

Our noninterest income consists primarily of branch and loan fee income, gains on the sale of SBA and residential mortgage loans, gains on the sale of securities, and BOLI income. For the three months ended June 30, 2015, noninterest income increased $253 thousand to $1.9 million, compared to the same period last year. For the six months ended June 30, 2015, noninterest income increased $368 thousand to $3.5 million, compared to the same period a year ago. Quarterly and year-to-date noninterest income increased due to higher gains on the sale of mortgage loans and increased service and loan fee income.

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Changes in our noninterest income for the three and six months ended June 30, 2015 versus 2014 reflect:

- For the three months ended June 30, 2015, branch fee income, which consists of deposit service charges and overdraft fees, increased $31 thousand when compared to the same period in 2014, due to high overdraft volume and an increase in commercial analysis service charges. For the six months ended June 30, 2015, branch fee income remained relatively flat when compared to the same period in 2014.
- For the three and six months ended June 30, 2015, service and loan fee income increased $181 thousand and $182 thousand, respectively, when compared to the same periods in the prior year. These increases were due to increased loan processing and payoff charges.
- There were no SBA loan sales for the three months ended June 30, 2015, compared to net gains on SBA loan sales of $255 thousand on $2.3 million in sales in the same period in the prior year. For the six months ended June 30, 2015, net gains on SBA loan sales amounted to $363 thousand on $3.5 million in sales, compared to net gains of $337 thousand on $3.2 million in sales in the same period in the prior year.
- During the quarter, $49.8 million in residential mortgage loans were originated, of which $24.0 million were sold at a gain of $687 thousand, compared to $36.3 million originated and $11.1 million sold at a gain of $188 thousand during the prior year's quarter. For the six month period, $86.9 million in residential mortgage loans were originated, of which $42.2 million were sold at a gain of $1.0 million, compared to $58.5 million originated and $28.6 million sold at a gain of $553 thousand in the first half of 2014. All residential mortgage loans originated in 2015 that are held in portfolio for investment are adjustable rate mortgages or fixed rate mortgages with maturities of 15 year or less.
- BOLI income remained relatively flat for the three and six months ended June 30, 2015, when compared to the same periods in the prior year.
- Net realized gains on the sale of securities amounted to $28 thousand for the three and six months ended June 30, 2015. For the three and six months ended June 30, 2014, net realized gains on securities amounted to $268 thousand and $378 thousand, respectively. For additional information, see Note 7 - Securities.
- For the three and six months ended June 30, 2015, other income, which includes check card related income and miscellaneous service charges, increased $38 thousand and $34 thousand, respectively, when compared to the same period in the prior year primarily due to increases in VISA check card interchange fees.

Noninterest Expense

The following table presents a breakdown of noninterest expense for the three and six months ended June 30, 2015 and 2014:

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands)	2015	2014	2015	2014
Compensation and benefits	$ 3,481	$ 3,122	$ 6,952	$ 6,340
Occupancy	601	619	1,273	1,279
Processing and communications	614	597	1,210	1,179
Furniture and equipment	422	379	795	735

Professional services	242	247	478	458
Loan costs	160	174	382	344
OREO expenses	67	95	103	342
Deposit insurance	150	171	333	349
Advertising	343	287	525	438
Other expenses	572	453	1,103	939
Total noninterest expense	$ 6,652	$ 6,144	$ 13,154	$ 12,403

Noninterest expense increased $508 thousand to $6.7 million for the three months ended June 30, 2015, while year-to-date expenses increased $751 thousand to $13.2 million. The majority of the increase in each period was due to higher compensation and benefits expense.

Changes in noninterest expense for the three and six months ended June 30, 2015 versus 2014 reflect:

· Compensation and benefits expense, the largest component of noninterest expense, increased $359 thousand and $612 thousand for the three and six months ended June 30, 2015, respectively. Expenses have increased during the intervening period due to increased head count in loan origination and support staff, as well as higher mortgage commission expense due to the larger volume of mortgages originated.
· Occupancy expense decreased $18 thousand and $6 thousand for the three and six months ended June 30, 2015, respectively. The decreases for both periods were primarily due to lower landscaping expense and leasehold depreciation, partially offset by increased janitorial expense.
· Processing and communications expenses increased $17 thousand and $31 thousand for the three and six months ended June 30, 2015, respectively, primarily due to increased merchant services expense in both periods.
· Furniture and equipment expense increased $43 thousand and $60 thousand for the three and six months ended June 30, 2015, respectively, primarily due to higher software maintenance expense.

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- Professional service fees remained relatively flat for the three month period. For the six months ended June 30, 201, professional service fees increased $20 thousand primarily due to higher internal and external audit expenses associated with Federal Deposit Insurance Corporation Improvement Act ("FDICIA") testing in 2015.
- Loan costs decreased $14 thousand for the three months ended June 30, 2015 due to lower appraisal and loan legal expense, partially offset by higher loan property tax expense. For the six months ended June 30, 2015, loan costs increased $38 thousand due to higher loan property tax expense, mortgage servicing expense, and broker and correspondent fees.
- OREO expenses decreased $28 thousand and $239 thousand for the three and six months ended June 30, 2015, respectively. Expenses decreased for the quarterly and six month periods due to lower property tax, maintenance, utility and legal costs to hold these properties.
- Deposit insurance expense decreased $21 thousand and $16 thousand for the three and six months ended June 30, 2015, respectively, when compared to the same periods in the prior year. These decreases are due to a lower quarterly assessment resulting from a lower rate as our financial ratios continue to improve.
- Advertising expense increased $56 thousand and $87 thousand for the three and six months ended June 30, 2015, respectively, due to increased marketing agreements and seasonal events expense.
- Other expenses increased $119 thousand and $164 thousand for the three and six months ended June 30, 2015, respectively, due to higher director fees.

