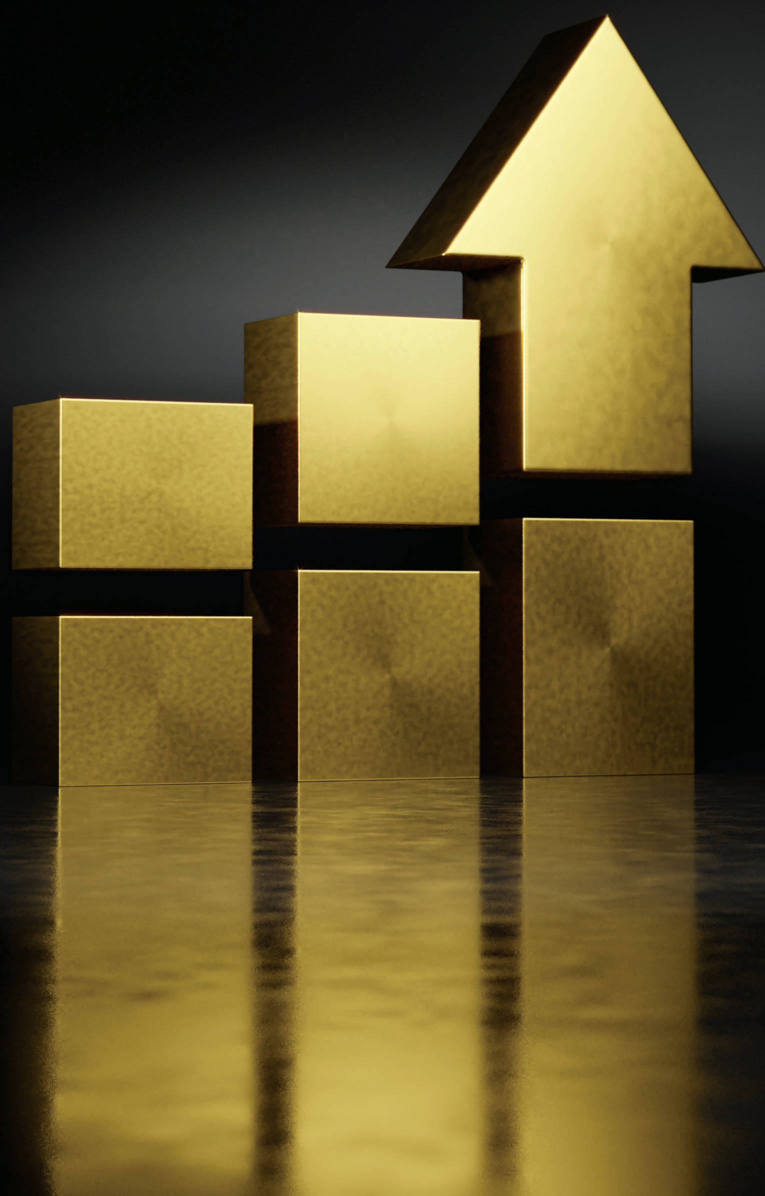
2019 ANNUAL REPORT

ORANGE COUNTY BANCORP, INC.

# A Year of Record Earnings



## Board of Directors

(Pictured from left to right)

FRONT ROW: Susan Metzger, Louis Heimbach, Chairman, Michael Gilfeather

BACK ROW: Gus Scacco, Richard Rowley, Jonathan Rouis, Terry R. Saturno, Greg Holcombe, Paul T. McDermott, David A. DeWilde, Virginia Rizzo, William D. Morrison

orange county BANCORP, inc.

### Member

Federal Reserve System
Federal Home Loan Bank
Federal Deposit Insurance Corporation
Financial Industry Regulatory Authority

### Subsidiaries

Orange Bank & Trust Company ("Bank")

Hudson Valley Investment Advisors, Inc. ("HVIA")

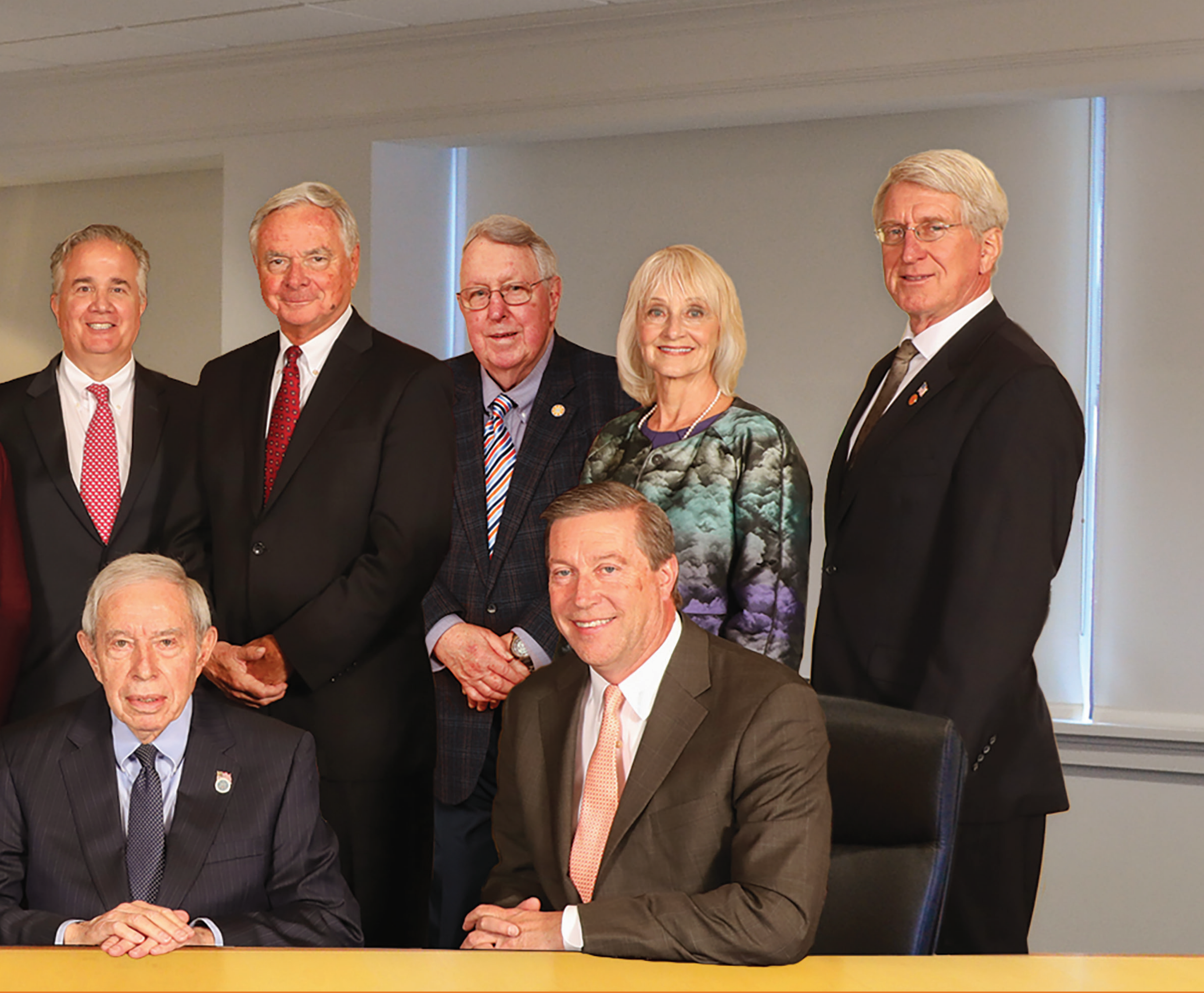
### Shares of Orange County Bancorp, Inc. stock are available under stock **SYMBOL OCBI**

For information regarding stock transfers and other transactions, contact our Transfer Agent:
**Computershare, Inc.**
250 Royall Street, Canton, MA 02021
1.800.368.5948
web.queries@computershare.com

For more information about purchasing stock, contact either:
**Stifel Nicolaus & Co. Inc.**
Andrew Lieb: 800.342.2325 Ext. 4128

**Fig Partners, Llc**
Dan Flaherty: 404.601.7200

**Sandler O'neill + Partners**
Jerome (Jace) Day, Jr.: 212.466.7831



## Notice to Shareholders Annual Disclosure Statement

Financial information about the Bank is available to our customers and the general public upon request. In accordance with the federal regulation to facilitate more informed decision-making by depositors, investors, and the general public, we will provide an ANNUAL DISCLOSURE STATEMENT containing financial information for the Bank for the previous two years. This information will be updated annually and available as of June 1, each year.

**To obtain a copy of the ANNUAL DISCLOSURE STATEMENT, please contact:**
**Robert Peacock, EVP Chief Financial Officer**
Orange Bank & Trust Company
212 Dolson Avenue
Middletown, New York 10940

# Letter from the Chairman and President

To Our Stockholders, Customers and Friends:

We are pleased to present the 2019 Annual Report of Orange County Bancorp, Inc. (the "Company") – **"A Year of Record Earnings"**. The Company is the parent organization for Orange Bank & Trust Company (the "Bank") and Hudson Valley Investment Advisors, Inc. ("HVIA"). Together, the Bank and HVIA are the principal operating subsidiaries of the Company.

From our modest beginning in 1892, our founders understood the Bank's success would be closely tied to that of the communities in which we operate, and that long-term value creation would require an uncompromising commitment to service and the establishment of enduring relationships with our clients. That vision continues to drive the Company today, as we serve customers in Orange, Rockland, and Westchester counties through a network of 13 branches with more than 170 employees.

**Our record earnings in 2019 reflect the impact of a strategic plan put in place several years ago, which was itself rooted in identification of and a renewed commitment to our heritage and core competencies. Foremost among these are knowing our clients and providing the highest quality services and solutions. This has yielded particular success with business customers across our legacy and expanded geographic footprint, which contributed to our 47% increase in net income in 2019, to a record $11.1 million, and 12.6% increase in tangible book value.**

This effort was aided by state-of-the-art cash management resources, which have helped our team expand both the depth and efficiency of our product offering, and is expected to continue to contribute to profitability, account growth, and customer retention going forward. By continuing to broaden our suite of business services, from sophisticated cash management tools to enhanced commercial lending capabilities, our deposits and loans grew to $1.09 billion and $891 million in 2019, up nearly 19% and 21% respectively over the prior year. We expect this growth to endure as the Bank continues to position itself with the tools our clients need to operate efficiently and profitably.

The value inherent in this strategy is not just playing out through the numbers but, more importantly, in the satisfaction of our customers. Later in this report you will hear from three business owners about their relationship with the Bank and how, through collaborative effort, we helped them achieve crucial business objectives.

While Orange County is still our home, ongoing investments into Rockland and Westchester counties continue to be significant contributors to our growth and profitability. We are pleased to report the exploration of new opportunities for expansion will remain a key initiative within the Company's strategy.

Like our banking business, the Trust and Advisory businesses also surpassed a significant growth milestone, as they **exceeded $1 billion** in combined assets under management in 2019, with Hudson Valley Investment Advisors ending the year with just over $865 million in assets, up 15% from the previous year. As we have successfully done with our banking practice, we will continue to expand HVIA's services into Westchester and Rockland County in 2020. Additionally, our newest service, Private Banking, continued to grow throughout 2019 and now helps more than 300 clients fully leverage the resources and capabilities of our platform.

As is evident, our record results for 2019 were not the result of any single factor, but represent contributions from all segments of the organization across all business lines and our entire geographic footprint. The initiatives behind them reflect a legacy of service that began nearly 130 years ago, laying the foundation for the success we are enjoying today and our plans for thoughtful, measured growth going forward.

On behalf of the Directors of the Company and our fellow employees, we thank you, our stockholders and customers, for your ongoing support.

Sincerely,

Lou Heimbach
Chairman

Michael Gilfeather
President & CEO

# Orange County Bancorp, Inc. Performance Highlights

### Pre-Tax Income

**IMPROVED 52% TO $13.9 MILLION**

Core Activity in all areas improved

### Total Assets

**INCREASED $163 MILLION TO $1.2 BILLION**

### Total Portfolio Loans

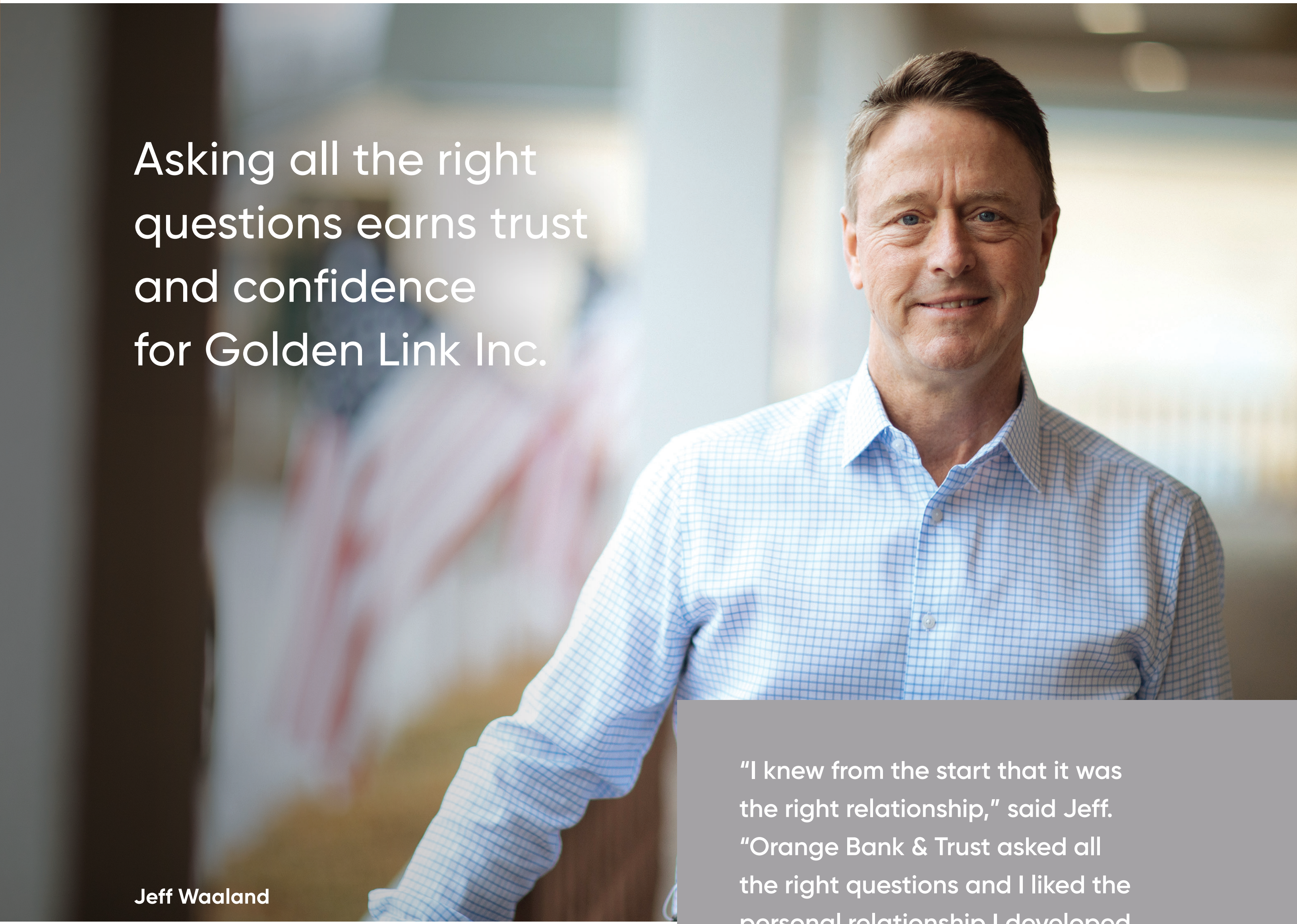
**GREW $154 MILLION TO $891 MILLION**

### Deposit Growth

**GREW $178 MILLION TO $1.1 BILLION**

Non-interest bearing deposits up by $95 million

# Asking all the right questions earns trust and confidence for Golden Link Inc.



Jeff Waaland

> "I knew from the start that it was the right relationship," said Jeff. "Orange Bank & Trust asked all the right questions and I liked the personal relationship I developed with the Bank."

