Orange County Bancorp, Inc. Announces Record Second Quarter Results

July 25, 2019

Net Income increased 27% over previous quarter to $2.80 mil
• Average Loans up 24.8% year over year to $798.1 mil
• Average Demand Deposits up 24.7% year over year to $277.5 mil
• Total Assets grew 15.3% versus the same period last year to $1.21 bil
• Tangible Book Value Per Share of $24.12 up 17% from the same period last year

MIDDLETOWN, N.Y., JULY 25, 2019 – Orange County Bancorp, Inc. (the "Company" – OTCQX: OCBI), parent of Orange Bank & Trust Co. (the "Bank") and Hudson Valley Investment Advisors, Inc. (HVIA), today announced record net income of $2.8 million, or $0.63 per share, for the three months ended June 30, 2019, compared to $2.2 million, or $0.50 per share, for the three months ended March 31, 2019 and $1.5 million, or $0.39 per share, for the same period the prior year.

Net income for the three months ended June 30, 2019 reflects nonrecurring items including a charge related to securities sales and reserve recovery on unfunded loan commitments with a net impact of $109,000 or $0.02 per share.

"I am extremely pleased with the record results Orange County Bancorp has achieved for the second quarter", said Michael Gilfeather, President and Chief Executive Officer. "These earnings are not the result of any single factor, but rather represent contributions from all segments of the organization across our business lines and geographic footprint. Loans and deposits, the bank's core operations, continue to show significant, but measured growth, without pursuing higher risk loans or higher cost deposits. Our ongoing investments into Rockland and Westchester counties continue to significantly contribute to our profitable growth, and we are pleased to report the exploration of new markets for expansion will remain a key initiative within the Company's strategy. Our Trust and Asset Management businesses also performed well, leading to a meaningful increase in fee and non-interest related income. And our newest initiative, Private Banking, continues to grow, helping both clients and the Company better leverage the capabilities of our organization.

These results reflect the impact of the strategic plan we put in place several years ago, but would not have been possible had we not identified and built upon Orange's core competencies. None of those is more important than knowing our clients and delivering the highest quality solutions and services. I thank our clients for their trust, our employees for their hard work, and our shareholders for their continued patience and support."

Income Statement Summary

Net interest income for the three months ended June 30, 2019 increased $1.9 million, or 21.7%, to $10.6 million, compared with the same period in 2018. The increase is primarily the result of a $128.2 million, or 13.4%, increase in average interest earning assets, and 27 basis point increase in net interest margin. The increase in average interest earning assets is, in turn, due primarily to a $158.6 million, or 24.8%, increase in average loans. Net interest margin of 3.91% for the period represents a 27 basis point, or 7.4%, increase versus 3.64% for the same period last year. Continued robust asset growth and a higher yielding asset mix more than offset an increase in funding costs due to higher short-term interest rates. The cost of interest-bearing deposits for the three months ended June 30, 2019 was 0.64%, compared to 0.37% for the three months ended June 30, 2018, an increase of 27 basis points, or 73%. The Company continued to see strong growth in non-interest bearing deposit accounts, with an increase of $55 million, or 24.7%, to $277.5 million in average Demand Deposit Accounts (DDA) versus the year ago quarter.

The bank's provision for loan losses was $420 thousand for the three months ended June 30, 2019, compared to $600 thousand the prior quarter, and $745 thousand for the same period in 2018. Loans classified as substandard or doubtful decreased $234 thousand, or 1.6%, to $14.6 million as of June 30, 2019, from $14.9 million at the end of Q1, and $1.3 million, or 7.7%, from $15.9 million the same period last year. Non-accrual loans, as a percent of total loans, was 0.20% as of June 30, 2019, a slight decrease from the prior quarter, but down significantly from 0.32% the same quarter last year.

Non-interest income increased $114 thousand, to $2.3 million, for the three months ended June 30, 2019 versus the prior quarter, and $51 thousand on a year-over-year basis. These increases are primarily due to an increase in investment advisory fees from the Company's HVIA subsidiary, as well as an increase in trust income. These increases were partially offset by realized losses on securities sales during the three months ended June 30, 2019 and March 31, 2019. The Company recorded no such losses in the same quarter last year.