Income Tax Expense

For the quarter ended June 30, 2015, the Company reported income tax expense of $1.2 million for an effective tax rate of 32.7 percent, compared to an income tax expense of $723 thousand and an effective tax rate of 32.1 percent for the prior year's quarter. For the six months ended June 30, 2015 the Company reported income tax expense of $2.2 million for an effective tax rate of 33.5 percent, compared to an income tax expense of $1.4 million and effective tax rate of 32.9 percent for the six months ended June 30, 2014.

Financial Condition at June 30, 2015

Total assets increased $15.5 million or 1.5 percent, to $1.0 billion at June 30, 2015, when compared to year-end 2014. This increase was primarily due to increases of $60.0 million in net loans, partially offset by decreases of $39.4 million in cash and cash equivalents and $5.7 million in securities. Total deposits increased $21.1 million, due to increases of $25.5 million and $22.5 million in time deposits and noninterest-bearing demand deposits, respectively, partially offset by decreases of $16.0 million and $10.9 million in savings deposits and interest-bearing demand deposits. Borrowed funds decreased $10.0 million over year-end 2014 due to the maturity of a $10.0 million non-repo borrowing during the six months ended June 30, 2015. There were no changes to subordinated debentures. Total shareholders' equity increased $3.6 million over year-end 2014, primarily due to earnings less the dividends paid for the six months ended June 30, 2015. These fluctuations are discussed in further detail in the paragraphs that follow.

Securities Portfolio

The Company's securities portfolio consists of AFS and HTM 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 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 securities consist primarily of obligations of U.S. Government sponsored entities, obligations of state and political subdivisions, mortgage-backed securities, and corporate and other securities.

AFS securities totaled $55.8 million at June 30, 2015, a decrease of $4.3 million or 7.2 percent, compared to $60.1 million at December 31, 2014. This net decrease was the result of:

- $4.4 million in principal payments and maturities,
- $500 thousand on the sale of a corporate bond, net of gain,
- $228 thousand in net amortization of premiums,
- $167 thousand of depreciation in the market value of the portfolio. At June 30, 2015, the portfolio had net unrealized gains of $68 thousand compared to net unrealized gains of $235 thousand at December 31, 2014. These net unrealized gains are reflected net of tax in shareholders' equity as accumulated other comprehensive gains, partially offset by
- $1.0 million for the purchase of one agency security.

The weighted average life of AFS securities, adjusted for prepayments, amounted to 4.2 years at June 30, 2015 and 4.0 years at December 31, 2014.

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

HTM securities were $18.6 million at June 30, 2015, a decrease of $1.4 million or 7.0 percent, from year-end 2014. This decrease was the result of:

- $1.3 million in principal payments and maturities and
- $51 thousand in net amortization of premiums

The weighted average life of HTM securities, adjusted for prepayments, amounted to 6.8 years and 6.4 years at June 30, 2015 and December 31, 2014, respectively. As of June 30, 2015 and December 31, 2014, the fair value of HTM securities was $18.7 million and $20.3 million, respectively.

The average balance of taxable securities amounted to $65.4 million for the six months ended June 30, 2015, compared to $89.2 million for the same period in 2014. The average yield earned on taxable securities decreased 56 basis points, to 2.31 percent for the six months ended June 30, 2015, from 2.87 percent for the same period in the prior year. This decrease was due to paydowns and maturities of higher yielding securities. The average balance of tax-exempt securities amounted to $11.9 million for the six months ended June 30, 2015, compared to $15.7 million for the same period in 2014. The average yield earned on tax-exempt securities decreased 9 basis points, to 3.59 percent for the six months ended June 30, 2015, from 3.68 percent for the same period in 2014.

Securities with a carrying value of $19.5 million and $50.4 million at June 30, 2015 and December 31, 2014, respectively, were pledged to secure Government deposits, secure other borrowings and for other purposes required or permitted by law. The decrease in pledged securities was due to the FHLB issuing a letter of credit in the name of Unity Bank naming the NJ Dept. of Banking and Insurance as beneficiary. For additional information on amounts pledged to secure Government deposits at June 30, 2015, see section titled “Borrowed Funds and Subordinated Debentures” under Item 2. Management Discussion and Analysis.

Approximately 87 percent of the total investment portfolio had a fixed rate of interest at June 30, 2015.

See Note 7 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, SBA 504, commercial, residential mortgage and consumer loans. Each of these segments is subject to differing levels of credit and interest rate risk.

Total loans increased $59.9 million or 7.9 percent to $821.7 million at June 30, 2015, compared to $761.8 million at year-end 2014. Commercial loans, residential mortgages, consumer loans, and SBA loans increased $26.4 million, $22.4 million, $10.8 million, and $5.5 million, respectively, partially offset by a decline of $5.2 million in SBA 504 loans.