**Jeff Waaland** started selling paper products internationally because no one else at his employer was interested in the accounts. After several years and ownership changes, he decided to move on and start his own business—Golden Link Inc.—to sell concession products and promotional merchandise to cinemas world-wide. He partnered with a customer in Singapore and grew the business. At the same time his bank was getting bigger, more impersonal and less interested in his firm's needs. Despite the growth of Jeff's business, they lowered his line of credit and he didn't have an account manager. That's when a member of a CEO peer group referred him to Orange Bank & Trust.

Orange Bank & Trust understood his need for a flexible line of credit, given his global reach and long lead times. He particularly likes the capabilities of Online Banking to track wire transfers overseas and that QuickBooks integration works seamlessly with outsourced accounting. Jeff recommends Orange Bank & Trust because he knows they will be there for his business in the long haul as he continues to grow.

Justine Broderick

# Lion's Gate Property Management enjoys improved productivity and efficiency.

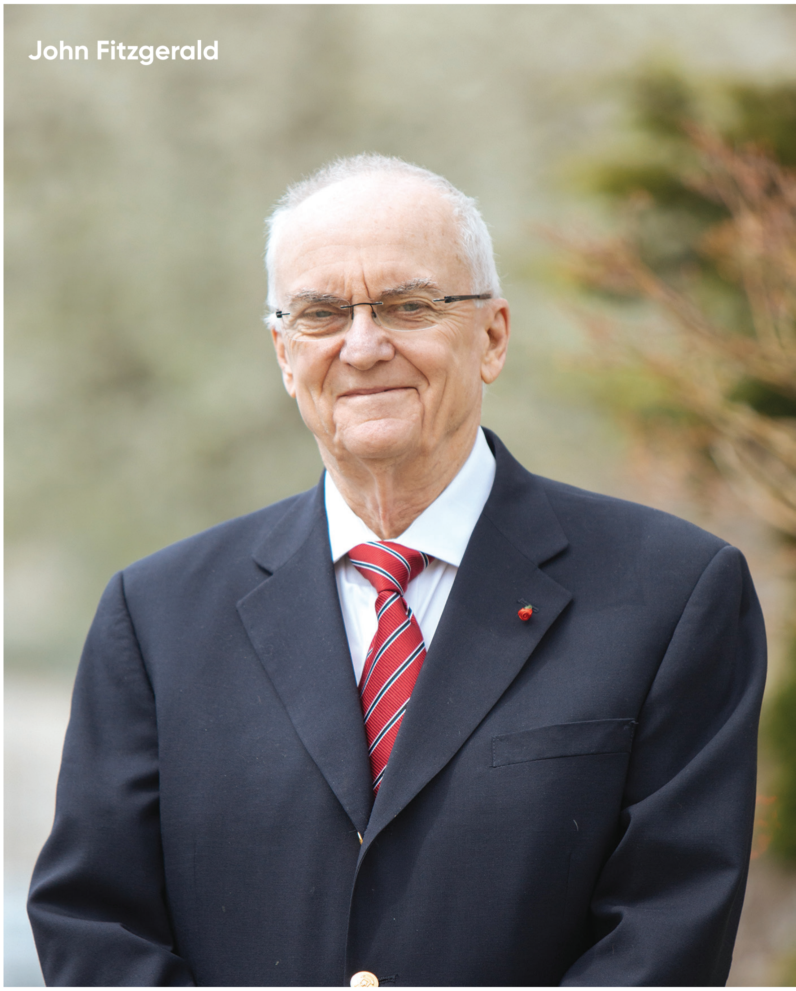
**Justine Broderick** was a financial servicers software trainer, who was hired by a client as a controller. After gaining experience, she created her own company—Lion's Gate Property Management—to manage finances for condominium associations. Because her bank was not meeting her expectations for products and services, she looked for an alternative and a referral sent her to Orange Bank & Trust. That's when Justine met Michael Golio, Relationship Manager at the Bank's Cortlandt Manor branch.

"Michael immediately made me feel confident in Orange Bank & Trust." He and his staff developed the package of Cash Management products that perfectly suited her needs. She says it is not just her money, but that of clients she has to shepherd. Michael met with her clients to help sell them on new methods and systems. Orange Bank & Trust trained her staff and made networking connections to make the transitions easier. Justine says the Bank moved her into the 21st Century with LockBoxes, Online Banking and Remote Deposits. Orange Bank & Trust not only provides services for her, they also service her clients, offering services for free that other banks charge for.

**Justine says that Orange Bank & Trust makes her feel like a top priority and never leaves her waiting for an answer. Her office is more efficient and productive, money moves faster and it is easy for her and her clients to track.**

She always recommends Orange Bank & Trust because of her confidence, the ease of use, and excellent rates. As she puts it, "Not one problem." That confidence led her to bring all her other Lion's Gate business to the Bank, too.

# Solid advice and personal attention make all the difference for law firm owner.




**John Fitzgerald** of The Fitzgerald Law Firm, P.C., started his first practice with his wife Annette and a part-time secretary in 1971. Today, the firm has a team of 20 attorneys and total staff of 60, specializing in medical malpractice, birth injury, and lead paint poisoning cases. They pride themselves on representing the wrongfully injured and serving a wide variety of clients, especially those speaking Spanish.

The Fitzgerald Law Firm had been working with another regional bank, but left for Orange Bank and Trust because of the team they had assembled. John says "I like the personal attention I get from Orange Bank & Trust," and notes that he deals with three decision makers. Joseph Ruhl, Orange Bank & Trust's Westchester Regional President, is one of these decision makers, and works closely with the Fitzgerald Law Firm. He understands the business as he spent the first part of his career as an attorney himself. John is impressed that the Bank understands his business, with a specialist in the court systems to advise legal clients.


**And, John recommends Orange Bank & Trust to others, encouraging them to call the "decision makers." He knows they'll be very responsive, visit the client's offices, and give lots of personal attention.**

# Private Banking Delivering for Clients

We are in the business of making our clients' financial lives easier. And the way we do that is to know as much as we can about them. This level of relationship banking sits at the heart of the Private Banking experience. With over 325 Private Banking clients to manage, the Private Banking team is dedicated to delivering a client experience that is appreciated, memorable and...different.

As one of the only firms in the Hudson Valley offering private banking services, we have the scale and team of professionals to serve the needs of individual and business clients, while providing advice with a personalized approach. Our differentiated Private Banking business was a strong contributor to our financial results in 2019.

The team, as led by Managing Director Timothy McCausland, onboarded **111 new Private Banking clients** in 2019 resulting in net new monies and program revenues. We continue to leverage the Salesforce customer relations management system which provides a view of each client's relationship, allowing a more holistic approach toward providing solutions, institution-wide.

Our Private Banking service is delivered with deep research into our clients' requirements, anticipation of needs and swift reaction to day-to-day requests.

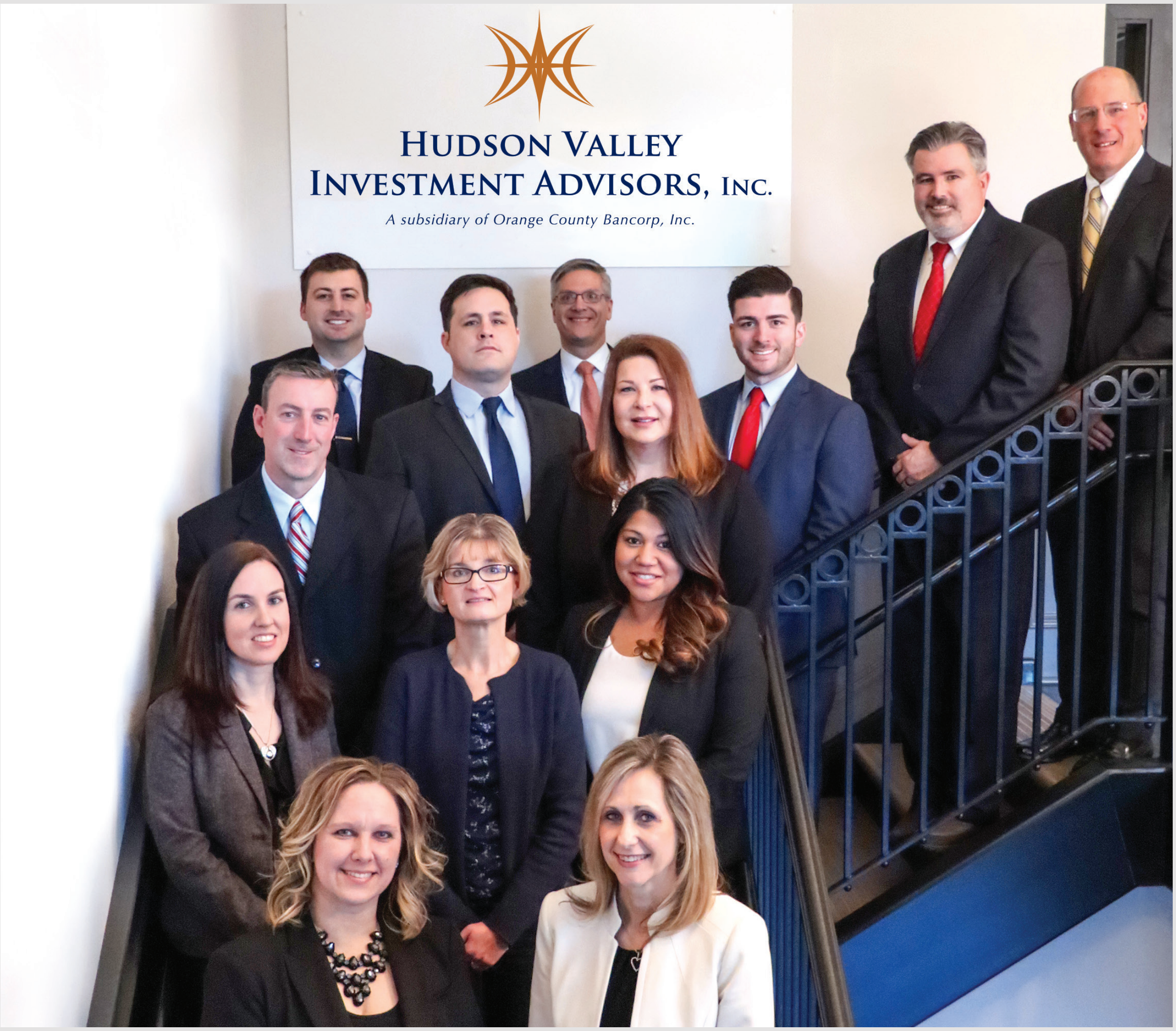
Operated as a division of the Bank, Private Banking is a client-driven service model that offers a high-touch level of attention across:

- **Deposit Products** (Cash Management/Treasury)
- **Loans** (both Commercial and Residential)
- **Trust, Estate and Custody Services**
- **Investment Advisory** (through HVIA)

# Trust Services Grows 22% Over Previous Year

The Trust Services Division achieved a major milestone in 2019, with client assets surpassing $500 million, closing the year out at $513 million. This represented **22% growth** in client assets over year end 2018. The Division's fiduciary assets grew to $260 million, representing **an increase of 27%**, with continued strong growth in the Special Needs Trusts, Court Appointed Trusts and Guardianships. At year end, the Division had **over 200 client relationships** and $180 million in trust assets in this category. Our Westchester Division continued on its strong growth trajectory, with $135 million in client assets. The Division continued to significantly increase the contribution to non-interest income of the Bank.

Kathryn Maloney, SVP and Trust Services Director, had the distinguished honor of leading the Trust Services Division of the New York State Bankers Association as the 2019 Chair. In this role, she worked closely with NYBA staff and Trust Executives from major financial institutions and community banks across the state on many issues at the forefront of the trust industry.




# A Record Year for Our Clients and Hudson Valley Investment Advisors

Orange Bank & Trust's subsidiary, HVIA, ended 2019 with record assets under management of approximately **$865 million**. Through careful and thoughtful management, clients saw **asset growth of approximately 15%**. Our HVEIX mutual fund reached **over $22 million**.

Our visibility, marketing and outreach also grew. CEO Gus Scacco continued as a frequent expert guest on the **Fox Business News** program **National Business News**. We expanded our presence in the market with TV Advertising as well as partnering with expert speakers who joined us at our Westchester and Sullivan County events. We also offered economic updates to Orange and surrounding counties.

