



Orange County Bancorp, Inc. Announces Third Quarter and Year-to-Date Results through September 30, 2020

October 22, 2020

MIDDLETOWN, N.Y., OCTOBER 22, 2020 – 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 net income of \$2.9 million, or \$0.64 per share, and \$8.0 million, or \$1.78 per share, for the three and nine months ended September 30, 2020, respectively. This compares with net income of \$3.2 million, or \$0.70 per share, and \$8.2 million, or \$1.82 per share, for the three and nine months ended September 30, 2019, respectively.

- **–Net Interest Income for the first nine months of 2020 was \$35.9 million, up 11.5% over last year and for the third quarter of 2020 was \$12.6 million, up 9.9% over the same period last year**
- **–Average Loans for the third quarter of 2020 was \$1.05 billion, up 25.1% over same quarter last year, including PPP loans**
- **–Average Non-Interest-Bearing Deposits for the first nine months of 2020 were \$429.4 million, up 51.2%, including undrawn PPP loan related deposits compared to last year.**
- **–Provisions for Loan Losses for the first nine months of 2020 were \$3.7 million, up \$2.0 million, or 117.6%, from \$1.7 million last year**
- **–Net Income for the first nine months of 2020 was \$8.0 million or \$200 thousand less than the same period last year. A \$2 million increase in Provision for loan losses for the first nine months of 2020 was a material factor in the net income decline.**
- **–Total Assets increased \$496 million or 40.4% from December 31, 2019 to \$1.72 billion**
- **–Tangible Book Value per Share of \$27.34 increased 8.7% from December 31, 2019**

“This was a dynamic and challenging quarter for the Bank and I am proud of how our team responded,” said President and Chief Executive Officer Michael Gilfeather. “We continue to be impacted by economic and operational issues related to COVID-19, but managed to produce another strong quarter, with earnings of \$2.9 million, or \$.64 per share, bringing our 9 month total to \$8.0 million, or \$1.78 per share.

New York State’s ongoing efforts to curb the spread of the virus recently allowed for the partial re-opening of business in the economies we serve. Though economic activity remains well short of pre-COVID levels, we saw sufficient economic momentum to reduce deferred loan balances more than two-thirds from their second quarter peak and are seeing this trend continue. We will, as always, continue to monitor and work closely with clients, especially those still on deferral, and are cautiously optimistic loans brought current will remain so and that we will continue to reduce deferrals as business in the markets we serve improves further.

The unprecedented federal response to the economic shutdown has left the entire banking community dealing with the challenge of historically low rates and high levels of liquidity. Despite significant interest rate margin pressure this created across our industry, we managed to grow net interest income 6.1% quarter over quarter, and 11.5% through the first 9 months of the year. This was accomplished despite an average of \$87 million in Payroll Protection Program loans during the quarter, which carry an interest rate of just 1%. The Bank was very active in the PPP program, originating over \$100 million in loans for more than 800 clients, and stands ready to assist clients as the forgiveness process evolves.

Loans and deposits also showed strong growth in the quarter, with the latter outpacing the former due to a decision to temper loan growth, despite significant demand, as we continue to monitor economic conditions and maintain conservative lending standards in today’s low rate environment. Of particular note is the growth in our average non-interest bearing deposits, which were up over 50% to nearly \$430 million, as compared to the same period last year. While some of this increase represents clients yet unused PPP loans, the majority of this growth was the result of our concerted efforts to expand business client outreach and earn a greater share of their banking business.

Though the low interest rate environment has presented challenges, it did provide us an opportunity to raise \$20 million in cost effective debt through the issuance of 10-year Subordinated Notes with a 5-year fixed interest rate of 4.25%. This debt, combined with our low cost deposit base, further strengthens our economic foundation which should support continued growth for the foreseeable future. As of September 30, 2020, none of these proceeds were down-streamed to the Bank as capital. The Company will contribute proceeds of this offering as additional capital to the Bank as needed to support future growth.