The following table sets forth the classification of loans by major category, including unearned fees and deferred costs and excluding the allowance for loan losses as of June 30, 2015 and December 31, 2014:

	June 30, 2015		December 31, 2014	
(In thousands, except percentages)	Amount	% of total	Amount	% of total
SBA loans held for investment	$ 39,663	4.8 %	$ 40,401	5.3 %
SBA 504 loans	29,125	3.5	34,322	4.5
Commercial loans	428,371	52.2	401,949	52.7
Residential mortgage loans	243,259	29.6	220,878	29.0
Consumer loans	69,910	8.5	59,096	7.8
Total loans held for investment	810,328	98.6	756,646	99.3
SBA loans held for sale	11,368	1.4	5,179	0.7
Total loans	$ 821,696	100.0 %	$ 761,825	100.0 %

Average loans increased $108.7 million or 15.9 percent to $793.4 million for the six months ended June 30, 2015 from $684.7 million for the same period in 2014. The increase in average loans was due to increases in residential mortgages, commercial loans, and consumer loans, partially offset by a decline in SBA 7(a) loans and SBA 504 loans. The yield on the overall loan portfolio remained flat at 4.86 percent for the six months ended June 30, 2015 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 start up 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 are generally sold in the secondary market with the nonguaranteed portion held in the portfolio as a loan held for investment.

SBA 7(a) loans held for sale, carried at the lower of cost or market, amounted to $11.4 million at June 30, 2015, an increase of $6.2 million from $5.2 million at December 31, 2014. SBA 7(a) loans held to maturity amounted to $39.7 million at June 30, 2015, a decrease of $738 thousand from $40.4 million at December 31, 2014. The yield on SBA loans, which are generally floating and adjust quarterly to the Prime rate, was 5.41 percent for the six months ended June 30, 2015, compared to 4.51 percent in the prior year. The increase in the yield between the six months ended June 30, 2015 versus the same period in 2014 was attributable to an increase in performing loans in this category.

The guarantee rates on SBA 7(a) loans range from 50 percent to 90 percent, with the majority of the portfolio having a guarantee rate of 75 percent at origination. The guarantee rates are determined by the SBA and can vary from year to year depending on government funding and the goals of the SBA program. The carrying value of SBA loans held for sale represents the guaranteed portion to be sold into the secondary market. The carrying value of SBA loans held to maturity represents the unguaranteed portion, which is the Company's portion of SBA loans originated, reduced by the guaranteed portion that is sold into the secondary market. Approximately $80.8 million and $92.2 million in SBA loans were sold but serviced by the Company at June 30, 2015 and December 31, 2014, 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.

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. Generally, the Company has a 50 percent LTV ratio on SBA 504 program loans at origination. At June 30, 2015, SBA 504 loans totaled $29.1 million, a decrease of $5.2 million from $34.3 million at December 31, 2014. The yield on SBA 504 loans decreased 49 basis points to 4.58 percent for the six months ended June 30, 2015, from 5.07 percent for the same period in 2014. The decrease in yield was caused by an increase in nonaccrual SBA 504 loans.

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 $428.4 million at June 30, 2015, an increase of $26.4 million from year-end 2014. The yield on commercial loans was 5.03 percent for the six months ended June 30, 2015, compared to 5.13 percent for the same period in 2014.

Residential mortgage loans consist of loans secured by 1 to 4 family residential properties. These loans amounted to $243.3 million at June 30, 2015, an increase of $22.4 million from year-end 2014. Sales of mortgage loans totaled $42.2 million for the six months ended June 30, 2015. Approximately, $9.0 million of the loans sold were from portfolio, with the remainder consisting of new production. The yield on residential mortgages was 4.55 percent for the six months ended June 30, 2015, compared to 4.49 percent for the same period in 2014.

Consumer loans consist of home equity loans, construction 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. These loans amounted to $69.9 million, an increase of $10.8 million from year-end 2014. The yield on consumer loans was 4.58 percent for the six months ended June 30, 2015, compared to 4.47 percent for the same period in 2014.

There are no concentrations of loans to any borrowers or group of borrowers exceeding 10 percent of the total loan portfolio and no foreign loans in the portfolio. As a preferred SBA lender, a portion of the SBA portfolio is to borrowers outside the Company's market area. During late 2008, the Company withdrew from SBA lending outside of its primary trade area, but continues to offer SBA loan products as an additional credit product within its primary trade area.

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

The majority of the Company's loans are secured by real estate. Declines in the market values of real estate in the Company's trade area impact the value of the collateral securing its loans. This could lead to greater losses in the event of defaults on loans secured by real estate. At June 30, 2015 and December 31, 2014, approximately 96 percent of the Company's loan portfolio was secured by real estate.

TDRs

TDRs occur when a creditor, for economic or legal reasons related to a debtor's financial condition, grants a concession to the debtor that it would not otherwise consider. These concessions typically include reductions in interest rate, extending the maturity of a loan, or a combination of both. When the Company modifies a loan, management evaluates for any possible impairment using either the discounted cash flows method, where the value of the modified loan is based on the present value of expected cash flows, discounted at the contractual interest rate of the original loan agreement, or by using the fair value of the collateral less selling costs. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment or class of loan, as applicable, through an allowance estimate or charge-off to the allowance. This process is used, regardless of loan type, and for loans modified as TDRs that subsequently default on their modified terms.