In the coming year we're planning to expand our presence in Westchester and Rockland Counties. We'll also be gaining additional institutional clients by leveraging the Family Office Market Place. And, we're looking to expand our geographic reach through potential acquisitions, making HVIA even more attractive to clients throughout the region.

# Shoulder to Shoulder We Support Community

Personal relationships, learning about a business' needs and fast, friendly customer service are an incredibly important aspect of local relationship banks like ours. We bring benefits to the communities we serve in Orange, Rockland and Westchester counties by actively engaging in community-based events, non-profit organizations, education and more.

Last year our employees volunteered and lent their professional talent to a number of organizations while we also offered financial support through sponsorships, donations and fundraising efforts.

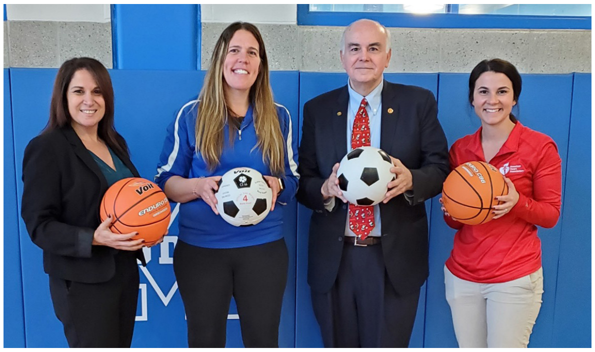
## Y, Yes Community Matters to Us

YMCA of Middletown has been an important part of our community for over 60 years. On September 27, 2019, representatives from the Y presented the Bank with the 2019 Legacy Award for our continuous support and dedication to our community.

They also honored our very own, Marjorie Buckley, VP Branch Administrator, at the 2nd Annual "Fall for the Y" Gala. Marjorie is a longtime volunteer and Board Member of the YMCA. Her commitment to the Y and their mission has helped change the lives of families and adults in our community.

## Orange Supports Red

Michael DiSalvo, VP, Commercial Loan Officer and Carla Alfieri VP, Private Banking visited Presidential Heights School to donate sports equipment that was purchased by the American Heart Association with the funds raised during the Wear Red campaign by Orange Bank & Trust.



**Pictured from left to right: Carla Alfieri, Melanie Layton, Youth Market Director, Michael DiSalvo, and Judy Stalter, the PE teacher.**

## Anthony Mormile is the Bronx's Superman

SVP/Senior Commercial Loan Officer, Anthony Mormile, attended the VISIONS Bronx Advisory Board Celebrity Bartending Event. Anthony attended alongside the other "Bronx Supermen" helping the VISIONS mission.

VISIONS is an organization that provides rehabilitation training, social services, employment training, and career development for individuals who are blind or visually impaired.

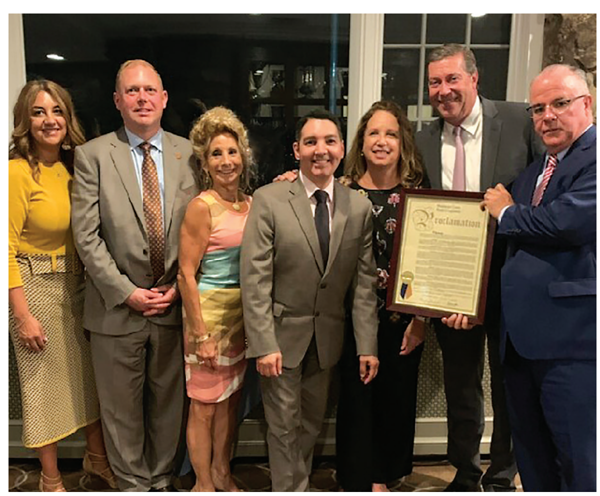
**Picture here from left to right: James Pratti, Ashley Columbo, Jeffrey Rappaport, Travis Podolec, Nicole Tompkins, Peter Zajac**

## Warwick Playground Dreams

A Team from Orange Bank & Trust donated their time and energy to help build the new ADA- accessible playground in Warwick, NY. The playground is designed to ensure that children of all abilities have access to playground components that allows them to play together in a safe, truly inclusive environment. It fosters children's creative spirit and encourages free play that is necessary for both physical and cognitive development.

## Caring for Families in Westchester

Orange Bank & Trust was honored at the Midsummer Dinner and Auction hosted by Sheltering the Homeless is Our Responsibility (SHORE) and the Interfaith Council for Affordable Residence (I CARE). SHORE develops and manages permanent housing for families without homes in Westchester County. We are proud to support these organizations and their mission.



Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Orange County Bancorp, Inc.
Middletown, New York

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Orange County Bancorp, Inc., which comprise the consolidated statements of condition as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to consolidated financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orange County Bancorp, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Other Legal and Regulatory Requirements***

We also have audited in accordance with auditing standards generally accepted in the United States of America, Orange County Bancorp, Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in the Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to the reporting objectives for the express purposes of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated April 30, 2020, expressed an unmodified opinion.

Crowe LLP

Crowe LLP

Livingston, New Jersey
April 30, 2020

# Consolidated Statements Of Condition

## December 31, 2019 and 2018

(Dollar Amounts in thousands except per share data)

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | **$ 25,112** | $ 18,374 |
| Investment securities - available-for-sale | **254,915** | 255,536 |
| Restricted investment in bank stocks | **1,474** | 2,522 |
| Loans | **890,704** | 737,076 |
| Allowance for loan losses | **(12,275)** | (10,663) |
| Loans, net | **878,429** | 726,413 |
| Net Premises and equipment | **14,599** | 13,934 |
| Accrued interest receivable | **3,202** | 3,008 |
| Cash surrender value of bank-owned life insurance | **27,818** | 27,128 |
| Goodwill | **5,359** | 5,359 |
| Intangible assets | **2,249** | 2,535 |
| Other assets | **15,273** | 10,064 |
| TOTAL ASSETS | **$ 1,228,430** | $ 1,064,873 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Deposits: | | |
| Noninterest bearing | **$ 335,469** | $ 240,432 |
| Interest bearing | **747,663** | 664,576 |
| Total deposits | **1,083,132** | 905,008 |
| FHLB advances | **5,000** | 35,500 |
| Note payable | **3,000** | 3,057 |
| Accrued expenses and other liabilities | **16,357** | 12,768 |
| TOTAL LIABILITIES | **1,107,489** | 956,333 |
| **STOCKHOLDERS' EQUITY** | | |
| Common stock, $0.50 par value; 15,000,000 shares authorized; 4,533,304 issued; 4,504,389 and 4,501,125 outstanding, at December 31, 2019 and 2018, respectively | **2,266** | 2,266 |
| Surplus | **85,178** | 85,496 |
| Undivided profits | **38,467** | 30,956 |
| Accumulated other comprehensive loss, net of taxes | **(4,044)** | (8,986) |
| Treasury stock, at cost; 28,915 and 32,179 shares at December 31, 2019 and 2018, respectively | **(926)** | (1,192) |
| TOTAL STOCKHOLDERS' EQUITY | **120,941** | 108,540 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | **$ 1,228,430** | $ 1,064,873 |

See accompanying notes

# Consolidated Statements Of Income

## Years Ended December 31, 2019 and 2018

(Dollar Amounts in thousands except per share data)

| | 2019 | 2018 |
|---|---|---|
| **INTEREST INCOME** | | |
| Interest and fees on loans | **$ 40,977** | $ 31,608 |
| Interest on investment securities: | | |
| Taxable | **5,732** | 4,944 |
| Tax exempt | **641** | 1,416 |
| Interest on Federal funds sold and other | **945** | 731 |
| TOTAL INTEREST INCOME | **48,295** | 38,699 |
| **INTEREST EXPENSE** | | |
| Interest on savings and NOW accounts | **3,291** | 1,488 |
| Interest on time deposits | **1,221** | 873 |
| Interest on FHLB advances | **147** | 241 |
| Interest on note payable | **181** | 185 |
| TOTAL INTEREST EXPENSE | **4,840** | 2,787 |
| NET INTEREST INCOME | **43,455** | 35,912 |
| Provision for loan losses | **2,195** | 2,465 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | **41,260** | 33,447 |
| **OTHER OPERATING INCOME** | | |
| Service charges on deposit accounts | **921** | 932 |
| Trust income | **3,531** | 3,165 |
| Investment advisory income | **4,545** | 4,332 |
| Investment securities losses | **(219)** | - |
| Earnings on bank-owned life insurance | **690** | 691 |
| Other | **964** | 899 |
| TOTAL OTHER OPERATING INCOME | **10,432** | 10,019 |
| **OTHER OPERATING EXPENSES** | | |
| Salaries | **17,066** | 15,058 |
| Employee benefits | **4,128** | 3,534 |
| Occupancy expense | **2,818** | 2,724 |
| Furniture and equipment expense | **705** | 615 |
| Professional fees | **2,342** | 2,658 |
| Directors' fees and expenses | **1,108** | 984 |
| Computer software expense | **3,133** | 2,777 |
| FDIC assessment | **370** | 521 |
| Advertising expenses | **1,177** | 990 |
| Advisor expenses related to trust income | **995** | 842 |
| Telephone expenses | **459** | 410 |
| Intangible amortization | **286** | 286 |
| Other | **3,181** | 2,887 |
| TOTAL OTHER OPERATING EXPENSES | **37,768** | 34,286 |
| Income before income taxes | **13,924** | 9,180 |
| Provision for income taxes | **2,826** | 1,628 |
| NET INCOME | **$ 11,098** | $ 7,552 |
| Earnings per share | **$ 2.47** | $ 1.87 |
| Weighted average shares outstanding | **4,484,317** | 4,034,633 |

See accompanying notes

# Consolidated Statements Of Comprehensive Income

## Years Ended December 31, 2019 and 2018

(Dollar Amounts in thousands except per share data)

| | 2019 | 2018 |
|---|---|---|
| **Net Income** | **$ 11,098** | $ 7,552 |
| **Other comprehensive income (loss):** | | |
| Unrealized gains/losses on securities: | | |
| Unrealized holding gain/(loss) arising during the year | **5,794** | (3,584) |
| Reclassification adjustment for losses/(gains) included in net income | **219** | - |
| Tax effect | **1,171** | (934) |
| Net of tax | **4,404** | (2,650) |
| Defined benefit pension plans: | | |
| Net (loss)/gain arising during the period | **584** | (863) |
| Reclassification adjustment for amortization of prior service cost and net loss/(gains) included in net periodic pension cost | **(111)** | (73) |
| Tax effect | **146** | (208) |
| Net of tax | **549** | (582) |
| Deferred compensation liability: | | |
| Unrealized loss | **(13)** | (421) |
| Tax effect | **(2)** | (130) |
| Net of tax | **(11)** | (291) |
| Total other comprehensive income (loss) | **4,942** | (3,523) |
| Total comprehensive income | **$ 16,040** | $ 4,029 |

See accompanying notes

# Consolidated Statements Of Changes In Stockholders' Equity

## Years Ended December 31, 2019 and 2018

(Dollar Amounts in thousands except per share data)

| | Common Stock | Surplus | Undivided Profits | Accumulated Other Comprehensive Loss | Treasury Stock | Total |
|---|---|---|---|---|---|---|
| **Balance, January 1, 2018** | $ 1,983 | $ 69,476 | $ 26,668 | $ (5,463) | $ (1,356) | $ 91,308 |
| Net income | - | - | 7,552 | - | - | 7,552 |
| Other comprehensive loss, net of taxes | - | - | - | (3,523) | - | (3,523) |
| Cash dividends declared ($0.80 per share) | - | - | (3,264) | - | - | (3,264) |
| Issue of restricted stock (8,682 shares) | - | (350) | - | - | 350 | - |
| Treasury stock purchased (7,382 shares) | - | - | - | - | (186) | (186) |
| Restricted stock expense | - | 228 | - | - | - | 228 |
| Issuance of common shares at $29.00 per share (566,783 shares) | 283 | 16,142 | - | - | - | 16,425 |
| **Balance, December 31, 2018** | 2,266 | 85,496 | 30,956 | (8,986) | (1,192) | 108,540 |
| Net income | - | - | 11,098 | - | - | 11,098 |
| Other comprehensive income, net of taxes | - | - | - | 4,942 | - | 4,942 |
| Cash dividends declared ($0.80 per share) | - | - | (3,587) | - | - | (3,587) |
| Issue of restricted stock (13,873 shares) | - | (603) | - | - | 603 | - |
| Treasury stock purchased (15,928 shares) | - | - | - | - | (380) | (380) |
| Restricted stock expense | - | 319 | - | - | - | 319 |
| Stock-based compensation | - | 53 | - | - | 43 | 96 |
| Stock issuance costs | - | (87) | - | - | - | (87) |
| **Balance, December 31, 2019** | $ 2,266 | $ 85,178 | $ 38,467 | $ (4,044) | $ (926) | $ 120,941 |

See accompanying notes

# Consolidated Statements Of Cash Flows

## Years Ended December 31, 2019 and 2018

(Dollar Amounts in thousands except per share data)

| | 2019 | 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | **$ 11,098** | $ 7,552 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | **2,195** | 2,465 |
| Depreciation and amortization | **1,189** | 1,112 |
| Accretion on loans | **(774)** | (665) |
| Amortization of intangibles | **286** | 286 |
| Deferred income tax provision (benefit) | **528** | (190) |
| Investment securities losses | **219** | - |
| Restricted stock expense | **319** | 228 |
| Stock-based compensation | **144** | - |
| Net amortization of investment premiums | **2,242** | 2,732 |
| Earnings on bank-owned life insurance | **(690)** | (691) |
| Net change in: | | |
| Accrued interest receivable | **(194)** | (210) |
| Other assets | (6,359) | 354 |
| Other liabilities | **3,530** | (1,009) |
| Net cash from operating activities | **13,733** | 11,963 |
| **Cash flows from investing activities** | | |
| Purchases of investment securities available-for-sale | **(99,355)** | (33,706) |
| Proceeds from sales of investment securities available-for-sale | **82,388** | - |
| Proceeds from maturities and calls of investment securities available-for-sale | **20,702** | 69,552 |
| Decrease (increase) in restricted investment in bank stocks, net | **1,048** | (705) |
| Loans Purchased | **(24,540)** | (39,055) |
| Principal returned on purchased loans | **3,821** | 5,088 |
| Net cash from branch sale | **-** | 375 |
| Net increase in loans | **(132,718)** | (133,130) |
| Additions to premises and equipment | **(1,854)** | (1,432) |
| Net cash from investing activities | **(150,508)** | (133,013) |
| **Cash flows from financing activities** | | |
| Net increase in deposits | **178,124** | 96,218 |
| Net decrease in deposits held for sale | **-** | (15,433) |
| Net change in FHLB overnight advances | **(20,500)** | 25,500 |
| Net change in FHLB term advances | **(10,000)** | (10,000) |
| Repayments of note payable | **(57)** | (56) |
| (Expenses for) poceeds from issuance of common stock | **(87)** | 16,425 |
| Cash dividends paid | **(3,587)** | (3,264) |
| Purchases of treasury stock | **(380)** | (186) |
| Net cash from financing activities | **143,513** | 109,204 |
| Net change in cash and cash equivalents | **6,738** | (11,846) |
| Beginning cash and cash equivalents | **18,374** | 30,220 |
| **Ending cash and cash equivalents** | **$ 25,112** | $ 18,374 |
| Supplementary Cash Flow Information | | |
| Interest paid | **$ 4,840** | $ 2,720 |
| Income taxes paid | **2,876** | 460 |
| Supplementary Schedule of Non Cash Investing Activities | | |
| Initial recognition of operating lease right-of-use asset | **1,368** | - |
| Initial recognition of operating lease liabilities | **1,368** | - |
| Transfer of loans from held for sale to portfolio | **$ -** | $ 3,765 |
| Premises and equipment transferred to assets held for sale | **-** | (761) |

See accompanying notes

## Note 1 - Summary of Significant Accounting Policies

***Nature of Operations and Principles of Consolidation:*** The consolidated financial statements include Orange County Bancorp, Inc. (the Company) and its wholly owned subsidiaries: Orange Bank & Trust Company (the Bank) and Hudson Valley Investment Advisors (HVIA), a Registered Investment Advisor, together referred to as "the Company." Intercompany transactions and balances are eliminated in consolidation.