We remain on track to open branches in the Bronx and Nanuet by early next year. Additionally, we are ready to launch the Bank’s new service called Orange Wealth Solutions which is financial planning along with a new tool called Orange Wealth Navigator which aggregates all of your financial accounts and important documents in one place.

Despite the challenging operating environment, the bank and our employees have remained steadfast in their dedication and commitment to our

customers, the maintenance of conservative lending standards, and improving and expanding the services and experience we provide. This has enabled us to continue to deliver outstanding results and provides the framework for future growth our clients and shareholders have come to expect.”

Income Statement Summary

Net interest income for the three months ended September 30, 2020 increased \$1.1 million, or 9.9%, to \$12.6 million, compared with the three months ended September 30, 2019. The increase is primarily due to a \$384.7 million, or 33.5%, increase in average interest earning assets. The growth in average earning assets includes \$87.0 million in low rate PPP loans and \$172.2 million in low rate deposits with banks, contributing to an 82 basis point decline in average earning rates. Despite the decline in earning rates, interest revenue increased during the period. Net interest income for the nine months ended September 30, 2020 increased \$3.7 million, or 11.5%, to \$35.8 million, compared with the nine months ended September 30, 2019. Average earning assets grew \$298.3 million, or 27.3%, for the period. The increase in average interest earning assets was driven primarily by a \$191.3 million, or 23.9%, increase in average loans outstanding.

Net interest margin of 3.26% for the three months ended September 30, 2020 represents a 69 basis point, or 17.5%, decline versus 3.95% for the same period last year. The average cost of interest-bearing deposits for the three months ended September 30, 2020 dropped 22 basis points to 0.47%, from 0.69% for the three months ended September 30, 2019, a 31.9% decrease. This drop in funding costs was insufficient to offset the impact of the decline in earnings rates. As explained above, the average asset earning rate was materially impacted by \$87.0 million of 1% loans through the PPP program, as well as a precautionary increase in liquid funds on deposit at the federal reserve during this uncertain period. The interest rate picture has changed dramatically over the past 7 months following the Federal Reserve’s move to significantly reduce overnight rates and, through direct bond purchases, reduce market rates to unprecedented levels. The fed’s funds rate is currently between 0% and 0.25% and the 10-year treasury yield is close to 0.70%. The Bank responded by reducing its interest bearing deposit costs. The cost of funds also benefited from continued strong growth in non-interest-bearing demand accounts, with a \$177.3 million, or 57.5%, increase to an average of \$485.5 million versus the three months ended September 30, 2019. Accordingly, the total cost of deposits dropped 17 basis points, or 36.2%, from 47 basis points to 30 basis points.

The margin outlook includes the benefit of unamortized fees to be recognized at the time PPP loans are forgiven. The unamortized portion of such fees totaled \$2.6 million at September 30, 2020. In addition, as opportunities arise, the Bank plans to prudently increase loan balances by redeploying excess liquidity to increase average earning rates.

The Bank’s provision for loan losses was \$1.2 million for the three months ended September 30, 2020, an increase of \$575 thousand, or 89.8%, versus \$640 thousand for the three months ended September 30, 2019. For the nine months ended September 30, the provision was \$3.7 million compared to \$1.7 million for the same period last year. The increases were made in response to uncertainty surrounding loan performance due to the COVID-19 related shutdown of various business sectors. While the asset quality of the Bank’s loan portfolio remains high, non-performance statistics do not reflect the potential stresses facing loans on deferred status. Details of deferred loans are shown in the table below. Management believes it is prudent to increase reserves due to this uncertainty. Non-accrual loans, as a percent of total loans, was 0.10% as of September 30, 2020, a 0.13% decrease from the period ended September 30, 2019. See the asset quality section below for additional information.

Non-interest income increased \$253 thousand to \$3.0 million for the three months ended September 30, 2020, compared to the three months ended September 30, 2019. Non-interest income increased \$1.1 million, to \$8.8 million, for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. The improvement in the current quarter’s results is primarily driven by \$218 thousand in securities gains and by improved trust asset management revenue, as detailed in the income statement comparison below.

