



Unity Bancorp
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President's Message

The Company continues to gain market share and the fundamentals of the Bank remain sound; although, the challenges of the economy continue to have an impact on both our loan and investment portfolios. This quarter's results included a \$1.7 million impairment charge on two pooled trust preferred securities and an additional \$400 thousand FDIC assessment. Based on a recent third-party review of the pooled trust securities, we believe that these securities have limited future valuation risk.

You may recall that we shifted our Small Business program from National to local last year; however, our portfolio continues to experience an increase in past due accounts. We have recorded a \$1.5 million provision for loan losses this past quarter, and it is likely that the provision will continue to be robust until we experience a reduction in delinquent accounts.

There continues to be many positive happenings at Unity. Our strategic sales and marketing efforts are proving effective resulting in another quarter of strong deposit growth. Total deposits improved over four percent (4%) for the quarter and are up almost nine percent (9%) from a year ago. In addition, we have reduced our portfolio of time deposits due to the tremendous success of our new Loyalty Savings product. As a result, total savings accounts have increased thirty percent (30%) from the prior quarter.

Our pricing strategy is to reduce our cost of funds to improve our net interest margin. This quarter, our net interest margin increased to 3.24% from 3.14% in the first quarter. As higher-costing time deposits reprice in a lower rate environment, we expect to see further increases in our net interest margin for the remainder of the year. With the improvement in margin and continued expense control, we are optimistic about the long-term financial forecast for Unity.

We remain a strong financial institution and our capital levels continue to exceed the requirements to be well capitalized. We are committed to providing an exceptional customer experience and long-term value for our shareholders. We support and invest in our employees and our communities to help them grow to be the best.

If you have any comments or questions, I can be reached at (908) 713-4306. I look forward to hearing from you.