The Company provides commercial and consumer banking services to individuals, small businesses and local municipal governments as well as trust and investment services through the Bank and HVIA. The Company is headquartered in Middletown, New York, with eight locations in Orange County, New York, five in Westchester County, New York and one in Rockland County, New York. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are commercial real estate, commercial and residential mortgage loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the areas in which they operate.

Assets held by the Company in an agency or fiduciary capacity for its customers are excluded from the consolidated financial statements since they do not constitute assets of the Company. Assets held by the Company amounted to $1,102,794 and $942,298 at December 31, 2019 and 2018, respectively.

***Subsequent Events:*** The Company has evaluated subsequent events for recognition and disclosure through April 30, 2020, which is the date the financial statements were available to be issued.

***Use of Estimates:*** To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

***Cash Flows:*** Cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, restricted investment in bank stocks, and short-term FHLB advances.

***Securities:*** Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

**Note 1 - Summary of Significant Accounting Policies** (continued)

***Loans:*** Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on loans is discontinued and placed on non-accrual status at the time the loan is 120 days (in the case of residential mortgage loans) or 90 days (in the case of commercial loans) delinquent unless the loan is well-secured and in process of collection. Loans are charged off to the extent principal or interest is deemed uncollectible. Secured consumer loans, except those secured by the borrower's primary or secondary residence, are charged off upon becoming 180 days past due, or whenever collection is doubtful, whichever occurs first. All unsecured consumer loans are charged off when they become 180 days delinquent or if it is determined that the debt is uncollectible, whichever occurs first. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued but not received for loans placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

***Concentration of Credit Risk:*** Most of the Company's business activity is with customers located within the New York counties of Orange, Westchester and Rockland. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy in these counties. The Company's largest loan segment is non-owner occupied commercial real estate. Property types within this segment include: multi-family properties, retail properties, and general construction loans. Regionally, commercial real estate loans are concentrated within the Company's primary operating footprint, including Orange, Westchester, and Rockland counties. Commercial and industrial loans are concentrated in Orange County, New York and outside of the Company's core market, primarily as a result of purchased loans. While industry exposure is widely dispersed, the Company does have a significant concentration of commercial and industrial loans within the healthcare and social assistance industry.

***Allowance for Loan Losses:*** The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

All criticized and classified consumer mortgages, commercial loans, and commercial real estate loans are reviewed to determine impairment status. Minimally, loans in which the borrower has filed bankruptcy; loans in non-accrual status; or loans that are considered a TDR would be considered impaired. If a loan is impaired, a portion of the allowance is allocated so that the loan is

**Note 1 - Summary of Significant Accounting Policies** (continued)

reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. A specific allocation within the allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Bank's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values of collateral are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging reports, equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

Troubled debt restructurings are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired. The Company incorporates recent historical experience related to TDRs including the performance of TDRs that subsequently default into the calculation of the allowance by loan portfolio segment.

The general component covers loans that are collectively evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer, are collectively evaluated for impairment, and accordingly, they are not included in the separately identified impairment disclosures. The general allowance component also includes loans that are not individually identified for impairment evaluation, such as those loans that are individually evaluated but are not considered impaired. The general component is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 4 years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans (including TDRs); levels of and trends in charge-offs and recoveries; migration of loans to the classification of special mention, substandard,

or doubtful; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentration.

In addition, federal regulatory agencies and the New York State Department of Financial Services, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the level of the allowance for losses is adequate at December 31, 2019 and 2018.

**Note 1 - Summary of Significant Accounting Policies** (continued)

The loan portfolio is segmented into commercial, residential real estate, home equity, and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate and commercial real estate construction.

***Commercial and Industrial Lending:*** The Bank originates commercial and industrial loans primarily to businesses located in its primary market area and surrounding areas. These loans are used for various business purposes which include short-term loans and lines of credit to finance machinery and equipment purchases, inventory and accounts receivable. Generally, the maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Most business lines of credit are written on demand and may be renewed annually.

Commercial and industrial loans are generally secured with short-term assets; however, in many cases, additional collateral such as real estate is provided as additional security for the loan. Loan-to-value maximum values have been established by the Bank and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, collateral appraisals, etc.

In underwriting commercial and industrial loans, an analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of conditions affecting the borrower is performed. Analysis of the borrower's past, present and future cash flows is also an important aspect of the Bank's analysis.

Commercial loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions.

***Commercial Real Estate Lending –*** The Bank engages in commercial real estate lending in its primary market area and surrounding areas. The Bank's commercial loan portfolio is secured primarily by commercial retail space and office buildings. Generally, commercial real estate loans have maturities that do not exceed 15 years, amortization provisions that do not exceed 30 years, have loan-to-value ratios of up to 75% of the appraised value of the property, and are typically credit enhanced by personal guarantees of the borrowers.

In underwriting these loans, the Bank performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. Appraisals on properties securing commercial real estate loans originated by the Bank are performed by independent appraisers.

Commercial real estate loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions.

***Commercial Real Estate Construction Lending:*** The Bank engages in commercial real estate construction lending in its primary market area and surrounding areas. The Bank's commercial real estate construction lending consists of commercial and residential site development loans as well as commercial building construction and residential housing construction loans.

The Bank's commercial real estate construction loans are generally secured with the subject property. Terms of construction loans depend on the specifics of the project such as, estimated absorption rates, estimated time to complete, etc.

In underwriting commercial real estate construction loans, the Bank performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, the reliability and predictability of the cash flow generated by the project using feasibility studies, market data, etc.

Appraisals on properties securing commercial real estate construction loans originated by the Bank are performed by independent appraisers.

Commercial real estate construction loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and uncertainties of construction costs.

**Note 1 - Summary of Significant Accounting Policies** (continued)

***Residential Real Estate Lending:*** One-to-four-family residential mortgage loan originations are generated by the Bank's marketing efforts, its present customers, walk-in customers and referrals. These loans originate primarily within the Bank's market area or with customers primarily from the market area.

The Bank offers fixed-rate loans with terms up to a maximum of 20 years for both permanent structures and those under construction. The Bank's one- to four-family residential real estate loan originations are secured primarily by properties located in its primary market area and surrounding areas. The majority of the Bank's residential real estate loans originate with a loan-to-value of 80% or less. Loans in excess of 80% are required to have private mortgage insurance.

In underwriting one- to four-family residential real estate loans, the Bank evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Properties securing real estate loans made by the Bank are appraised by independent appraisers. The Bank generally requires borrowers to obtain an attorney's title opinion or title insurance, and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. The Bank has not engaged in sub-prime residential mortgage originations.

Residential real estate loans generally present a lower level of risk than other types of loans because they are secured by the borrower's primary residence.

***Home Equity Lending:*** The Bank originates home equity lines of credit and closed-end loans primarily within the Bank's market area or with customers primarily from the market area.

Home equity lines and loans are secured by the borrower's primary residence with a maximum loan-to-value of 85% and a maximum term of 15 years on home equity loans and a 10-year draw period followed by a 15-year repayment period for home equity lines.

In underwriting home equity lines and loans, a thorough analysis of the borrower's financial ability to repay the loan as agreed is performed. The ability to repay shall be determined by the borrower's employment history, current financial conditions, and credit background. The analysis is based primarily on the customer's ability to repay and secondarily on the collateral or security.

Home equity lines and loans generally present a lower level of risk than other types of consumer loans because they are secured by the borrower's primary residence.

The subordinate nature of some home equity lines and loans may make these loans of higher risk than other residential real estate loans.

***Consumer Lending:*** The Bank offers a variety of secured and unsecured consumer loans, including vehicle, loans secured by savings deposits as well as other types of consumer loans.

Consumer loan terms vary according to the type and value of collateral and creditworthiness of the borrower. In underwriting consumer loans, a thorough analysis of the borrower's financial ability to repay the loan as agreed is performed. The ability to repay shall be determined by the borrower's employment history, current financial conditions, and credit background.

Consumer loans may entail greater credit risk than do residential real estate loans particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

**Note 1 - Summary of Significant Accounting Policies** (continued)

***Transfers of Financial Assets:*** Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

***Foreclosed Assets:*** Foreclosed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of real estate property collateralizing a mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

***Premises and Equipment:*** Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 5 to 50 years. Furniture, fixtures and equipment are depreciated using the straight-line (or accelerated) method with useful lives ranging from 3 to 8 years.

***Trust and Investment Advisory Income:*** The Company earns trust revenue and advisory revenue from a variety of sources including fees from trust administration and other related fiduciary services, custody, investment management and advisory services, employee benefit account and IRA administration, estate settlement, tax service fees, shareholder service fees and brokerage. These fees are generally based on asset values and fluctuate with the market. Some revenue is not directly tied to asset value but is based on a flat fee for services provided. For many of our revenue sources, amounts are not received in the same accounting period in which they are earned. However, each source of wealth management fees is recorded on the accrual method of accounting.

Included in other assets on the balance sheet is a receivable for trust fees and advisory fees that have been earned but not yet collected.

***Federal Home Loan Bank (FHLB) Stock:*** The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

***Federal Reserve Bank (FRB) Stock:*** The Bank is a member of its regional Federal Reserve Bank. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

***Bank Owned Life Insurance:*** The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

***Goodwill and Other Intangible Assets:*** Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any non-controlling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. The Company has selected October 1 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

**Note 1 - Summary of Significant Accounting Policies** (continued)

Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from whole bank and branch acquisitions are amortized on an accelerated method over their estimated useful lives, which range from 7 to 10 years.

***Loan Commitments and Related Financial Instruments:*** Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

***Stock-Based Compensation:*** Compensation cost is recognized for restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. The market price of the Company's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize forfeitures as they occur.

***Income Taxes:*** Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in miscellaneous expense.

***Retirement Plans:*** Pension expense is the net of service and interest cost, return on plan assets and amortization of gains and losses not immediately recognized. Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

***Earnings per Common Share:*** Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements. The average number of shares outstanding during 2019 and 2018 was 4,484,317 and 4,034,633 respectively, as adjusted for the effect of the 2 for 1 stock split completed on February 23, 2018. The Company currently maintains a simple capital structure, which includes restricted stock with participation rights to dividends, thus there are no dilutive effects on earnings per share.

***Comprehensive Income:*** Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale and changes in the funded status of the pension plan, which are also recognized as separate components of equity.

***Loss Contingencies:*** Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

***Restrictions on Cash:*** Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

***Dividend Restriction:*** Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

**Note 1 - Summary of Significant Accounting Policies** (continued)

***Fair Value of Financial Instruments:*** Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

***Segment Disclosure:*** The reportable segments are determined by the products and services offered by the Company, primarily distinguished between banking and wealth management.

***Reclassifications:*** Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

***Adoption of New Accounting Standards:*** On January 1, 2018, the Company adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. The majority of the Company's revenues come from interest income and other sources, including loans, leases, securities and derivatives, which are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within Non-Interest Income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges on deposit accounts, interchange income, wealth management fees, investment brokerage fees, and the sale of OREO. Refer to Note 16 *Revenue from Contracts with Customers* for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606. The Company elected the modified retrospective approach of adoption. The impact of this adoption was not material.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments". This guidance amends existing guidance to improve accounting standards for financial instruments including clarification and simplification of accounting and disclosure requirements and the requirement for public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The Company adopted the guidance effective January 1, 2018. Upon adoption, the fair value of the Company's loan portfolio is now presented using an exit price method.

On December 31, 2019, the Company adopted ASU No. 2016-02, Leases Topic 842 and subsequent amendments thereto, which requires the company to recognize most leases on the balance sheet. The standard was adopted under a modified retrospective approach as of the date of adoption and elected to apply several of the available practical expedients, including

- Carry over historical lease determination and lease classification conclusions
- Carry over of historical initial direct cost balances for existing leases
- Accounting for lease and non-lease components in contracts in which the Company is a lessee as a single lease component.

Adoption of the leasing standard resulted in the recognition of right-of-use assets of $1,367, and operating lease liabilities of $1,367 as of December 31, 2019. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the company's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Company's Consolidated Income Statements. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Company's leasing activities are presented in Note 14-Leases.