Non-interest expense increased \$1.2 million, to \$10.8 million, for the three months ended September 30, 2020, compared to the three months ended September 30, 2019. Non-interest expense increased \$3.0 million, to \$30.9 million, for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019. The increase versus last year was due primarily to an FDIC deposit insurance increase of \$243 thousand (due to a credit realized during 2019), and a one-time charge of \$400 thousand related to trading error losses in asset management operations during the most recent quarter. Year-to-date increases include \$606 thousand of FDIC insurance expense and a \$1.3 million increase in growth-related salaries and benefits.

The Company’s effective income tax rate for the three and nine months ended September 30, 2020 were 19.6% and 19.7%, respectively. For the same periods last year, the effective tax rates were 20.4% and 20.2%, respectively.

Balance Sheet Summary

Total assets increased \$496.3 million, or 40.4%, to \$1.72 billion at September 30, 2020, from \$1.23 billion at December 31, 2019. This was primarily comprised of increases of \$186.5 million in loans, \$234.6 million in cash and cash equivalents, and \$72.7 million in investment securities, including a \$6.6 million increase in unrealized gains. The increases in cash and cash equivalents and investment securities was primarily due to increases in deposits, while the increase in loans was the result of \$232.2 million of new loan originations and \$45.6 million in purchases, partially offset by \$91.3 million of net amortization and repayments on our existing portfolio. Draws on credit lines were immaterial during the period.

Total liabilities increased \$486.6 million, to \$1.59 billion, at September 30, 2020, from \$1.11 billion at December 31, 2019. This was due to a \$470.1 million, or 43.4%, increase in deposits and a \$20 million increase in borrowed funds raised in a subordinated debt offering in late September, partially offset by a \$5 million reduction in FHLB advances.

Deposit growth continues to be fueled by non-interest-bearing commercial demand deposits (“DDA”) and NOW accounts. Growth in these deposits was \$274.1 million, or 83.3%, from December 31, 2019, consistent with the Bank’s strategy to grow value added business deposits with the support of advanced cash management services. It also includes remaining PPP loan balances. Commercial deposits represented 52.3% of total deposits at September 30, 2020, compared to 46.7% at December 31, 2019. This increase reflects strong response to our company-wide focus on business relationships. Total DDA and NOW balances were 50.0% of total deposits at September 30, 2020.

Total shareholders’ equity increased \$9.7 million, or 8.0%, to \$130.6 million at September 30, 2020, from \$120.9 million at December 31, 2019. This increase was due to a \$5.3 million increase in retained earnings and a \$4.4 million improvement in the market value of securities available for sale.

At September 30, 2020, the Company’s book value per common share and tangible book value per common share were \$28.98 and \$27.34, respectively, compared to \$26.85 and \$25.16, respectively, at December 31, 2019. This represents increases of 7.9% and 8.7%, respectively. At September 30, 2020, the Bank exceeded the “well capitalized” thresholds under applicable regulatory guidelines.

Asset Quality Summary

Non-performing loans decreased \$186 thousand, or 15.2%, to \$1.0 million at September 30, 2020 from \$1.2 million at June 30, 2020, and decreased \$508 thousand from \$1.5 million at December 31, 2019. Non-performing loans to total loans was 0.10%, 0.12% and 0.17% at September 30, 2020, June 30, 2020 and December 31, 2019, respectively.