Very truly yours,

James A. Hughes
President/CEO

UNITY BANCORP, INC.
QUARTERLY FINANCIAL DATA
June 30, 2009

| | <u>6/30/2009</u> | <u>3/31/2009</u> | <u>12/31/2008</u> | <u>9/30/2008</u> | <u>6/30/2008</u> |
|--|------------------|------------------|-------------------|------------------|------------------|
| SUMMARY OF INCOME: | | | | | |
| Total Interest Income | \$ 12,531 | \$ 12,590 | \$ 12,898 | \$ 12,965 | \$ 12,267 |
| Total Interest Expense | 5,673 | 5,816 | 6,162 | 5,883 | 5,429 |
| Net Interest Income Before Provision | 6,858 | 6,774 | 6,736 | 7,082 | 6,838 |
| Provision for Loan Losses | 1,500 | 1,500 | 1,300 | 2,100 | 650 |
| Net Interest Income After Provision | 5,358 | 5,274 | 5,436 | 4,982 | 6,188 |
| Total Noninterest Income | (907) | 1,348 | 555 | (344) | 1,028 |
| Total Noninterest Expense | 6,203 | 5,555 | 5,773 | 5,779 | 5,617 |
| Net Income Before Taxes | (1,752) | 1,067 | 218 | (1,141) | 1,599 |
| Income taxes | (552) | 336 | (366) | (139) | 495 |
| Net income | (1,200) | 731 | 584 | (1,002) | 1,104 |
| Preferred Dividends & Discount Accretion | 372 | 379 | 110 | - | - |
| Income Available to Common Shareholders | \$ (1,572) | \$ 352 | \$ 474 | \$ (1,002) | \$ 1,104 |
| Net Income Per Share - Basic | (0.22) | 0.05 | 0.07 | (0.14) | 0.16 |
| Net Income Per Share - Diluted | (0.22) | 0.05 | 0.07 | (0.14) | 0.15 |
| COMMON SHARE DATA: | | | | | |
| Market Price Per Share | 3.55 | 3.19 | 3.90 | 4.00 | 6.62 |
| Dividends Paid | - | - | - | - | 0.05 |
| Book Value Per Common Share | 6.85 | 6.93 | 6.99 | 6.55 | 6.76 |
| Average Shares Outstanding - Basic | 7,119 | 7,119 | 7,113 | 7,107 | 7,092 |
| Average Shares Outstanding - Diluted | 7,168 | 7,148 | 7,190 | 7,259 | 7,275 |
| Shares Outstanding | 7,119 | 7,119 | 7,119 | 7,110 | 7,095 |
| OPERATING RATIOS: | | | | | |
| Return on Average Assets | -0.54% | 0.33% | 0.26% | -0.47% | 0.56% |
| Return on Average Common Equity | -12.97% | 2.90% | 3.56% | -8.45% | 9.29% |
| Efficiency Ratio | 80.58% | 73.02% | 75.81% | 70.51% | 69.59% |
| BALANCE SHEET DATA: | | | | | |
| Total Assets | \$ 913,446 | \$ 886,677 | \$ 898,310 | \$ 864,083 | \$ 832,315 |
| Total deposits | 731,763 | 703,266 | 707,117 | 684,680 | 671,881 |
| Total loans | 665,331 | 669,902 | 685,946 | 685,023 | 643,039 |
| Total securities | 164,794 | 158,022 | 149,509 | 99,410 | 106,972 |
| Total Shareholders' Equity | 67,064 | 67,525 | 67,803 | 46,539 | 47,951 |
| Allowance for loan losses | (10,665) | (10,307) | (10,326) | (9,913) | (8,945) |
| TAX EQUIVALENT YIELDS AND RATES: | | | | | |
| Interest-earning Assets | 5.91% | 5.87% | 6.18% | 6.45% | 6.57% |
| Interest-bearing Liabilities | 3.05% | 3.10% | 3.30% | 3.28% | 3.31% |
| Net Interest Spread | 2.85% | 2.77% | 2.88% | 3.17% | 3.26% |
| Net Interest Margin | 3.24% | 3.14% | 3.25% | 3.55% | 3.66% |
| CREDIT QUALITY: | | | | | |
| Nonperforming Assets | 23,240 | 20,649 | 16,830 | 10,954 | 6,887 |
| Net Chargeoffs to Average Loans | 0.69% | 0.91% | 0.52% | 0.67% | 0.23% |
| Allowance for Loan Losses to Total Loans | 1.60% | 1.54% | 1.51% | 1.45% | 1.39% |
| Nonperforming Assets to Total Loans and OREO | 3.49% | 3.08% | 2.45% | 1.60% | 1.07% |
| Nonperforming Assets to Total Assets | 2.54% | 2.33% | 1.87% | 1.27% | 0.83% |
| CAPITAL RATIOS AND OTHER: | | | | | |
| Total Equity to Total Assets | 7.34% | 7.62% | 7.55% | 5.39% | 5.76% |
| Leverage Ratio | 9.11% | 9.28% | 9.54% | 7.42% | 8.01% |
| Tier 1 Risk-Based Capital Ratio | 11.16% | 12.32% | 12.02% | 9.07% | 9.42% |
| Total Risk-Based Capital Ratio | 12.41% | 13.57% | 13.27% | 10.33% | 10.67% |
| Number of Banking Offices | 16 | 16 | 16 | 16 | 16 |
| Number of ATMs | 19 | 19 | 19 | 19 | 19 |
| Number of Employees | 168 | 162 | 167 | 176 | 191 |

Unity Bancorp, Inc. is a financial service organization headquartered in Clinton, New Jersey, with approximately \$913 million in assets and \$732 million in deposits. Unity Bank provides financial services to retail, corporate and small business customers through its 16 retail service centers located in Hunterdon, Middlesex, Somerset, Union and Warren Counties in New Jersey and Northampton County, Pennsylvania. For additional information about Unity, visit our website at www.unitybank.com, or call 800- 618-BANK.

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