**Note 2 - Investment Securities**

The amortized cost and fair value of investment securities at December 31, 2019 and 2018 were as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available-for-sale December 31, 2019** | | | | |
| U.S. government agencies | **$ 84,746** | **$ 273** | **$ (730)** | **$ 84,289** |
| Mortgage-backed securities | **158,246** | **1,463** | **(620)** | **$ 159,089** |
| Obligations of states and political subdivisions | **11,367** | **170** | **-** | **$ 11,537** |
| Total debt securities | **$ 254,359** | **$ 1,906** | **$ (1,350)** | **$ 254,915** |
| **Available-for-sale December 31, 2018** | | | | |
| U.S. government agencies | $ 96,434 | $ 120 | $ (1,527) | $ 95,027 |
| Mortgage-backed securities | 115,914 | - | (3,516) | $ 112,398 |
| Obligations of states and political subdivisions | 48,207 | 162 | (258) | $ 48,111 |
| Total debt securities | $ 260,555 | $ 282 | $ (5,301) | $ 255,536 |

Proceeds from sales of securities during 2019 and 2018 were $82,388 and $0, respectively. Gross losses in those years were $219 and $0, respectively.

The amortized cost and fair value of debt securities as of December 31, 2019 are shown by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| (in thousands) | Available-for-sale | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Due in one year or less | $ 20,483 | $ 20,464 |
| Due after one through five years | 38,785 | 38,651 |
| Due after five through ten years | 23,767 | 23,720 |
| Due after ten years | 13,077 | 12,990 |
| | 96,113 | 95,826 |
| Mortgage-backed securities | 158,246 | 159,089 |
| Total debt securities | $ 254,359 | $ 254,915 |

Securities pledged at year-end 2019 and 2018 had a carrying amount of $105,709 and $116,364 and were pledged to secure public deposits.

Mortgage-backed securities are issued by FNMA, FHMC, or GNMA. Obligations of states and political subdivisions consist of general obligations of municipalities in the state of New York.

(Dollar Amounts in thousands except per share data)

**Note 2 - Investment Securities** (continued)

At year-end 2019 and 2018, there were no holdings of securities of any one issuer, other than the US Government and its agencies, in an amount greater than 10% of shareholders' equity.

The following table summarizes securities with unrealized and unrecognized losses at December 31, 2019 and 2018, aggregated by major security types and length of time in continuous loss position:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **Available-for-sale December 31, 2019** | | | | | | |
| U.S. government agencies | **$ 18,502** | **$ (87)** | **$ 26,404** | **$ (643)** | **$ 44,906** | **$ (730)** |
| Mortgage-backed securities | **23,941** | **(182)** | **36,272** | **(438)** | **60,213** | **(620)** |
| Obligations of states and political subdivisions | **-** | **-** | **-** | **-** | **-** | **-** |
| Total debt securities | **$ 42,443** | **$ (269)** | **$ 62,676** | **$ (1,081)** | **$ 105,119** | **$ (1,350)** |
| Available-for-sale December 31, 2018 | | | | | | |
| U.S. government agencies | $ 29,708 | $ (447) | $ 45,362 | $ (1,080) | $ 75,070 | $ (1,527) |
| Mortgage-backed securities | 1,527 | (27) | 110,870 | (3,489) | 112,397 | (3,516) |
| Obligations of states and political subdivisions | 4,863 | (25) | 20,896 | (233) | 25,759 | (258) |
| Total debt securities | $ 36,098 | $ (499) | $ 177,128 | $ (4,802) | $ 213,226 | $ (5,301) |

There was no other than temporary impairment loss recognized on any securities at December 31, 2019 or 2018.

As of December 31, 2019, the Company's security portfolio consisted of 156 securities, 42 of which were in an unrealized loss position. As of December 31, 2018, the Company's security portfolio consisted of 255 securities, 150 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's mortgage backed and U.S. government agency securities as discussed below.

At December 31, 2019, 100% of the mortgage-backed securities held by the company were issues by U.S. government sponsored entities and agencies. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other than temporarily impaired at December 31, 2019.

The Company's unrealized losses on U.S. government agency securities relate primarily to its investment in Small Business Agency ("SBA") issued securities. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other than temporarily impaired at December 31, 2019

**Note 3 - Loans**

Loans at year-end were as follows:

| | **2019** | 2018 |
|---|---|---|
| Commercial and industrial | **$ 221,702** | $ 179,278 |
| Commercial real estate | **533,396** | 456,838 |
| Commercial real estate construction | **56,412** | 28,863 |
| Residential real estate | **65,290** | 59,215 |
| Home equity | **11,668** | 10,641 |
| Consumer | **2,236** | 2,241 |
| Total | **$ 890,704** | $ 737,076 |

(Dollar Amounts in thousands except per share data)

**Note 3 – Loans** (continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for each of the years ending December 31, 2019 and 2018:

| | Commercial and Industrial | Commercial Real Estate | Commercial Real Estate Construction | Residential Real Estate | Home Equity | Consumer | Total |
|---|---|---|---|---|---|---|---|
| **December 31, 2019** | | | | | | | |
| **Allowance for loan losses:** | | | | | | | |
| Beginning balance | $ 3,883 | $ 5,708 | $ 567 | $ 353 | $ 105 | $ 47 | $ 10,663 |
| Provision for loan losses (benefits) | 1,469 | 645 | 146 | (84) | (61) | 80 | 2,195 |
| Loans charged-off | (352) | (453) | - | (41) | (1) | (59) | (906) |
| Recoveries | 107 | 51 | - | 156 | - | 9 | 323 |
| Ending balance | $ 5,107 | $ 5,951 | $ 713 | $ 384 | $ 43 | $ 77 | $ 12,275 |

| | Commercial and Industrial | Commercial Real Estate | Commercial Real Estate Construction | Residential Real Estate | Home Equity | Consumer | Total |
|---|---|---|---|---|---|---|---|
| **December 31, 2018** | | | | | | | |
| **Allowance for loan losses:** | | | | | | | |
| Beginning balance | $ 2,906 | $ 4,858 | $ 538 | $ 180 | $ 27 | $ 17 | $ 8,526 |
| Provision for loan losses (benefits) | 1,204 | 829 | 29 | 137 | 236 | 30 | 2,465 |
| Loans charged-off | (232) | (33) | - | (52) | (158) | (10) | (485) |
| Recoveries | 5 | 54 | - | 88 | - | 10 | 157 |
| Ending balance | $ 3,883 | $ 5,708 | $ 567 | $ 353 | $ 105 | $ 47 | $ 10,663 |

(Dollar Amounts in thousands except per share data)

**Note 3 – Loans** (continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2019 and 2018:

| | Commercial and Industrial | Commercial Real Estate | Commercial Real Estate Construction | Residential Real Estate | Home Equity | Consumer | Total |
|---|---|---|---|---|---|---|---|
| **December 31, 2019** | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Ending balance: | | | | | | | |
| individually evaluated for impairment | **$ 446** | **$ 655** | **$ -** | **$ 24** | **$ -** | **$ 28** | **$ 1,153** |
| collectively evaluated for impairment | **4,661** | **5,296** | **713** | **360** | **43** | **49** | **11,122** |
| Total ending allowance balance | **$ 5,107** | **$ 5,951** | **$ 713** | **$ 384** | **$ 43** | **$ 77** | **$ 12,275** |
| Loans: | | | | | | | |
| Ending balance: | | | | | | | |
| individually evaluated for impairment | **$ 502** | **$ 12,127** | **$ -** | **$ 224** | **$ -** | **$ 132** | **$ 12,985** |
| collectively evaluated for impairment | **221,200** | **521,269** | **56,412** | **65,066** | **11,668** | **2,104** | **877,719** |
| Total ending loans balance | **$ 221,702** | **$ 533,396** | **$ 56,412** | **$ 65,290** | **$ 11,668** | **$ 2,236** | **$ 890,704** |
| **December 31, 2018** | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Ending balance: | | | | | | | |
| individually evaluated for impairment | $ 104 | $ 874 | $ - | $ 101 | $ 66 | $ 4 | $ 1,149 |
| collectively evaluated for impairment | 3,779 | 4,834 | 567 | 252 | 39 | 43 | 9,514 |
| Total ending allowance balance | $ 3,883 | $ 5,708 | $ 567 | $ 353 | $ 105 | $ 47 | $ 10,663 |
| Loans: | | | | | | | |
| Ending balance: | | | | | | | |
| individually evaluated for impairment | $ 362 | $ 13,757 | $ - | $ 345 | $ 98 | $ 141 | $ 14,703 |
| collectively evaluated for impairment | 178,916 | 443,081 | 28,863 | 58,870 | 10,543 | 2,100 | 722,373 |
| Total ending loans balance | $ 179,278 | $ 456,838 | $ 28,863 | $ 59,215 | $ 10,641 | $ 2,241 | $ 737,076 |

(Dollar Amounts in thousands except per share data)

**Note 3 – Loans** (continued)

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2019 and 2018:

| | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Recognized |
|---|---|---|---|---|---|---|
| **December 31, 2019** | | | | | | |
| **With no related allowance recorded** | | | | | | |
| **Commercial and industrial** | **$ 7** | **$ 7** | **$ -** | **$ 7** | **$ 1** | **$ 1** |
| **Commercial real estate** | **627** | **627** | **-** | **627** | **40** | **40** |
| **Commercial real estate construction** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Residential real estate** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Home equity** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Consumer** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **$ 634** | **$ 634** | **$ -** | **$ 634** | **$ 41** | **$ 41** |
| **With an allowance recorded:** | | | | | | |
| **Commercial and industrial** | **$ 495** | **$ 495** | **$ 446** | **$ 495** | **$ 9** | **$ 9** |
| **Commercial real estate** | **13,357** | **11,500** | **655** | **11,500** | **708** | **708** |
| **Commercial real estate construction** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Residential real estate** | **224** | **224** | **24** | **224** | **10** | **10** |
| **Home equity** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Consumer** | **132** | **132** | **28** | **132** | **8** | **8** |
| **Total** | **$ 14,208** | **$ 12,351** | **$ 1,153** | **$ 12,351** | **$ 735** | **$ 735** |
| December 31, 2018 | | | | | | |
| With no related allowance recorded | | | | | | |
| Commercial and industrial | $ 258 | $ 258 | $ - | $ 568 | $ 21 | $ 21 |
| Commercial real estate | 8,486 | 6,971 | - | 9,427 | 529 | 529 |
| Commercial real estate construction | - | - | - | - | - | - |
| Residential real estate | - | - | - | - | - | - |
| Home equity | - | - | - | - | - | - |
| Consumer | - | - | - | 22 | - | - |
| Total | $ 8,744 | $ 7,229 | $ - | $ 10,017 | $ 550 | $ 550 |
| With an allowance recorded: | | | | | | |
| Commercial and industrial | $ 104 | $ 104 | $ 104 | $ 103 | $ 1 | $ 1 |
| Commercial real estate | 6,786 | 6,786 | 874 | 7,209 | 435 | 435 |
| Commercial real estate construction | - | - | - | - | - | - |
| Residential real estate | 345 | 345 | 101 | 356 | 10 | 10 |
| Home equity | 120 | 98 | 66 | 98 | - | - |
| Consumer | 141 | 141 | 4 | 145 | 7 | 7 |
| Total | $ 7,496 | $ 7,474 | $ 1,149 | $ 7,911 | $ 453 | $ 453 |

The cash basis income received on the impaired loans is approximately equal to interest income recognized on these loans.

(Dollar Amounts in thousands except per share data)

**Note 3 – Loans** (continued)

The following tables present the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2019 and December 31, 2018.

| | Non-accrual | | Loans Past Due Over 89 Days Still Accruing | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Commercial and industrial | **$ 502** | $ 104 | **$ 215** | $ 237 |
| Commercial real estate | **959** | 1,419 | **-** | 1,196 |
| Commercial real estate construction | **-** | - | **-** | - |
| Residential real estate | **88** | 204 | **416** | 12 |
| Home equity | **-** | 98 | **51** | - |
| Consumer | **-** | - | **-** | - |
| Total | **$ 1,549** | $ 1,825 | **$ 682** | $ 1,445 |

The following table presents the aging of the recorded investment in past-due loans as of December 31, 2019 and 2018 by class of loans:

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 89 Days | Total Past Due | Loans Not Past Due |
|---|---|---|---|---|---|
| **December 31, 2019** | | | | | |
| Commercial and industrial | **$ 525** | **$ 118** | **$ 717** | **$ 1,360** | **$ 220,570** |
| Commercial real estate | **4,149** | **183** | **959** | **5,291** | **527,603** |
| Commercial real estate construction | **-** | **-** | **-** | **-** | **55,648** |
| Residential real estate | **875** | **-** | **416** | **1,291** | **64,762** |
| Home equity | **125** | **59** | **51** | **235** | **11,433** |
| Consumer | **-** | **-** | **-** | **-** | **2,511** |
| Total | **$ 5,674** | **$ 360** | **$ 2,143** | **$ 8,177** | **$ 882,527** |

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 89 Days | Total Past Due | Loans Not Past Due |
|---|---|---|---|---|---|
| **December 31, 2018** | | | | | |
| Commercial and industrial | $ 738 | $ 117 | $ 169 | $ 1,024 | $ 178,254 |
| Commercial real estate | 1,413 | - | 1,449 | 2,862 | 453,976 |
| Commercial real estate construction | - | - | - | - | 28,863 |
| Residential real estate | 896 | 504 | 115 | 1,515 | 57,700 |
| Home equity | 1,098 | 47 | 98 | 1,243 | 9,398 |
| Consumer | - | 13 | - | 13 | 2,228 |
| Total | $ 4,145 | $ 681 | $ 1,831 | $ 6,657 | $ 730,419 |

As of December 31, 2019, loans in the process of foreclosure were $958,641 of which $0 were secured by residential real estate.