Loans classified as substandard or doubtful increased \$491 thousand, or 4.2%, to \$12.1 million at September 30, 2020 from \$11.6 million at June 30, 2020, and decreased \$1.9 million, or 13.6%, from \$14.0 million at December 31, 2019. Watch rated loans increased \$5.4 million, or 28.0%, to \$24.8 million at September 30, 2020 from \$19.3 million at June 30, 2020. Delinquencies (inclusive of loans on non-accrual) increased to \$3.8 million, or 0.35%, of total loans at September 30, 2020, from \$3.2 million, or 0.31%, of total loans at June 30, 2020, and decreased \$4.4 million from \$8.2 million, or 0.27%, of total loans at December 31, 2019. Higher deferred loan balances will tend to understate delinquency statistics. The Bank's asset quality metrics have remained stable or improved even as the deferred loans have declined to \$118.5 million at September 30, 2020 from \$310 million at June 30, 2020. The Bank continues to work proactively with customers to manage COVID-19 related forbearance requests, where necessary, with a renewed focus on current and prospective business performance and available liquidity for the resumption of loan payments over the near-term. Particular emphasis is given to loans approaching or recently past their deferral dates.

Management continues to actively evaluate performance trends and industry dynamics across asset classes to assess underlying business and liquidity risks stemming from the economic impact of COVID-19. While the Bank is taking active steps to provide payment relief from debt service through forbearance agreements, the focus has shifted toward the resumption of loan payments, as management believes borrowers in need of payment deferrals have largely been accommodated at this time. This relief has been structured as 90-day deferments of principal and interest and effected broadly across the portfolio based on our analysis and direct feedback from customers. Most borrowers that requested payment deferrals early in the cycle have commenced scheduled repayments of their loan obligations after the end of their initial 90 day deferral. During the third quarter of 2020, there were 411 loans with a total principal balance of \$310.3 million that reached the end of their 90-day deferral period. About 88 of those loans with a principal balance of \$104.9 million (representing 21.4% of loans by number and 33.8% of balances), requested and received approval for an additional 90-day deferral during the most recent quarter. There were 11 loans totaling \$6.4 million that requested and received initial deferrals during the quarter. The other 66% of previously deferred loans are with borrowers that have the financial wherewithal and business continuity to resume required debt service obligations at this time. Management believes the deferral program has been successful in helping customers bridge a difficult economic environment. Current estimates for year end 2020 deferrals is less than \$20 million. Deferred loans at September 30, 2020 are shown in the table below:

The Company's allowance for loan losses increased \$2.7 million, or 21.8%, to \$14.9 million, at September 30, 2020, from \$12.2 million at December 31, 2019. At September 30, 2020, the allowance was 1.38% of total loans outstanding, an increase from 1.37% at December 31, 2019. Excluding the \$87 million in PPP loans, which are characterized as a zero risk-weighted asset class, the allowance to loans ratio is 1.50% at September 30, 2020. Continued uncertainties about the current credit environment prompted the increase in allowance for unimpaired credits in 2020.

After charge-offs taken for impaired credits, the allowance for impaired loans in the aggregate declined to \$1.2 million in the most recent quarter versus \$1.4 million for the quarter ended June 30, 2020. The Bank has historically maintained a high ratio of loan loss allowances relative to its peers, and will continue to prudently manage reserves through close monitoring of business conditions and higher risk loans, as well as thorough analysis of the profitability and cash flow of loan customers.

Trust and Advisory Summary

Trust and Asset Management performed well during the quarter, increasing fee related revenue by \$142 thousand, or 6.8%, compared to the same period last year. Year-to-date, these businesses showed a \$340 thousand, or 5.7%, increase in fee revenue compared to the first nine months of 2019, despite volatile market performance since the beginning of the year. The combination of new account growth and the recovery in stock and bond prices increased assets under management ("AUM") materially during the most recent quarter. AUM is the basis on which revenues are earned in these businesses. Future AUM growth will depend on market performance and the quality of service we provide our customers. The introduction of additional wealth management tools, combined with continuous outreach to our Trust and Asset Management customers, provides valued support during this uncertain time and serves as the foundation for growth of this business.

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. It has grown through conservative banking practices, ongoing innovation, and an unwavering commitment to its community and business clientele to more than \$1.5 billion in Total Assets. In recent years, Orange Bank & Trust Company has added branches in Rockland and Westchester Counties, and is in the process of opening a new branch in Nanuet and the Bronx. 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 hvionline.com

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