At June 30, 2015, there were eight loans totaling $6.2 million that were classified as TDRs by the Company and deemed impaired, compared to eight such loans totaling $6.5 million at December 31, 2014. Nonperforming loans included $2.8 million of TDRs as of June 30, 2015, compared to $3.0 million at December 31, 2014. Restructured loans that are placed in nonaccrual status may be removed after 6 months of contractual payments and the business showing the ability to service the debt going forward. The remaining TDRs are in accrual status since they are performing in accordance with the restructured terms. There are no commitments to lend additional funds on these loans.

The following table presents a breakdown of performing and nonperforming TDRs by class as of June 30, 2015 and December 31, 2014:

	June 30, 2015			December 31, 2014		
(In thousands)	Performing TDRs	Nonperforming TDRs	Total TDRs	Performing TDRs	Nonperforming TDRs	Total TDRs
SBA loans held for investment	$ 426	$ 188	$ 614	$ 441	$ 295	$ 736
SBA 504 loans	1,739	-	1,739	1,769	-	1,769
Commercial real estate	1,195	2,655	3,850	1,338	2,665	4,003
Total	$ 3,360	$ 2,843	$ 6,203	$ 3,548	$ 2,960	$ 6,508

Through June 30, 2015, our TDRs consisted of interest rate reductions, interest only periods and maturity extensions. There has been no principal forgiveness. The following table shows the types of modifications done to date by class through June 30, 2015:

(In thousands)	June 30, 2015 SBA held for investment	SBA 504	Commercial real estate	Total
Type of modification:				
Principal only	$ 10	$ -	$ -	$ 10
Interest only with reduced interest rate	-	-	2,654	2,654
Interest only with nominal principal	22	-	-	22
Interest with extra principal	-	-	974	974
Previously modified back to original terms	582	1,739	222	2,543
Total TDRs	$ 614	$ 1,739	$ 3,850	$ 6,203

Asset Quality

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 strict credit administration policies and procedures. Due diligence on loans begins when we initiate contact regarding a loan with a borrower. Documentation, including a borrower's credit history, materials establishing the value and liquidity of potential collateral, the purpose of the loan, the source of funds for repayment of the loan, and other factors, are analyzed before a loan is submitted for approval. The loan portfolio is then subject to on-going internal reviews for credit quality, as well as independent credit reviews by an outside firm.

The risk of loss is difficult to quantify and is subject to fluctuations in collateral values, general economic conditions and other factors. In some cases, these factors have also resulted in significant impairment to the value of loan collateral. The Company values its collateral through the use of appraisals, broker price opinions, and knowledge of its local market.

Nonperforming assets consist of nonperforming loans and OREO. 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. When a loan is classified as nonaccrual, interest accruals discontinue and all past due interest previously recognized as income is reversed and charged against current period income. 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 past due 90 days or more and still accruing interest are not included in nonperforming loans. Loans past due 90 days or more and still accruing generally represent loans that are well collateralized and in a continuing process that are expected to result in repayment or restoration to current status.

The following table sets forth information concerning nonperforming assets and loans past due 90 days or more and still accruing interest at each of the periods presented:

(In thousands)	June 30, 2015	December 31, 2014	June 30, 2014
Nonperforming by category:			
SBA loans held for investment (1)	$ 1,715	$ 3,348	$ 5,113
SBA 504 loans	276	2,109	433
Commercial loans	4,191	4,721	1,325
Residential mortgage loans	1,759	645	4,134
Consumer loans	896	545	924
Total nonperforming loans (2)	$ 8,837	$ 11,368	$ 11,929
OREO	2,265	1,162	1,115
Total nonperforming assets	$ 11,102	$ 12,530	$ 13,044
Past due 90 days or more and still accruing interest:			
SBA loans held for investment	$ -	$ 161	$ -
Commercial loans	-	7	-
Residential mortgage loans	273	722	-
Total past due 90 days or more and still accruing interest	$ 273	$ 890	$ -
Nonperforming loans to total loans	1.08 %	1.49 %	1.68 %
Nonperforming loans and TDRs to total loans (3)	1.48	1.96	2.67
Nonperforming assets to total loans and OREO	1.35	1.64	1.84
Nonperforming assets to total assets	1.08	1.24	1.40
(1) Guaranteed SBA loans included above	$ 267	$ 1,569	$ 2,305
(2) Nonperforming TDRs included above	2,843	2,960	741
(3) Performing TDRs	3,360	3,548	6,965

Nonperforming loans were $8.8 million at June 30, 2015, a $2.6 million decrease from $11.4 million at year-end 2014 and a $3.1 million decrease from $11.9 million at June 30, 2014. Since year-end 2014, nonperforming loans in the SBA, SBA 504 and commercial loan segments decreased, partially offset by an increase in residential mortgage and consumer loan segments. Included in nonperforming loans at June 30, 2015 are approximately $267 thousand of loans guaranteed by the SBA, compared to $1.6 million at December 31, 2014 and $2.3 million at June 30, 2014. In addition, there were $273 thousand in loans past due 90 days or more and still accruing interest at June 30, 2015, compared to $890 thousand and zero at December 31, 2014 and June 30, 2014, respectively.