(Dollar Amounts in thousands except per share data)

Note 3 – **Loans** (continued)

***Troubled Debt Restructuring:***

There were no restructured loans that defaulted within twelve months of restructure during 2019 or 2018. As of December 31, 2019, there were no commitments to lend additional funds to borrowers whose loans were classified as troubled debt restructurings.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

There were no loans whose terms were modified resulting in a troubled debt restructuring during the year ending December 31, 2019

***Credit Quality Indicators:*** The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $350 thousand and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on an annual basis. The company uses the following definitions for risk ratings:

> ***Special Mention.*** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or the institution's credit position at some future date.
>
> ***Substandard.*** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
>
> ***Doubtful.*** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

| | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
|---|---|---|---|---|---|---|
| **December 31, 2019** | | | | | | |
| Commercial and industrial | **$ 217,585** | **$ 1,581** | **$ 2,536** | **$ -** | **$ -** | **$ 221,702** |
| Commercial real estate | **518,405** | **4,049** | **10,942** | **-** | **-** | **533,396** |
| Commercial real estate construction | **56,412** | **-** | **-** | **-** | **-** | **56,412** |
| Residential real estate | **64,879** | **-** | **411** | **-** | **-** | **65,290** |
| Home equity | **11,668** | **-** | **-** | **-** | **-** | **11,668** |
| Consumer | **2,104** | **-** | **132** | **-** | **-** | **2,236** |
| Total | **$ 871,053** | **$ 5,630** | **$ 14,021** | **$ -** | **$ -** | **$ 890,704** |

| | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
|---|---|---|---|---|---|---|
| December 31, 2018 | | | | | | |
| Commercial and industrial | $ 175,422 | $ 563 | $ 3,293 | $ - | $ - | $ 179,278 |
| Commercial real estate | 436,406 | 8,771 | 11,661 | - | - | 456,838 |
| Commercial real estate construction | 28,863 | - | - | - | - | 28,863 |
| Residential real estate | 59,109 | - | 106 | - | - | 59,215 |
| Home equity | 10,543 | - | 98 | - | - | 10,641 |
| Consumer | 2,100 | - | 141 | - | - | 2,241 |
| Total | $ 712,443 | $ 9,334 | $ 15,299 | $ - | $ - | $ 737,076 |

(Dollar Amounts in thousands except per share data)

**Note 3 – Loans** (continued)

Loans to certain directors and principal officers of the Company, including their immediate families and companies in which they are principal owners (more than 10%), amounted to $5,443 and $418 at December 31, 2019 and December 31, 2018. Activity for these loans for the years ended December 31, 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance, beginning of year | **$ 418** | $ 459 |
| Additions | **5,069** | - |
| Repayments | **(44)** | (41) |
| Balance, end of year | **$ 5,443** | $ 418 |

**Note 4 - Fair Value**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

*Level 1*: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

*Level 2*: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

*Level 3*: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

***Investment Securities:*** The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

***Impaired Loans:*** The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach and resulted in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted in accordance with the allowance policy.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by a third-party appraisal management company that the Company has engaged in accordance with internal vendor management policies and approval of the Company's Board of Directors. Once received, the appraisal review function is conducted by the appraisal management company and consists of a review of the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Through this review, the appraisal management company evaluates the validity of the appraised value and the strength of the conclusions; which are subsequently confirmed by a member of the Credit Department. Discounts to the appraised value are then applied to recognize the carrying costs incurred until disposition, realtor fees, deterioration in the quality of the asset, and the age of the appraisal. A discount of 20% is typically applied to properties with appraisals performed within 12 months while a discount of 25% is typically applied to properties with appraisals performed longer than 12 months prior to the

(Dollar Amounts in thousands except per share data)

**Note 4 - Fair Value** (continued)

impairment analysis. The net effect of these adjustments were included in the charge-off to the allowance upon acquisition of the foreclosed property and/or upon partial charge-off of the impaired loan. The most recent analysis of property appraisals including the appropriate discount rates are incorporated into the allowance methodology for the respective loan portfolio segments.

Assets and liabilities measured at fair value on a recurring basis, are summarized below:

| | | Fair Value Measurements Using: | | |
|---|---|---|---|---|
| | Total at December 31, 2019 | Quoted Prices in Active Markets for Identicle Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| U.S. government agencies | 84,289 | $ - | $ 84,289 | $ - |
| Mortgage-backed securities | 159,089 | - | 159,089 | - |
| Obligations of states and political subdivisions | 11,537 | - | 11,537 | - |
| Total securities available for sale | $ 254,915 | $ - | $ 254,915 | $ - |

| | | Fair Value Measurements Using: | | |
|---|---|---|---|---|
| | Total at December 31, 2018 | Quoted Prices in Active Markets for Identicle Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| U.S. government agencies | 95,027 | $ - | $ 95,027 | $ - |
| Mortgage-backed securities | 112,398 | - | 112,398 | - |
| Obligations of states and political subdivisions | 48,111 | - | 48,111 | - |
| Total securities available for sale | $ 255,536 | $ - | $ 255,536 | $ - |

There were no transfers between Level 1 and Level 2 during 2019 or 2018.

Assets measured at fair value on a non-recurring basis are summarized below:

| | | Fair Value Measurements Using: | | |
|---|---|---|---|---|
| | Total at December 31, 2019 | Quoted Prices in Active Markets for Identicle Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Impaired loans | $ 1,622 | $ - | $ - | $ 1,622 |

| | | Fair Value Measurements Using: | | |
|---|---|---|---|---|
| | Total at December 31, 2018 | Quoted Prices in Active Markets for Identicle Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Impaired loans | $ 3,640 | $ - | $ - | $ 3,640 |

The fair value amounts shown in the above table are impaired loans net of reserves allocated to said loans. The total reserves allocated to these impaired loans are $364 and $1,011 for December 31, 2019 and 2018 respectively.

(Dollar Amounts in thousands except per share data)

**Note 4 - Fair Value** (continued)

The following table presents additional quantitative information about level 3 fair value measured at fair value on a non-recurring basis at December31, 2019 and 2018:

| December 31, 2019 | Fair Value | Valuation Technique | Unobservable Input | Range (Average) |
|---|---|---|---|---|
| **Impaired loans** | **$ 1,622** | **Appraisal of collateral (1)** | **Appraisal and liquidation adjustments (2)** | **5-20% (10%)** |

| December 31, 2018 | Fair Value Value | Valuation Technique | Unobservable Input | Range (Average) |
|---|---|---|---|---|
| Impaired loans | $ 3,640 | Appraisal of collateral (1) | Appraisal and liquidation adjustments (2) | 5-20% (10%) |

(1) Fair value is generally determined through independent appraisals of the underlying collateral that generally include various level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted downward by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

The carrying amounts and estimated fair values of financial instruments not carried at fair value, at December 31, 2019 and 2018 are as follows:

| | **December 31, 2019** | | | | |
|---|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| Financial assets: | | | | | |
| Cash and due from banks | **$ 25,112** | **$ 25,112** | **$ 25,112** | **$ -** | **$ -** |
| Investment securities available for sale | **254,915** | **254,915** | **-** | **254,915** | **-** |
| Net loans | **878,429** | **878,131** | **-** | **-** | **878,131** |
| Accrued interest receivable | **3,202** | **3,202** | **-** | **1,202** | **2,000** |
| Restricted investment in bank stocks | **1,474** | **NA** | **-** | **-** | **-** |
| Financial liabilities: | | | | | |
| Deposits | **1,083,132** | **1,086,740** | **994,475** | **92,265** | **-** |
| Short-term borrowings | **5,000** | **4,996** | **-** | **4,996** | **-** |
| Long-term debt | **3,000** | **3,000** | **-** | **3,000** | **-** |
| Accrued interest payable | **200** | **200** | **-** | **200** | **-** |
| Off-balance sheet financial instruments | **-** | **-** | **-** | **-** | **-** |

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | | |
| Cash and due from banks | $ 18,374 | $ 18,374 | $ 18,374 | $ - | $ - |
| Investment securities available for sale | 255,536 | 255,536 | - | 255,536 | - |
| Net loans | 726,413 | 716,082 | - | - | 716,082 |
| Accrued interest receivable | 3,008 | 3,008 | - | 1,382 | 1,626 |
| Restricted investment in bank stocks | 2,522 | NA | - | - | - |
| Financial liabilities: | | | | | |
| Deposits | 905,008 | 904,311 | 806,330 | 97,981 | - |
| Short-term borrowings | 25,500 | 25,472 | - | 25,472 | - |
| Long-term debt | 13,057 | 12,971 | - | 12,971 | - |
| Accrued interest payable | 200 | 200 | - | 200 | - |
| Off-balance sheet financial instruments | - | - | - | - | - |

(Dollar Amounts in thousands except per share data)

## Note 5 - Premises and Equipment

Year-end premises and equipment were as follows:

| | 2019 | 2018 |
|---|---|---|
| Land | **$ 3,152** | $ 3,202 |
| Buildings and improvements | **12,545** | 11,223 |
| Furniture and equipment | **6,183** | 5,742 |
| Leasehold improvements | **5,521** | 5,380 |
| | **27,401** | 25,547 |
| Accumulated depreciation and amortization | **(12,802)** | (11,613) |
| Premises and equipment, net | **$ 14,599** | $ 13,934 |

Depreciation and amortization included in operating expenses amounted to $1,189 in 2019 and $1,112 in 2018.

Certain premises are leased under agreements which are renewable for varying periods and are subject to minimum lease payments as well as additional rent. Rent expense for all operating leases was $648 in 2019 and $642 in 2018.

## Note 6 - Goodwill and Intangible Assets

***Goodwill:*** The change in goodwill during the year is as follows:

| | 2019 | 2018 |
|---|---|---|
| Beginning of year | **$ 5,359** | $ 5,359 |
| Acquired goodwill impairment | **-** | - |
| End of year | **$ 5,359** | $ 5,359 |

Impairment exits when a reporting unit's carrying value of goodwill exceeds its fair value. At October 1, 2019, the Company's reporting unit had positive equity and the company elected to perform a Step 1 quantitative analysis which determined that the fair value of the reporting unit exceeded its carrying value, including goodwill, confirming no impairment.

***Acquired Intangible Assets:*** Acquired intangible assets were as follows at year-end:

| | Gross Intangible Asset | Accumulated Amortization |
|---|---|---|
| **December 31, 2019** | | |
| **Customer lists and intangible assets** | **$ 4,284** | **(2,035)** |
| | **$ 4,284** | **(2,035)** |
| December 31, 2018 | | |
| Customer lists and intangible assets | $ 4,284 | (1,749) |
| | $ 4,284 | (1,749) |

(Dollar Amounts in thousands except per share data)

**Note 6 - Goodwill and Intangible Assets** (continued)

Aggregate amortization expense was $286 for both 2019 and 2018.

Estimated amortization expense for each of the next five years:

| | | |
|---|---|---|
| 2020 | $ | 286 |
| 2021 | | 286 |
| 2022 | | 286 |
| 2023 | | 286 |
| 2024 | | 286 |

**Note 7 - Deposits**

A summarized analysis of the Bank's deposits at December 31, 2019 and 2018 follows:

| | 2019 | 2018 |
|---|---|---|
| Non-interest bearing demand accounts | **$ 335,469** | $ 240,432 |
| Interest-bearing demand accounts | **166,907** | 159,465 |
| Money market accounts | **368,799** | 294,497 |
| Savings accounts | **123,300** | 111,936 |
| Certificates of Deposit | **88,657** | 98,678 |
| Total deposits | **$ 1,083,132** | $ 905,008 |

Time deposits that meet or exceed the FDIC insurance limit of $250 at year-end 2019 and 2018 were $27,373 and $29,649 respectively.

Scheduled maturities of time deposits for the next five years are as follows:

| | |
|---|---|
| 2019 (matured not renewed) | $ 773 |
| 2020 | 71,627 |
| 2021 | 7,350 |
| 2022 | 8,907 |
| | $ 88,657 |

Deposits of executive officers, directors and principal officers of the Company, including their immediate families and companies, in which they are principal owners (more than 10%), amounted to $4,221 and $4,312 at December 31, 2019 and 2018, respectively.

**Note 8 - FHLB Advances**

At year-end, FHLB Advances were as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Amount** | **Rate** | Amount | Rate |
| Federal Home Loan Bank (FHLB) advances | **$ 5,000** | **1.81%** | $ 25,500 | 2.60% |

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $25,882 of securities along with $326,152 of first mortgage loans on commercial and residential properties under a blanket lien arrangement at year-end 2019. The advances were collateralized by $32,010 of securities along with $151,831 of first mortgage loans on commercial and residential properties under a blanket lien arrangement at year-end 2018. All current FHLB advances mature during 2020.

Based on the collateral and the Company's holding of FHLB stock, the Company was eligible to borrow up to a total of $219,034 at year-end 2019 and $183,842 at year-end 2018.

(Dollar Amounts in thousands except per share data)

**Note 9 - Note Payable**

At year-end, the Note Payable was as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Amount** | **Rate** | Amount | Rate |
| Note payable | **$ 3,000** | **5.60%** | $ 3,057 | 6.00% |

On November 16, 2019, the Company refinanced its note payable, with a remaining balance of $3,000 in to an interest only term loan. The loan interest is payable in monthly installments of $14, is unsecured and matures with a scheduled balloon payment in November 16, 2022.

**Note 10 - Pension and other Post Retirement Plans**

The Bank has a funded noncontributory defined benefit pension plan that covers substantially all employees meeting certain eligibility requirements. The pension plan was closed to new participants and benefit accruals were frozen as of December 31, 2015. The plan provides defined benefits based on years of service and final average salary. The Company uses December 31 as the measurement date for its pension plans.

Information about changes in obligations and plan assets of the defined benefit pension plan follows:

| | **2019** | 2018 |
|---|---|---|
| Change in projected benefit obligation: | | |
| Beginning of year | **$ 23,829** | $ 26,447 |
| Service cost | **163** | 156 |
| Interest cost | **1,043** | 1,010 |
| Benefits paid | **(1,472)** | (1,636) |
| Actuarial (gain) loss | **3,102** | (2,148) |
| End of year | **$ 26,665** | $ 23,829 |
| | | |
| Change in fair value of assets: | | |
| Beginning of year | **$ 24,955** | $ 25,075 |
| Contributions | **3,000** | 2,949 |
| Actual return on plan assets | **5,238** | (1,428) |
| Benefits paid and expenses | **(1,455)** | (1,641) |
| End of year | **$ 31,738** | $ 24,955 |

| | **2019** | 2018 |
|---|---|---|
| Funded status at end of year (plan assets less benefit obligation) | **$ 5,073** | $ 1,125 |

Amounts recognized in accumulated other comprehensive loss at December 31 consist of:

| | **2019** | 2018 |
|---|---|---|
| Total net actuarial loss | **$ (6,320)** | $ (7,063) |
| Transition asset | **123** | 171 |
| | **$ (6,197)** | $ (6,892) |

The accumulated benefit obligation was $26,665 and $23,829 at year-end 2019 and 2018.