Non-interest expense fell $47 thousand to $9.0 million for the three months ended June 30, 2019 versus the prior quarter, and rose $612 thousand compared to the same period in 2018. The year-over-year increase was due primarily to a $599 thousand increase in salaries and employee benefits resulting from additional staffing and anticipated cost increases. Non-interest expense for the three months ended June 30, 2019 was also favorably impacted by a $200 thousand reserve recovery on unfunded commitments mentioned above.

The Company's effective income tax rate for the three months ended June 30, 2019 was 20.4%. This compares with 19.6% for the three months ended March 31, 2019, and 18.1% for the three months ended June 30, 2018.

Balance Sheet Summary

Total balance sheet assets increased $161 million, or 15.3%, to $1.21 billion at June 30, 2019, from $1.05 billion at June 30, 2018. This was primarily due to increases of $167.5 million in loans and $30.0 million in cash and cash equivalents, partially offset by a $36.3 million decrease in the value of investment securities. The increase in cash and cash equivalents is primarily due to increases in deposits, while the $167.5 million increase in loans was the result of $241.1 million of new loan originations and purchases, partially offset by $73.6 million of net amortization and repayments on the remaining portfolio. Net loan purchases during the same period totaled $34.4 million.

Total liabilities increased $134.2 million to $1.09 billion during the quarter, from $959 million at June 30, 2018. This was primarily due to a $143.7 million increase in total deposits partially offset by a $10 million reduction in FHLB advances.

Total shareholders' equity increased $26.9 million, or 30.3%, to $115.8 million at June 30, 2019 from $88.9 million at June 30, 2018. This increase is primarily due to net proceeds from a $16.1 million private securities offering completed October 31, 2018, with the remainder from a $6.4 million increase in retained earnings and $4.5 million improvement in the market value of securities available for sale.

At June 30, 2019, the Company's book value per share and tangible book value per share were $25.85 and $24.12, respectively, compared to $22.67 and $20.62, respectively, at June 30, 2018. This represents increases of 14% and 17%, respectively. At June 30, 2019, the Bank also exceeded the "well capitalized" thresholds under applicable regulatory guidelines.

Asset Quality Summary
The Company's non-performing loans decreased modestly to $1.63 million or 0.20% of total loans as of June 30, 2019, from $1.67 million or 0.22% of total loans as of March 31, 2019. Given the growth in the loan portfolio during the quarter, the relative decline in non-performing loans was more meaningful on a year-over-year basis, declining from $2.1 million or 0.32% of total loans as of June 30, 2018.

Loans classified as substandard or doubtful decreased $234 thousand, or 1.6%, to $14.6 million at June 30, 2019, from $14.9 million at March 31, 2019, and decreased $1.2 million, or 7.7%, from $15.9 million at June 30, 2018. Watch rated loans declined $5.8 million, or 55.0%, to $4.7 million at June 30, 2019 from $10.5 million at June 30, 2018. The decline in watch rated loans was primarily attributable to risk rating upgrades of borrowers demonstrating improved operating trends and credit metrics, and to a lesser extent, refinance activity of loans in this rating category. Delinquencies continued to improve, declining to $2.2 million or 0.27% of total loans at June 30, 2019, from $3.6 million or 0.47% of total loans at March 31, 2019, and $4.6 million or 0.70% of total loans at June 30, 2018.

At June 30, 2019, the Company's allowance for loan losses was 1.43% of total loans outstanding, a decrease from 1.48% at March 31, 2018. Notwithstanding net loan growth during the quarter, the continued improvement in historical loss rate assumptions and the underlying performance of the loan portfolio contributed to the reduction in this allowance ratio.

About Orange County Bancorp, Inc.
Orange County Bancorp, Inc. is the parent company of Orange Bank & Trust Company and Hudson Valley Investment Advisors, Inc. Orange Bank & Trust Company is an independent bank that began with the vision of 14 founders over 125 years ago and has grown through conservative banking practices, innovation and commitment to its community and business cliental to more than $1 billion in Total Assets. In recent years, Orange Bank & Trust Company has added branches in Rockland and Westchester Counties. Hudson Valley Investment Advisors, Inc. is a Registered Investment Advisor in Goshen, NY. It was founded in 1996 and was acquired by the Company in 2012. For more information, visit orangebanktrust.com or hviaonline.com.

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