

Orange County Bancorp, Inc. Announces Second Quarter Results

August 1, 2022

- **Total Assets increased \$250 million, or 11.7%, to \$2.4 billion at June 30, 2022 from \$2.1 billion at December 31, 2021**
- **Total Loans grew \$180 million, or 13.9%, to \$1.5 billion at June 30, 2022 from \$1.3 billion at December 31, 2021**
- **Total Deposits reached \$2.2 billion at June 30, 2022, as compared to \$1.9 billion at December 31, 2021, representing an increase of \$289 million, or 15.1%**
- **Net Income for Q2 2022 was \$2.1 million, a decrease of \$3.1 million, or 59.4%, from net income of \$5.2 million for Q2 2021, due to an increase in the provision for loan losses**
- **Provision for Loan Losses of \$5.5 million for Q2 2022 increased from \$809 thousand in Q2 2021 due to two impaired loan relationships within the syndicated loan segment and growth in the loan portfolio**
- **Annualized return on average assets of 0.65% for the six months ended June 30, 2022 declined 0.44% versus the same period in 2021**
- **Annualized return on average equity of 8.84% for the six months ended June 30, 2022 declined 6.11% versus the same period in 2021**
- **Trust and asset advisory business revenue remained level at approximately \$4.7 million for the six months ended June 30, 2022, as compared to the same period in 2021**

MIDDLETOWN, NY / ACCESSWIRE / August 1, 2022 / Orange County Bancorp, Inc. (the "Company") (Nasdaq:OBT), parent company of Orange Bank & Trust Co. (the "Bank") and Hudson Valley Investment Advisors, Inc. ("HVIA"), today announced net income of \$2.1 million, or \$0.38 per basic and diluted share, for the three months ended June 30, 2022. This compares with net income of \$5.2 million, or \$1.16 per basic and diluted share, for the three months ended June 30, 2021. The decrease in net income was primarily due to a \$4.7 million increase in provision for loan losses for the three months ended June 30, 2022 as compared to the same period in 2021 resulting from two impaired loan relationships within the syndicated loan portfolio.

Tangible book value per share decreased \$6.55, or 21.0%, from \$31.18 at December 31, 2021, to \$24.63 at June 30, 2022 (see also "Non-GAAP Financial Measure" section on page 6 for reconciliation). Book value per share declined \$6.57, or 20.3%, from \$32.43 at December 31, 2021 to \$25.86 at June 30, 2022. These decreases were primarily driven by changes in market value associated with the available-for-sale investment portfolio, which was directly impacted by rising interest rates. The Bank maintains its entire investment portfolio within the available-for-sale category.

"Despite a second Federal Reserve rate increase during the quarter, in its effort to quell inflation, our regional economy remains strong," said Company President and CEO Michael Gilfeather. "And though our strategic focus on business banking provides a stable platform for growth, it can't insulate us fully from the volatility caused by rapidly changing interest rate policy and other market dynamics. As illustration of this, while our core growth story remains intact, management determined that certain syndicated loan relationships were impaired during the quarter. This combined with the Bank's continued strong loan growth required a quarterly loan loss provision of \$5.5 million, which was up from \$809 thousand during the same quarter last year, and was significantly higher than the normal loan loss provision which we would typically reserve against the Bank's loan production. This charge directly impacted our quarterly earnings of \$2.1 million, or \$0.38 per share.

Meanwhile, loan and deposit growth continued at a near record pace. Average loans net of PPP of \$1.4 billion during the quarter, was up 20.4% over the same period last year. We finished the quarter with a total loan portfolio of \$1.5 billion, up \$180 million, or 13.9%, over year end 2021. Average demand deposits and money market accounts rose 18.6%, to \$1.1 billion, versus the same period last year. And, total deposits of \$2.2 billion at quarter end is up nearly \$300 million, or 15.1%, year to date.

Total interest income rose \$2.8 million, or 18.0%, to \$18.5 million for the three months ended June 30, 2022, compared to \$15.7 million for the three months ended June 30, 2021. Net interest income grew \$2.9 million, or 19.7%, to \$17.5 million, versus \$14.6 million during the same period in 2021. As reported last quarter, we held \$350 million in funds at the Fed in anticipation of higher rates and were able to deploy these during the quarter in new loans and investments which contributed to our increase in net interest income. These strategies allowed net interest margin to reach 3.14% for the three months ended June 30, 2022 as compared to 3.09% for the same period in 2021.

Wealth Management revenue, which includes our Trust and Asset Management businesses, was essentially flat year-over-year at \$4.7 million through the first six months of 2022. During the same period, assets-under-management for the Trust and Asset Management group rose slightly, ending the quarter at \$1.07 billion. Given negative debt and equity market performance through the first half of 2022, these results are better than expected, and reflect the group's cautious, client-centric approach to investment management.

Though the challenging rate and investing environment which began this year continued through Q2, regional economic conditions remain strong. As a result, we continued to identify compelling opportunities for loan growth and the deployment of lower yielding funds. This resulted in significant loan growth and investment during the quarter, even as we continued to attract low cost deposits. Beyond the increased provision on loans, we enjoyed a strong and productive quarter.