(Dollar Amounts in thousands except per share data)

**Note 10 - Pension and other Post Retirement Plans** (continued)

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income:

| | **2019** | 2018 |
|---|---|---|
| Service cost | **$ 163** | $ 156 |
| Interest cost | **1,043** | 1,010 |
| Expected return on plan assets | **(1,569)** | (1,577) |
| Amortization of transition cost | **(48)** | (48) |
| Amortization of net loss | **159** | 121 |
| Net periodic benefit cost | **$ (252)** | $ (338) |
| | | |
| Net loss | **$ (584)** | $ 863 |
| Amortization of transition asset | **48** | 48 |
| Amortization of prior service cost | **(159)** | (121) |
| Total recognized in other comprehensive loss | **$ (695)** | 790 |
| | | |
| Total recognized in net periodic benefit cost and other comprehensive loss | **$ (947)** | $ 451 |

The estimated net loss and prior service costs for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $113 and $(48) respectively.

***Assumptions***

Weighted-average assumptions used to determine the benefit obligations at year-end:

| | **2019** | 2018 |
|---|---|---|
| Discount rate | **3.55%** | 4.53% |
| Rate of compensation increase | **0.00%** | 0.00% |

Weighted-average assumptions used to determine net periodic pension cost:

| | **2019** | 2018 |
|---|---|---|
| Discount rate | **4.53%** | 3.94% |
| Expected long-term rate of return on plan assets | **6.50%** | 6.50% |
| Rate of compensation increase | **0.00%** | 0.00% |

***Investment Strategy and Allocation***

The Company is a participant in the New York State Bankers Retirement System (the “System”). The System's overall investment strategy is to achieve a mix of approximately 97% of investments for long-term growth and 3% for near-term benefit payments with a wide diversification of asset types, fund strategies, and fund managers. The target allocations for the System assets are shown in the table below. Cash equivalents consist primarily of government issues (maturing in less than three months) and short term investment funds. Equity securities primarily include investments in common stock, depository receipts, preferred stock, commingled pension trust funds, exchange traded funds and real estate investment trusts. Fixed income securities include corporate bonds, government issues, credit card receivables, mortgage backed securities, municipals, commingled pension trust funds and other asset backed securities. Other investments are real estate interests and related investments held within a commingled pension trust fund.

The weighted average expected long-term rate of return is estimated based on current trends in the System’s assets as well as projected future rates of return on those assets and reasonable actuarial assumptions based on the guidance provided by Actuarial Standard of Practice (“ASOP”) No. 27 "Selection of Economic Assumptions for Measuring Pension Obligations" for long term inflation, and the real and nominal rate of investment return for a specific mix of asset classes.

(Dollar Amounts in thousands except per share data)

**Note 10 - Pension and other Post Retirement Plans** (continued)

The following assumptions were used in determining the long-term rate of return:

| | |
|---|---|
| Equity securities | Dividend discount model, the smoothed earnings yield model and the equity risk premium model |
| Fixed income securities | Current yield-to-maturity and forecasts of future yields |
| Other financial instruments | Comparison of the specific investment's risk to that of fixed income and equity instruments and other judgments |

The long-term rate of return considers historical returns. Adjustments were made to historical returns in order to reflect expectations of future returns. These adjustments were due to factor forecasts by economists and long-term U.S. Treasury yields to forecast long-term inflation. In addition, forecasts by economists and others for long-term GDP growth were factored into the development of assumptions for earnings growth and per capita income.

The System currently prohibits its investment managers from purchasing any security greater than 5% of the portfolio at the time of purchase or greater than 8% at market value in any one issuer. Effective June 25, 2013, the issuer of any security purchased must be located in a country in the MSCI (Morgan Stanley Capital International) World Index. In addition, the following are prohibited: Short sales, unregistered stocks and margin purchases of equity securities, mortgage backed derivatives that have an inverse floating rate coupon or that are interest only securities, any asset backed security that is not issued by the U.S. Government or its agencies or its instrumentalities, securities of less than Baa2/BBB quality may not be purchased, securities of less than A-quality may not in the aggregate exceed 13% of the investment manager's portfolio. An investment manager's portfolio of commercial mortgage-backed securities and asset backed securities shall not exceed 10% of the portfolio at the time of purchase. In addition, unhedged currency exposure in countries not defined as "high income economies" by the World Bank is prohibited.

The target allocation range below is both historic and prospective in that it has not changed since prior to 2013. It is the asset allocation range that the investment managers have been advised to adhere to and within which they may make tactical asset allocation decisions.

The Company's pension plan asset allocation at year-end 2019 and 2018, target allocation and expected long-term rate of return by asset class are as follows:

| | **2019** | | 2018 | | |
|---|---|---|---|---|---|
| | **Target Allocation** | **Actual Allocation** | Target Allocation | Actual Allocation | Weighted Average Expected Long-term Rate of Return |
| Asset category: | | | | | |
| Cash equivalents | **0.00%** | **0.00%** | 0-20% | 4.20% | 0.11% |
| Equity securities | **28.25%** | **31.75%** | 40 - 60% | 46.10% | 3.71% |
| Fixed income securities | **59.75%** | **57.65%** | 40 - 60% | 45.80% | 2.24% |
| Other financial instruments | **12.00%** | **10.60%** | 0-5% | 3.90% | 0.30% |
| Total | | **100.00%** | | 100.00% | |

***Fair Value of Plan Assets***

The Company used the following valuation methods and assumptions to estimate the fair value of assets held by the plan:

*Equity Securities:* The fair values for equity securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated on market prices of similar securities (Level 2).

*Fixed Income Securities:* Certain fixed income securities are valued at the closing price in the active market in which the bond is traded (Level 1 inputs). Other debt securities are valued on recent bid prices or the average of recent bid

(Dollar Amounts in thousands except per share data)

**Note 10 - Pension and other Post Retirement Plans** (continued)

and ask price when available (Level 2 inputs) and if not available, they are valued through matrix pricing models developed by sources considered by management to be reliable. Matrix pricing, which is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality.

*Commingled Pension Trust Funds (CPTF):* The fair values of CPTF use valuation techniques based on market, income approach, debt service and sales comparison. Unobservable inputs include credit spreads, discount rates, loan to value ratio, terminal capitalization rate and value per square foot (Level 3 inputs).

The fair value of the plan assets at December 31, 2019, by asset class, is as follows:

| | | Fair Value Measurements at December 31, 2019 Using: | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identicle Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash equivalents: | | | | |
| Foreign currencies | **$ 6** | **$ 6** | **$ -** | **$ -** |
| | **6** | **6** | | |
| Fixed income securities: | | | | |
| Corporate Bonds | **2** | **-** | **2** | **-** |
| | **2** | **-** | **2** | **-** |
| Other investments | | | | |
| Commingled pension trust funds-realty | **31,730** | **-** | **31,730** | **-** |
| | **31,730** | **-** | **31,730** | **-** |
| Total plan assets | **$ 31,738** | **$ 6** | **$ 31,732** | **$ -** |

The fair value of the plan assets at December 31, 2018, by asset class, is as follows:

| | | Fair Value Measurements at December 31, 2018 Using: | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identicle Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash equivalents: | | | | |
| Foreign currencies | $ 23 | $ 23 | $ - | $ - |
| | 23 | 23 | - | - |
| Equities: | | | | |
| Common Stock | 10,067 | 10,067 | - | - |
| Depository Receipts | 171 | 171 | - | - |
| Preferred Stock | 81 | 81 | | |
| | 10,319 | 10,319 | - | - |
| Fixed income securities: | | | | |
| Collateralized mortgage obligations | 633 | - | 633 | - |
| Corporate Bonds | 2,470 | - | 2,470 | - |
| Government National Mortgage Assoc II | 122 | - | 122 | - |
| Government Securities | 8,943 | - | 8,943 | - |
| | 12,168 | - | 12,168 | - |
| Other Investments | | | | |
| Commingled pension trust funds-realty | 2,445 | - | - | 2,445 |
| | 2,445 | - | - | 2,445 |
| Total plan assets | $ 24,955 | $ 10,342 | $ 12,168 | $ 2,445 |

(Dollar Amounts in thousands except per share data)

**Note 10 - Pension and other Post Retirement Plans** (continued)

***Contributions:*** The Company contributed $3,000 to its pension plan during 2019.

***Estimated Future Payments:*** The following benefit payments which reflect future service, are expected:

Estimated future payments

| | Pension Benefits | Other Benefits |
|---|---|---|
| 2020 | $ 1,333 | $ 79 |
| 2021 | 1,337 | 79 |
| 2022 | 1,415 | 79 |
| 2023 | 1,475 | 79 |
| 2024 | 1,513 | 79 |
| Following 5 years | $ 7,639 | $ 396 |

**Key Employee Retirement Plans**

The Bank started a Key Employee Retirement Plan for certain senior officers during the 2019. The benefits accrued under this plan totaled $6 at December 31, 2019. The Bank recorded an expense of $6 in 2019.

**Supplemental Executive Retirement Plans**

The Bank maintains a Supplemental Executive Retirement Plan for two former Chief Executive Officers to restore pension benefits that are limited due to Internal Revenue Service regulations. The benefits accrued under this plan, which are included in accrued expenses and other liabilities in the Consolidated Statements of Condition, were $664 and $751 as of December 31, 2019 and 2018. The Bank recorded expense of $58 and $59 in 2019 and 2018 in relation to this plan. Supplemental benefits for this plan expected to be paid in each year from 2020 to 2023 are $79, $79, $79, $79, respectively. The aggregate supplemental benefits expected to be paid in the five years from 2024 to 2028 are $396.

The Bank also maintains a performance based Supplemental Executive Retirement Plan for the Chief Executive Officer and two Executive Vice Presidents. Contributions to this plan are based on achieving certain growth and profitability targets. The Bank recorded expense of $187 for the year ended December 31, 2019.

**Deferred Directors' Fee Plan**

The Bank and the Parent Company maintain unfunded Deferred Director's Fee Plans within which each director may defer the receipt of meeting fees. The benefits accrued under these plans totaled $6,022 and $5,261 at December 31, 2019 and 2018. The Bank and the Parent Company recorded an expense of $761 and $736 in 2019 and 2018 in relation to these plans.

**Deferred Compensation Plan**

The Bank and HVIA maintain unfunded Deferred Compensation Plans for certain officers. The benefits accrued under these plans totaled $416 and $624 at December 31, 2019 and 2018. The Bank and HVIA recorded an expense of $35 and $48 in 2019 and 2018, respectively.

**Deferred Incentive Retirement Plan**

The Bank maintains an unfunded Deferred Incentive Retirement Plan for certain executive officers. The benefits accrued under this plan totaled $716 and $810 at December 31, 2019 and 2018. The Bank recorded an expense of $37 and $42 in 2019 and 2018, respectively.

(Dollar Amounts in thousands except per share data)

**Note 10 - Pension and other Post Retirement Plans** (continued)

**401(k) Savings Plan**

The Company has a 401(k) Plan (Plan) to provide retirement and incidental benefits for its employees. Employees may contribute up to 100% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. Effective for Plan Years beginning January 1, 2016, the Company makes a safe harbor nonelective contribution equal to 3% of annual compensation for each eligible employee whether or not the employee elects to defer compensation to the plan. All safe harbor nonelective contributions vest immediately. In addition, effective for Plan Years beginning January 1, 2016, for those employees hired before April 1, 2016, the Plan provides for discretionary contributions according to the following schedule:

| Percentage of Compensation | Participant Age Range |
|---|---|
| 1.0% | Under age 35 |
| 2.0% | 35 years of age, but less than 45 |
| 5.0% | 45 years of age, but less than age 55 |
| 8.5% | 55 years of age or older |

Employees are eligible for the discretionary contribution after completing one year of service. All discretionary contributions vest immediately.

Discretionary contributions were $483 and $509 for 2019 and 2018, respectively.

**Restricted Stock Grants**

The Company has a time based restricted stock plan. For the years ended December 31, 2019 and 2018 the Company's recognized stock-based compensation costs of $319 and $228, respectively. The Company uses the fair value of the common stock on the date of award to measure compensation cost for restricted stock unit awards. Compensation cost is recognized over the vesting period of the award using the straight line method. There were 13,873 and 7,823 restricted stock units granted for the years ended December 31, 2019 and 2018, respectively. The grants generally vest at the rate of 33% per year with full vesting on the third anniversary date of the grant. Unamortized expense at December 31, 2019 was $233.

A summary of the status of the Company's non-vested restricted stock awards as of December 31, 2019, and changes during the year ended December 31, 2019 are presented below:

| | Shares | Weighted Average Fair Value |
|---|---|---|
| Non-vested at December 31, 2018 | 19,399 | $ 25.08 |
| Granted | 13,873 | $ 27.00 |
| Vested | (7,271) | $ 24.70 |
| Forfeited | (1,989) | $ 24.99 |
| Non-vested at December 31, 2019 | 24,012 | $ 26.31 |

(Dollar Amounts in thousands except per share data)

## Note 11 - Income Taxes

Income tax expense was as follows:

| | 2019 | 2018 |
|---|---|---|
| Current expense | | |
| Federal | $ 3,236 | $ 1,698 |
| State | 118 | 120 |
| Total | 3,354 | 1,818 |
| Deferred expense (benefit) | | |
| Federal | (441) | (78) |
| State | (766) | (607) |
| Total | (1,207) | (685) |
| Change in valuation allowance | 679 | 495 |
| Total provision for income taxes | $ 2,826 | $ 1,628 |

Effective tax rates differ from the federal statutory rate of 21% for 2019 and 2018 applied to income before taxes due to the following:

| | 2019 | 2018 |
|---|---|---|
| Tax expense at statutory rate | $ 2,924 | $ 1,928 |
| (Decrease) increase in taxes resulting from: | | |
| Net earnings on bank-owned life insurance | (145) | (145) |
| Tax-exempt municipal bond income, net of disallowed interest expense | (134) | (288) |
| State income tax, net of federal tax benefit | (498) | (430) |
| Valuation allowance | 679 | 495 |
| Other | - | 68 |
| Total provision for income tax | $ 2,826 | $ 1,628 |

Year-end deferred tax assets and liabilities were due to the following:

| | 2019 | 2018 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for loan losses | $ 3,237 | $ 2,777 |
| Reserve for unfunded commitments and other real estate owned | 167 | 217 |
| Deferred loan fees | 566 | 466 |
| Deferred compensation | 548 | 285 |
| Available for sale securities | - | 1,307 |
| Accumulated depreciation | 70 | 101 |
| Non accrual interest | 387 | 395 |
| State NOL | 1,651 | 1,133 |
| Pension/deferred compensation OCI | 1,576 | 1,738 |
| | 8,202 | 8,419 |
| Deferred tax liabilities: | | |
| Intangible assets | (683) | (581) |
| Organization costs - holding company | (16) | (14) |
| Organization costs - HVIA | (17) | (14) |
| Available for sale securities | (116) | - |
| Accretion | (41) | (29) |
| | (873) | (638) |
| Net deferred tax asset before valuation allowance | 7,329 | 7,781 |
| Valuation allowance | (3,131) | (2,449) |
| Net deferred tax asset | $ 4,198 | $ 5,332 |

(Dollar Amounts in thousands except per share data)

**Note 11 – Income Taxes** (continued)

The Company has recorded a federal deferred tax asset that based upon an analysis of the evidence, it expects such federal deferred tax asset to be recoverable. The federal deferred tax asset is included in other assets on the balance sheet. However, due to the change in New York State tax legislation passed in March 2014, management has determined that a full valuation allowance, totaling $3,131, against the New York State portion of the deferred tax asset, which includes state net operating losses, at December 31, 2019 and 2018 is appropriate. At December 31, 2019, the Company has net operating loss carryforwards available for state income tax purposes of approximately $25.4 million; of which $4.8 million expires in 2025, $6.2 million expires in 2026, and $6.8 million expires in 2027 and $4.7 million in 2028, and $2.9 million in 2019.