OREO properties totaled $2.3 million at June 30, 2015, an increase of $1.1 million from $1.2 million at year-end 2014 and a $1.2 million increase from $1.1 million at June 30, 2014. During the six months ended June 30, 2015, the Company took title to four new properties valued at $2.2 million that resulted in a charge to the allowance of $350 thousand. Five OREO properties were sold, resulting in net losses of $22 thousand.

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 not included in nonperforming loans as they continue to perform. Potential problem loans totaled $3.1 million at June 30, 2015, a decrease of $370 thousand from $3.5 million at December 31, 2014. The decrease is due to the deletion of five loans totaling $1.5 million as well as the payoff of a loan totaling $1.6 million, offset by the addition of two loans totaling $2.8 million.

See Note 8 to the accompanying Consolidated Financial Statements for more information regarding Asset Quality.

Allowance for Loan Losses and Reserve for Unfunded Loan Commitments

Management reviews the level of the allowance for loan losses on a quarterly basis. The standardized methodology used to assess the adequacy of the allowance includes the allocation of specific and general reserves. Specific reserves are made to individual impaired loans, which have been defined to include all nonperforming loans and TDRs. The general reserve is set based upon a representative average historical net charge-off rate adjusted for certain environmental factors such as: delinquency and impairment trends, charge-off and recovery trends, volume and loan term trends, risk and underwriting policy trends, staffing and experience changes, national and local economic trends, industry conditions and credit concentration changes.

When calculating the five-year historical net charge-off rate, the Company weights the past three years more heavily. The Company believes using this approach is more indicative of future charge-offs. 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. The factors are evaluated separately for each type of loan. For example, commercial loans are broken down further into commercial and industrial loans, commercial mortgages, construction loans, etc. Each type of loan is risk weighted for each environmental factor based on its individual characteristics.

According to the Company’s policy, a loss (“charge-off”) is to be recognized and charged to the allowance for loan 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.

The allowance for loan losses totaled $12.4 million at June 30, 2015, compared to $12.6 million and $12.9 million at December 31, 2014 and June 30, 2014, respectively, with resulting allowance to total loan ratios of 1.51 percent, 1.65 percent, and 1.81 percent, respectively. Net charge-offs amounted to $347 thousand for the six months ended June 30, 2015, compared to $1.4 million for the same period in 2014. Net (recoveries) charge-offs to average loan ratios are shown in the table below for each major loan category.

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands, except percentages)	2015	2014	2015	2014
Balance, beginning of period	$ 12,181	$ 12,807	$ 12,551	$ 13,141
Provision for loan losses charged to expense	-	550	200	1,150
Less: Chargeoffs				
SBA loans held for investment	6	199	135	253
SBA 504 loans	-	-	589	92
Commercial loans	147	134	247	588
Residential mortgage loans	-	5	-	177

Consumer loans	7	203	37	382
Total chargeoffs	160	541	1,008	1,492
Add: Recoveries				
SBA loans held for investment	2	10	40	18
Commercial loans	370	31	571	40
Residential mortgage loans	10	-	49	-
Consumer loans	1	1	1	1
Total recoveries	383	42	661	59
Net (recoveries) chargeoffs	(223)	499	347	1,433
Balance, end of period	$ 12,404	$ 12,858	$ 12,404	$ 12,858
Selected loan quality ratios:				
Net (recoveries) chargeoffs to average loans:				
SBA loans held for investment	0.03 %	1.40 %	0.40 %	0.87 %
SBA 504 loans	-	-	3.78	0.56
Commercial loans	(0.21)	0.11	(0.16)	0.30
Residential mortgage loans	(0.02)	0.01	(0.04)	0.19
Consumer loans	0.04	1.70	0.11	1.64
Total loans	(0.11)	0.29	0.09	0.42
Allowance to total loans	1.51	1.81	1.51	1.81
Allowance to nonperforming loans	140.36	107.79	140.36	107.79

In addition to the allowance for loan losses, the Company maintains a reserve for unfunded loan commitments that is maintained at a level that management believes is adequate to absorb estimated probable losses. Adjustments to the reserve are made through other expense and applied to the reserve which is maintained in other liabilities. At June 30, 2015, a $193 thousand commitment reserve was reported on the balance sheet as an “other liability”, compared to a $151 thousand commitment reserve at December 31, 2014.

See Note 9 to the accompanying Consolidated Financial Statements for more information regarding the Allowance for Loan 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 $21.1 million to $815.4 million at June 30, 2015, from $794.3 million at December 31, 2014. This increase in deposits was due to increases of $25.5 million in time deposits and $22.5 million in noninterest bearing demand deposits, partially offset by decreases of $16.0 million in savings deposits and $10.9 million in interest-bearing demand deposits. The increase in time deposits was primarily due to new CD promotions. The increase in noninterest-bearing demand deposits is attributable to growth in commercial customer relationships.

The Company's deposit composition at June 30, 2015, consisted of 34.8 percent savings deposits, 29.2 percent time deposits, 21.5 percent noninterest-bearing demand deposits and 14.5 percent interest-bearing demand deposits.