Our focus, therefore, remains on disciplined growth, maintenance of a risk posture exceeding that required by regulators, and creation of a work environment that attracts and retains superior talent. To that end I would like to congratulate Jonathan Rouis on his appointment as our new Board Chairman. Jonathan has been on the Board and instrumental in helping guide the Bank's growth since 2018. I look forward to his leadership as Chairman. I also want to thank Lou Heimbach for his many years of leadership as Board Chair. Throughout his tenure, he ensured the Board was a committed partner with management, including with the new growth strategy we embarked on in 2014. Lou will remain on the Board, so we will continue to benefit from his extensive institutional knowledge and perspective.

And, finally, I want to thank our employees. Each day they work long hours to meet the demands of our clients, while trying to protect and maximize results for the Bank and its shareholders. While quarterly earnings are important, it is sustainable, long-term growth we strive for, and I believe we have the team in place to deliver on that goal."

Second Quarter and First Half 2022 Financial Review

Net Income

Net income for the second quarter of 2022 was \$2.1 million, a decrease of approximately \$3.0 million, or 58.8%, versus net income of approximately \$5.1 million for the second quarter of 2021. The decrease was due primarily to an increased provision for loan losses associated with credit issues with syndicated loans within the C&I portfolio and strong loan growth during the quarter. Net income for the six months ended June 30, 2022 was \$7.4 million, as compared to \$10.2 million for the same period in 2021. The overall decrease was related to the increased loan loss provision recorded in Q2.

Net Interest Income

For the three months ended June 30, 2022, net interest income increased \$2.9 million, or 19.7%, to \$17.5 million, versus \$14.6 million during the same period in 2021. For the six months ended June 30, 2022, net interest income increased \$5.5 million, or 19.3%, over the first half of 2021. These increases absorbed a significant decline in interest income from PPP loans recognized during the prior year.

Total interest income rose \$2.8 million, or 18.0%, to \$18.5 million for the three months ended June 30, 2022, compared to \$15.7 million for the three months ended June 30, 2021. The increase in interest income was primarily due to increased interest and fees associated with loan growth, as well as an increase of approximately 102.1% in interest income associated with higher levels of investment securities. The securities-related increase reflects management's continued focus on deploying excess liquidity to realize incremental investment earnings. For the six months ended June 30, 2022, total interest income rose \$5.3 million, or 17.8%, to \$35.8 million, as compared to \$30.4 million for the six months ended June 30, 2021.

Total interest expense decreased \$51 thousand in the second quarter of 2022, to \$975 thousand, as compared to \$1.0 million in the second quarter of 2021. The decrease was driven by a reduction in deposit interest expense associated with time deposits. The control of interest expense remains a priority for management in 2022 as significant additional rate increases are anticipated. During the six months ended June 30, 2022, total interest expense decreased \$142 thousand, or 6.9%, to \$1.9 million, as compared to \$2.1 million for the six months ended June 30, 2021.

Provision for Loan Losses

The Company recognized a provision for loan losses of \$5.5 million for the three months ended June 30, 2022, compared to \$809 thousand for the three months ended June 30, 2021. The increased provision reflects the recognition of impairments within the syndicated loan portfolio as well as continued growth of the loan portfolio. Syndicated loans represent approximately 4.5% of total loans at June 30, 2022. The allowance for loan losses to total loans was 1.61% as of June 30, 2022, an increase of 24 basis points, or 17.5%, versus 1.37% as of December 31, 2021. For the six months ended June 30, 2022, the provision for loan losses totaled \$6.4 million as compared to \$875 thousand for the six months ended June 30, 2021.

Non-Interest Income

Non-interest income remained stable at \$3.0 million for second quarter 2022 and 2021, respectively. With assets-under-management of approximately \$1.1 billion at June 30, 2022, non-interest income continues to be supported by success of the Bank's trust operations and HVIA asset management activities. Additionally, the Company experienced increased earnings from the BOLI investment during the quarter. For the six months ended June 30, 2022, non-interest income increased approximately \$63 thousand, to \$6.0 million, as compared to \$5.9 million for the six months ended June 30, 2021.

Non-Interest Expense

Non-interest expense was \$12.5 million for the second quarter of 2022, reflecting an increase of approximately \$2.1 million, or 19.8%, as compared to \$10.4 million for the same period in 2021. The increase in non-interest expense for the current three-month period was due to continued investment in overall company growth, including increases in compensation and benefit costs, occupancy costs, information technology, and deposit insurance. The second quarter also included the full impact of costs associated with our two newest locations, Bronx and Nanuet, NY. Our efficiency ratio was 60.85% for the three months ended June 30, 2022, from 58.90% for the same period in 2021. For the six months ended June 30, 2022, our efficiency ratio was 60.98% as compared to 57.01% for the same period in 2021.