Borrowed Funds and Subordinated Debentures

Borrowed funds consist primarily of fixed rate advances from the FHLB of New York and repurchase agreements. These borrowings are used as a source of liquidity or to fund asset growth not supported by deposit generation. Residential mortgages collateralize the borrowings from the FHLB, while investment securities are pledged against the repurchase agreements.

Borrowed funds and subordinated debentures totaled $130.5 million and $140.5 million at June 30, 2015 and December 31, 2014, respectively, and are broken down in the following table:

(In thousands)	June 30, 2015	December 31, 2014
FHLB borrowings:		
Fixed rate advances	$ 50,000	$ 60,000

Overnight advances	50,000	50,000
Other repurchase agreements	15,000	15,000
Subordinated debentures	15,465	15,465
Total borrowed funds and subordinated debentures	$ 130,465	$ 140,465

In June 2015, the FHLB issued a $21 million municipal deposit letter of credit in the name of Unity Bank naming the NJ Dept. of Banking and Insurance as beneficiary. The letter of credit will take the place of securities previously pledged to the state for the Bank's municipal deposits.

At June 30, 2015, the Company had $42.2 million of additional credit available at the FHLB. Pledging additional collateral in the form of 1 to 4 family residential mortgages or investment securities can increase the line with the FHLB.

Interest Rate Sensitivity

The principal objectives of the asset and liability management function are to establish prudent risk management guidelines, evaluate and control the level of interest-rate risk in balance sheet accounts, determine the level of appropriate risk given the business focus, operating environment, capital, and liquidity requirements, and actively manage risk within the Board approved guidelines. The Company seeks to reduce the vulnerability of the 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 reviews the maturities and re-pricing 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 Portfolio Equity ("EVPE") 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 EVPE analysis is also used to dynamically model the present value of asset and liability cash flows with rate shocks of 200 basis points. The economic value of equity 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 economic value of equity, as a percentage of assets with rate shocks of 200 basis points at June 30, 2015, is a decline of 1.08 percent in a rising-rate environment and a decrease of 0.66 percent in a falling-rate environment. The variances in the EVPE at June 30, 2015 are within the Board-approved guidelines of +/- 3.00 percent. At December 31, 2014, the economic value of equity as a percentage of assets with rate shocks of 200 basis points was a decline of 0.73 percent in a rising-rate environment and a decrease of 1.03 percent in a falling-rate environment.

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 through a Risk Management Committee, 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 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 June 30, 2015, the balance of cash and cash equivalents was $90.4 million, a decrease of $39.4 million from December 31, 2014. A discussion of the cash provided by and used in operating, investing and financing activities follows.

Operating activities used $93 thousand and provided $3.6 million in net cash for the six months ended June 30, 2015 and 2014, respectively. The primary sources of funds were net income from operations and adjustments to net income, such as the provision for loan losses, depreciation and amortization, and proceeds from the sale of mortgage and SBA loans held for sale, partially offset by originations of mortgage and SBA loans held for sale.

Investing activities used $49.9 million and $14.8 million in net cash for the six months ended June 30, 2015 and 2014, respectively. Cash was primarily used to fund new loans, partially offset by cash inflows from sales, maturities and paydowns on securities and proceeds from the sale of OREO.

× Securities. The Consolidated Bank's available for sale investment portfolio amounted to $55.6 million and $59.9 million at June 30, 2015 and December 31, 2014, respectively. This excludes the Parent Company's securities discussed under the heading "Parent Company Liquidity" below. Projected cash flows from securities over the next twelve months are $12.8 million.
× Loans. The SBA loans held for sale portfolio amounted to $11.4 million and $5.2 million at June 30, 2015 and December 31, 2014, respectively. Sales of these loans provide an additional source of liquidity for the Company.
× Outstanding Commitments. The Company was committed to advance approximately $192.7 million to its borrowers as of June 30, 2015, compared to $150.9 million at December 31, 2014. At June 30, 2015, $112.0 million of these commitments expire within one year, compared to $74.1 million at December 31, 2014. The Company had $1.5 million in standby letters of credit at both June 30, 2015 and December 31, 2014, which are

included in the commitments amount noted above. The estimated fair value of these guarantees is not significant. The Company believes it has the necessary liquidity to honor all commitments. Many of these commitments will expire and never be funded.

Financing activities provided $10.6 million in net cash for the six months ended June 30, 2015, compared to $7.2 million for the same period in the prior year, primarily due to proceeds from new borrowings partially offset by repayments of borrowings.

× Deposits. As of June 30, 2015, deposits included $70.3 million of Government deposits, as compared to $89.8 million at year-end 2014. 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 $64.6 million of deposits from eleven municipalities with account balances in excess of $1.5 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 $100.0 million and $110.0 million as of June 30, 2015 and December 31, 2014, respectively. Third party repurchase agreements totaled $15.0 million as of both June 30, 2015 and December 31, 2014. As a member of the Federal Home Loan Bank of New York ("FHLB"), the Company can borrow additional funds based on the market value of collateral pledged. At June 30, 2015, pledging provided an additional $42.2 million in borrowing potential from the FHLB. In addition, the Company can pledge additional collateral in the form of 1 to 4 family residential mortgages or investment securities to increase this line with the FHLB.

Parent Company Liquidity

The Parent Company's cash needs are funded by dividends paid by the Bank. Other than its investment in the Bank and Unity Statutory Trusts II and III, 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 and cash dividends on common stock.

At June 30, 2015, the Parent Company had $323 thousand in cash and cash equivalents and $210 thousand in investment securities valued at fair market value, compared to $198 thousand in cash and cash equivalents and $197 thousand in investment securities at December 31, 2014.

Regulatory Capital

A significant measure of the strength of a financial institution is its capital base. Federal regulators have classified and defined capital into the following components: (1) tier 1 capital, which includes tangible shareholders' equity for common stock, qualifying preferred stock and certain qualifying hybrid instruments, and (2) tier 2 capital, which includes a portion of the allowance for loan losses, subject to limitations, certain qualifying long-term debt, preferred stock and hybrid instruments, which do not qualify for tier 1 capital. The Parent Company and its subsidiary Bank are subject to various regulatory capital requirements administered by banking regulators. Quantitative measures of capital adequacy include the leverage ratio (tier 1 capital as a percentage of tangible assets), tier 1 risk-based capital ratio (tier 1 capital as a percent of risk-weighted assets), total risk-based capital ratio (total risk-based capital as a percent of total risk-weighted assets), and common equity tier 1 capital ratio.

Minimum capital levels are regulated by risk-based capital adequacy guidelines, which require the Company and the Bank to maintain certain capital as a percentage of assets and certain off-balance sheet items adjusted for predefined credit risk factors (risk-weighted assets). Failure to meet minimum capital requirements can initiate certain mandatory and possibly discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action applicable to banks, the Company and the Bank must meet specific capital guidelines. Prompt corrective action provisions are not applicable to bank holding companies.

In September 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, adopted Basel III, which constitutes a set of capital reform measures designed to strengthen the regulation, supervision and risk management of banking organizations worldwide. In order to implement Basel III and certain additional capital changes required by the Dodd-Frank Act, the FDIC approved, as an interim final rule in July 2014, the regulatory capital requirements substantially similar to final rules issued by the Board of Governors of the Federal Reserve System ("Federal Reserve") and the Office of the Comptroller of the Currency for U.S. state nonmember banks.

The interim final rule includes new risk-based capital and leverage ratios that will be phased-in from 2015 to 2019 for most state nonmember banks. The rule includes a new common equity Tier 1 capital ("CET1") to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets, which is in addition to the Tier 1 and Total risk-based capital requirements. The interim final rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% and requires a minimum leverage ratio of 4.0%. The required minimum ratio of total capital to risk-weighted assets will remain 8.0%. The new risk-based capital requirements (except for the capital conservation buffer) became effective for the Company and the Bank on January 1, 2015.

The new rules also include a one-time opportunity to opt-out of the changes to treatment of accumulated other comprehensive income ("AOCI") components. By making the election to opt-out, the institution may continue treating

AOCI items in a manner consistent with risk-based capital rules in place prior to January 2015. The permanent opt-out election must be made on the Call Report, FR Y-9C or FR Y-9SP, as applicable, for the first reporting period after January 1, 2015 and a parent holding company must make the same election as its subsidiary bank. If the institution does not elect to opt-out, then the institution will not have an opportunity to change its methodology in future periods. The Bank and the Company have made the election to opt out of the treatment of AOCI on the appropriate March 31, 2015 filings.

In addition to the risk-based guidelines, regulators require that a bank or holding company, which meets the regulator's highest performance and operation standards, maintain a minimum leverage ratio of 4 percent. For those institutions with higher levels of risk or that are experiencing or anticipating significant growth, the minimum leverage ratio will be proportionately increased. Minimum leverage ratios for each institution are evaluated through the ongoing regulatory examination process.

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The Company's capital amounts and ratios are presented in the following table:

	Actual		For capital adequacy purposes		To be well-capitalized under prompt corrective action provisions	
(In thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2015						
Leverage ratio	$ 87,667	9.09 %	≥ $38,562	4.00 %	N/A	N/A
CET1	72,667	9.39	34,813	4.50	N/A	N/A
Tier 1 risk-based capital ratio	87,667	11.33	46,417	6.00	N/A	N/A
Total risk-based capital ratio	97,374	12.59	61,890	8.00	N/A	N/A
As of December 31, 2014						
Leverage ratio	$ 83,615	8.71 %	≥ $38,405	4.00 %	N/A	N/A
Tier 1 risk-based capital ratio	83,615	11.57	28,900	4.00	N/A	N/A
Total risk-based capital ratio	92,691	12.83	57,799	8.00	N/A	N/A

The Bank's capital amounts and ratios are presented in the following table:

	Actual		For capital adequacy purposes		To be well-capitalized under prompt corrective action provisions	
(In thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2015						
Leverage ratio	$ 78,709	8.17 %	≥ $38,537	4.00 %	≥ $48,171	5.00 %
CET1	78,709	10.18	34,784	4.50	50,244	6.50
Tier 1 risk-based capital ratio	78,709	10.18	46,379	6.00	61,838	8.00
Total risk-based capital ratio	96,908	12.54	61,838	8.00	77,298	10.00
As of December 31, 2014						
Leverage ratio	$ 74,819	7.80 %	≥ $38,381	4.00 %	≥ $47,976	5.00 %
Tier 1 risk-based capital ratio	74,819	10.37	28,874	4.00	43,310	6.00
Total risk-based capital ratio	92,388	12.80	57,747	8.00	72,184	10.00