Income Tax Expense

Our provision for income taxes for the three months ended June 30, 2022 was approximately \$400 thousand, compared to approximately \$1.3 million for the same period in 2021. The decrease for the current period was due to a decrease in income before income taxes during the quarter. Our effective tax rate for the three-month period ended June 30, 2022 was 15.9%, as compared to 19.5% for the same period in 2021. For the six months ended June 30, 2022, our provision for income taxes was \$1.7 million, as compared to \$2.5 million for the six months ended June 30, 2021. Our effective tax rate for the six-month period ended June 30, 2022 was 18.3%, as compared to 19.5% for the same period in 2021. The reduction in effective tax rates on the 2022 second quarter and six month period is due to the increase in proportion of non-taxable revenue (tax-exempt interest income and earnings on bank owned life insurance) compared with total pre-tax income.

Financial Condition

Total consolidated assets increased \$249.5 million, or 11.6%, from \$2.1 billion at December 31, 2021 to \$2.4 billion at June 30, 2022. The increase

was driven by growth in loans, and investment securities.

Total cash and due from banks decreased from \$306.2 million at December 31, 2021, to \$271.5 million at June 30, 2022, a decrease of approximately \$34.7 million, or 11.3%. This decrease resulted primarily from increases in loan growth and management focus on deploying excess cash into investments and enhancing incremental yield.

Total investment securities rose \$97.7 million, or 20.9%, from \$467.0 million at December 31, 2021 to \$564.7 million at June 30, 2022. The increase was due to purchases of investment securities, offset by an increase in unrealized losses on investment securities since December 31, 2021 as well as paydowns and maturities during the period.

Total loans increased \$180.3 million, or 14.0%, from \$1.29 billion at December 31, 2021 to \$1.47 billion at June 30, 2022. The increase was due primarily to \$133.3 million of commercial real estate loan growth and \$41.2 million of commercial real estate construction loan growth. PPP loans fell \$29.1 million, to \$9.0 million at June 30, 2022 from \$38.1 million at December 31, 2021. Most of the remaining PPP loan balance is subject to SBA loan forgiveness.

Total deposits grew \$289.1 million, to \$2.2 billion, at June 30, 2022, from \$1.9 billion at December 31, 2021. This increase continues to be driven by continued success in business account development combined with attorney trust deposit growth and increased deposit levels for local municipal accounts. At June 30, 2022, 53.1% of total deposits were demand deposit accounts (including NOW accounts).

Stockholders' equity experienced a decrease of approximately \$37.1 million, to \$145.7 million, at June 30, 2022, from \$182.8 million at December 31, 2021. The decrease was primarily due to a \$42.3 million increase in unrealized losses on the market value of investment securities recognized within the Company's equity as accumulated other comprehensive income (loss) ("AOCI"), net of taxes, as a result of the increase in market interest rates. Offsetting the AOCI fluctuation, the Bank recognized an increase in retained earnings of approximately \$5.2 million associated with earnings during the six months ended June 30, 2022, net of dividends paid.

At June 30, 2022, the Bank maintained capital ratios in excess of regulatory standards for well capitalized institutions. The Bank's Tier 1 capital to average assets ratio was 8.09%, both common equity and Tier 1 capital to risk weighted assets were 11.85%, and total capital to risk weighted assets was 13.10%. These ratios included contributions of approximately \$27.5 million of capital at the Bank level representing roughly half of net proceeds from the Company's public offering of common stock during 2021.

Loan Quality

At June 30, 2022, the Bank had total non-performing loans of \$20.4 million, or 1.39% of total loans, which included \$3.5 million of Troubled Debt Restructured Loans ("TDRs"). The latter represents 0.23% of total loans and was relatively level as compared with \$3.6 million at December 31, 2021. Accruing loans delinquent greater than 90 days were \$1.6 million as of June 30, 2022, as compared to \$1.4 million at December 31, 2021.

Orange County Bancorp, Inc., Monday, August 1, 2022, Press release picture

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 innovation and an unwavering commitment to its community and business clientele to more than \$2.0 billion in total assets. Hudson Valley Investment Advisors, Inc. is a Registered Investment Advisor in Goshen, NY. It was founded in 1996 and acquired by the Company in 2012.

Forward Looking Statements

Certain statements contained herein are "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward looking statements may be identified by reference to a future period or periods, or by the use of forward looking terminology, such as "may," "will," "believe," "expect," "estimate," "anticipate," "continue," or similar terms or variations on those terms, or the negative of those terms. Forward looking statements are subject to numerous risks and uncertainties, including, but not limited to, those related to the real estate and economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, inflation, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity. Further, given its ongoing and dynamic nature, it is difficult to predict what the continuing effects of the COVID-19 pandemic will have on our business and results of operations. The pandemic and related local and national economic disruption may, among other effects, continue to result in a material adverse change for the demand for our products and services; increased levels of loan delinquencies, problem assets and foreclosures; branch disruptions, unavailability of personnel and increased cybersecurity risks as employees work remotely.

The Company wishes to caution readers not to place undue reliance on any such forward looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. The Company does not undertake and specifically declines any obligation to publicly release the results of any revisions that may be made to any forward looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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