The following chart compares the risk-based capital required under previous rules to those prescribed under the interim final rule under the phase-in period stated above:

	Treatment at December 31, 2014	June 30, 2015
Leverage ratio	4.00 %	4.00 %
CET1	N/A	4.50 %
Additional tier 1	N/A	1.50 %
Tier 1 capital ratio	4.00 %	6.00 %
Tier 2	4.00 %	2.00 %
Total capital ratio	8.00 %	8.00 %
Capital conservation buffer	N/A	2.50 %

The interim final rule also implements revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses and instruments that will no longer qualify as Tier 1 capital. The interim final rule also sets forth certain changes for the calculation of risk-weighted assets that the Bank implemented as of January 1, 2015. The new capital rules will require the Company and the Bank to meet a capital conservation buffer requirement. To meet the requirement when it is fully phased in, common equity Tier 1 capital must be maintained at an amount that exceeds the buffer level of 2.5% above each of the minimum risk-weighted asset ratios. The requirement will be phased in over a four year period, starting January 1, 2016.

At June 30, 2015 and December 31, 2014, Unity Bank is “well-capitalized” under the applicable regulatory capital adequacy guidelines.

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Shareholders’ Equity

Shareholders’ equity increased $3.6 million to $73.7 million at June 30, 2015 compared to $70.1 million at December 31, 2014. Items impacting shareholders’ equity included net income of $4.4 million and $249 thousand from the issuance of common stock under employee benefit plans, partially offset by a $575 thousand in accumulated other comprehensive loss related to prior service costs, net of tax, recorded in conjunction with a defined benefit plan discussed in Note 1 and a decrease of $474 thousand due to common stock dividends paid. 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 October 21, 2002, the Company authorized the repurchase of up to 10 percent of its outstanding common stock. The amount and timing of purchases is dependent upon a number of factors, including the price and availability of the Company’s shares, general market conditions and competing alternate uses of funds. There were no shares repurchased during the three month periods ended June 30, 2015 or 2014. The Company currently has no plans on repurchasing its common stock.

Impact of Inflation and Changing Prices

The financial statements and notes thereto, presented elsewhere herein have been prepared in accordance with generally accepted accounting principles, which require 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 the 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 3Quantitative and Qualitative Disclosures about Market Risk

During the six months ended June 30, 2015, there have been no significant changes in the Company's assessment of market risk as reported in Item 6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. (See Interest Rate Sensitivity in Management's Discussion and Analysis Herein.)

ITEM 4Controls 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 June 30, 2015. 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 IIOTHER INFORMATION

ITEM 1Legal 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 1ARisk Factors

Information regarding this item as of June 30, 2015 appears under the heading, “Risk Factors” within the Company’s Form 10-K for the year ended December 31, 2014, other than as set forth below.

As our assets exceeded $1.0 billion, we may become subject to additional regulatory reporting requirements which could increase our compliance costs and subject us to additional regulatory scrutiny.

If and when the Bank’s total assets exceed $1.0 billion, at year end, it will be subject to further reporting requirements under the rules of the FDIC as of and for the fiscal year in which it exceeds such threshold. Pursuant to these rules, management will be required to prepare a report that contains an assessment by management of the Bank’s effectiveness of internal control structure and procedures for financial reporting as of the end of such fiscal year. The Bank will also be required to obtain an independent public accountant’s attestation report concerning its internal control structure over financial reporting that includes the call report and/or the FR Y-9C report. The rules that must be met for management to assess the Bank’s internal controls over financial reporting are complex, and require significant documentation, testing and possible remediation. The effort to comply with regulatory requirements relating to internal controls will likely cause us to incur increased expenses and will cause a diversion of management’s time and other internal resources. We also may encounter problems or delays in completing the implementation of any changes necessary to make a favorable assessment of the Bank’s internal controls over financial reporting. In addition, in connection with the attestation process, the Bank may encounter problems or delays in completing the implementation of any requested improvements or receiving a favorable attestation from its independent registered public accounting firm. If the Bank cannot favorably assess the effectiveness of its internal controls over financial reporting, or if its independent registered public accounting firm is unable to provide an unqualified attestation report on the Bank’s internal controls, investor confidence and the price of our common stock could be adversely affected and we may be subject to additional regulatory scrutiny.

ITEM 2Unregistered Sales of Equity Securities and Use of Proceeds - None

ITEM 3Defaults upon Senior Securities - None

ITEM 4Mine Safety Disclosures - N/A

ITEM 5Other Information - None

ITEM 6Exhibits

(a) Exhibits	Description
Exhibit 10.1	Amended and Restated Employment Agreement dated June 4, 2015 by and between the Registrant, the Bank and James A. Hughes (1)
Exhibit 10.2	Supplemental Executive Retirement Plan for James A. Hughes (1)
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

(1) Incorporated by reference from Exhibits 10.1 and 10.2 of current report on Form 8-K filed June 5, 2015.

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:	August 12, 2015	/s/ Alan J. Bedner, Jr.
		Alan J. Bedner, Jr.
		Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

QUARTERLY REPORT ON FORM 10-Q

Exhibit No.	Description
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 Alan J. Bedner, Jr. 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 Alan J. Bedner, Jr. 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	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document