The Company did not have any uncertain tax positions at December 31, 2019 and 2018. The Company's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the Consolidated Statements of Income.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of New York. The Company is no longer subject to examination by taxing authorities for years before 2015.

**Note 12 – Accumulated Other Comprehensive Income (Loss)**

The following is changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ending December 31, 2019 and 2018.

| | Unrealized Gains and Losses on Available-for-Sale Securities | Defined Benefit Pension Items | Deferred Compensation Liability | Total |
|---|---|---|---|---|
| December 31, 2019 | | | | |
| Beginning balance | $ (3,965) | $ (5,191) | $ 170 | $ (8,986) |
| Other comprehensive income before reclassification | 4,577 | 461 | (11) | 5,027 |
| Amounts reclassified from accumulated other comprehensive income | (173) | 88 | - | (85) |
| Net current period other comprehensive income | 4,404 | 549 | (11) | 4,942 |
| Ending balance | $ 439 | $ (4,642) | $ 159 | $ (4,044) |

(Dollar Amounts in thousands except per share data)

**Note 12 – Accumulated Other Comprehensive Income (Loss)** (continued)

| | Unrealized Gains and Losses on Available-for-Sale Securities | Defined Benefit Pension Items | Deferred Compensation Liability | Total |
|---|---|---|---|---|
| December 31, 2018 | | | | |
| Beginning balance | $ (1,315) | $ (4,609) | $ 461 | $ (5,463) |
| Other comprehensive income before reclassification | (2,650) | (645) | (291) | (3,586) |
| Amounts reclassified from accumulated other comprehensive income | - | 63 | - | 63 |
| Net current period other comprehensive income | (2,650) | (582) | (291) | (3,523) |
| Ending balance | $ (3,965) | $ (5,191) | $ 170 | $ (8,986) |

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the years ending December 31, 2019 and 2018.

| Details about Accumulated Other Comprehensive Income Components | Amount Reclassified from Accumulated Other Comprehensive Income | | Affected Line Item in the Statement where Net Income is Presented |
|---|---|---|---|
| | 2019 | 2018 | |
| Unrealized gains and losses on available-for-sale securities | | | |
| Realized (losses) gains on securities available-for-sale | $ (219) | $ - | Investment security losses |
| Total before tax | (219) | - | |
| Tax effect | (46) | - | Provision for income taxes |
| Net of tax | $ (173) | $ - | |
| Amortization of defined benefit pension items | | | |
| Transition asset | (48) | (48) | Other expense |
| Actuarial gains (losses) | $ 159 | $ 121 | Other expense |
| Total before tax | 111 | 73 | |
| Tax effect | 23 | 10 | Provision for income taxes |
| Net of tax | $ 88 | $ 63 | |
| Total reclassifications for the period, net of tax | $ (85) | $ 63 | |

(Dollar Amounts in thousands except per share data)

## Note 13 - Regulatory Capital Matters

Banks and bank holding companies are subject to regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and additionally for banks, prompt corrective regulations, involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by regulators. Failure to meet the minimum capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks, (Basel III rules), became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in at a rate of 0.625% per year from 0.0% in 2015 to 2.5% for 2019. The net unrealized gain or loss on available for sale securities is included in computing regulatory capital. Management believes as of December 31, 2019, the Company and the Bank meet all capital adequacy requirements to which they are subject. The Company is not currently subject to capital requirements.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion and capital restoration plans are required. At year-end 2019 and 2018, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes changed that category.

Actual and required capital amounts and ratios are presented below at year-end.

| Bank | Actual | | For Capital Adequacy Purposes | | For Capital Adequacy Purposes with Capital Buffer | | To be Well Capitalized under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **2019** | | | | | | | | |
| **Total capital to risk weighted assets** | **128,111** | **13.77%** | **74,428** | **≥8.0%** | **91,872** | **≥9.875%** | **93,035** | **≥10.0%** |
| **Tier 1 (Core) capital to risk weighted assets** | **116,466** | **12.52%** | **55,821** | **≥6.0%** | **73,265** | **≥7.875%** | **74,428** | **≥8.0%** |
| **Common Tier 1 (CET1) to risk weighted assets** | **116,466** | **12.52%** | **41,866** | **≥4.5%** | **59,309** | **≥6.375%** | **60,472** | **≥6.5%** |
| **Tier 1 (Core) Capital to average assets** | **116,466** | **9.39%** | **49,619** | **≥4.0%** | **N/A** | **N/A** | **62,023** | **≥5.0%** |
| 2018 | | | | | | | | |
| Total capital to risk weighted assets | 111,932 | 14.93% | 59,988 | ≥8.0% | 74,048 | ≥9.875% | 74,985 | ≥10.0% |
| Tier 1 (Core) capital to risk weighted assets | 102,533 | 13.67% | 44,991 | ≥6.0% | 59,051 | ≥7.875% | 59,988 | ≥8.0% |
| Common Tier 1 (CET1) to risk weighted assets | 102,533 | 13.67% | 33,743 | ≥4.5% | 47,803 | ≥6.375% | 48,741 | ≥6.5% |
| Tier 1 (Core) Capital to average assets | 102,533 | 9.67% | 42,420 | ≥4.0% | N/A | N/A | 53,025 | ≥5.0% |

***Dividend Restrictions:*** The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. As of December 31, 2019, $10,925 of retained earnings of the Bank is available to pay dividends.

## Note 14 – Leases

The Company enters into leases in the normal course of business primarily for financial centers, back office operations locations, business development offices, and information technology equipment. The Company's leases have remaining terms from 6 months to 8 years, some of which include renewal or termination options to extend the lease for up to 5 years and some include options to terminate the lease upon notification. The Company has no leases that are subject to sub-lease agreements. The Company's leases do not include residual value guarantees or covenants.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease

(Dollar Amounts in thousands except per share data)

**Note 14 – Leases** (continued)

components in its real estate leases as part of the associated lease component. The Company has also elected to not recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's balance sheet.

Leases are classified as operating or financing leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of the lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2019 are as follows:

| | | |
|---|---|---|
| Years Ending December 31, | | |
| 2020 | | 397 |
| 2021 | | 387 |
| 2022 | | 376 |
| 2023 | | 344 |
| 2024 | | 236 |
| Thereafter | | 287 |
| Total undiscounted lease payments | $ | 2,027 |
| Discount | $ | 584 |
| Total discounted lease payments | $ | 1,443 |

| | |
|---|---|
| Operating lease weighted average remaining lease term (years) | 4 years |
| Operating lease weighted average discount rate | 2.94% |

**Note 15 - Branch Sale**

On December 13, 2017, the Company entered into Purchase and Assumption Agreement with Salisbury Bank and Trust Company ("Salisbury) whereby Salisbury agreed to purchase the assets and assume the liabilities of the Company's Fishkill, NY branch. Under the terms of the agreement, Salisbury purchased the branch assets, with the exception of leasehold improvements and equipment, and assumed the liabilities at the Company's carrying value at the date of the acquisition. In addition to assuming the deposits held by the branch, Salisbury also assumed the remaining obligations under the operating lease in existence at closing. Leasehold improvements and equipment were purchased at the Company's carrying value net of a $150 discount, at the acquisition date. At December 31, 2017, the Company reclassified loans in the amount of $11,614 from the loan portfolio to loans held for sale, leasehold improvements and equipment in the amount of $933 from premises and equipment to premises and equipment held for sale, and deposits in the amount of $23,755 to deposits held for sale. In 2017, the Company recorded a $150 impairment charge on the premises and equipment held for sale, to reflect the contractual discount, which was recorded as other expense in the Company's consolidated statement of income. The purchase and assumption closed on April 13, 2018 in accordance with the terms of the agreement. At the time of the closing Salisbury acquired loans in the amount of $7,849, leasehold improvements and equipment in the amount of $761, other assets in the amount of approximately $83, and deposits in the amount of $8,323. The Company received a cash payment, from Salisbury, in the amount of approximately $375 at closing.

(Dollar Amounts in thousands except per share data)

**Note 16 - Revenue from Contracts with Customers**

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within Other Operating Income. The following table presents the Company's sources of Other Operating Income for the twelve months ended December 31, 2019.

| | **Year Ended December 31, 2019** | Year Ended December 31, 2018 |
|---|---|---|
| Other Operating Income | | |
| Service charges on deposit accounts | **$ 921** | $ 932 |
| Trust income | **3,531** | 3,165 |
| Investment advisory income | **4,545** | 4,332 |
| Investment securities gains [(a)] | **(219)** | - |
| Earnings on bank-owned life insurance [(a)] | **689** | 691 |
| Other [(b)] | **965** | 899 |
| Total Other Operating Income | **$ 10,432** | $ 10,019 |

(a) Not within the scope of ASC 606.
(b) The Other category includes safe deposit income, checkbook fees, and debit card fee income, totaling $666 that are within the scope of ASC 606 and loan related fee income and miscellaneous income, totaling $299 which are outside the scope of ASC 606.

**Note 17- Financial Instruments with Off-Balance Sheet Risk**

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing need of its customers. These financial instruments consist primarily of commitments to extend credit (typically mortgages and commercial loans) and, to a lesser extent, standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated statement of condition.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligation as it does for on balance sheet instruments. The Bank does not anticipate any material losses from these commitments.

Commitments to extend credit, including commitments to grant loans and unfunded commitments under lines of credit, are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extensions of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties. On loans secured by real estate, the Bank generally requires loan to value ratios of no greater than 80%.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and similar transactions. The terms of the letters of credit vary and may have renewal features. The credit risk involved in using letters of credit is essentially the same as that involved in extending loans to customers. The Bank holds collateral supporting those commitments for which collateral is deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees.

The Bank has not been required to perform on any financial guarantees, and has not incurred any losses on its commitments, during the past two years.

A summary of the Bank's Commitments at December 31, 2019 and 2018 were as follows (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Commitments to extend credit | **$ 207,733** | $ 201,694 |
| Standby letters of credit | **4,738** | 3,979 |

The reserve for unfunded commitments was $634 and $834 at December 31, 2019 and 2018, respectively. The provision for unfunded commitment losses, which is included in other operating expenses was ($200) and $180 for the years ended December 31, 2019 and 2018, respectively.

**Note 18- Contingencies**

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Company in connection with any such claims and lawsuits, it is the opinion of management that the disposition or ultimate determination of any such claims and lawsuits will not have a material effect on the consolidated financial position, consolidated results or liquidity of the Company.

**Note 19- Subsequent Events**

The Company has evaluated subsequent events for recognition and disclosure through April 30, 2020, which is the date the financial statements were available to be issued.

A strain of the coronavirus surfaced and has spread around the world, including in our State, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization. The Company's operating area has begun to see closures of business, restrictions on personal contact, requests by government officials to stay in isolation. The operations and business results of the Company could be materially adversely affected. Significant estimates as disclosed in Note 1, including the allowance for loan losses, valuation of securities, and goodwill may be materially adversely impacted by national and local events designed to contain the coronavirus.

On February 21, 2020 the Company's board of director's declared a quarterly cash dividend of $0.20 per share on the Company's common stock. The dividend was paid on March 13, 2020 to shareholders of record as of March 2, 2020.

**Note 20- Parent Company Information**

Financial Information for the parent company only is presented in the following tables:

**Condensed Balance Sheets**

| | December 31, | |
|---|---|---|
| Assets | **2019** | 2018 |
| Cash and due from banks | **2,359** | 8,868 |
| Investment in subsidiaries | **119,710** | 100,427 |
| Goodwill and intangible assets | **2,421** | 2,707 |
| Other assets | **24** | 79 |
| Total Assets | **124,514** | 112,081 |
| Liabilities and stockholders' equity | | |
| Note Payable | **3,000** | 3,057 |
| Other liabilities | **573** | 484 |
| Total Liabilities | **3,573** | 3,541 |
| Total stockholders' equity | **120,941** | 108,540 |
| Total liabilities and stockholders's equity | **124,514** | 112,081 |

(Dollar Amounts in thousands except per share data)

**Note 20- Parent Company Information** (continued)

**Condensed Statements of Income**

| | Years ended December 31, | |
|---|---|---|
| | **2019** | 2018 |
| Operating Income | | |
| Dividend income from operating subsidiaries | **4,591** | 3,864 |
| Total operating income | **4,591** | 3,864 |
| Operating Expenses | | |
| Interest on long-term debt | **181** | 185 |
| Salaries and employee benefits | **362** | 228 |
| Professional fees | **141** | 124 |
| Directors' fees and expenses | **223** | 154 |
| Amortization of intangibles | **286** | 286 |
| Other expense | **140** | 81 |
| Total operating expense | **1,333** | 1,058 |
| Equity in undistributed earnings of subsidiary | **7,840** | 4,746 |
| Net income | **11,098** | 7,552 |

**Condensed Statement of Cash Flows**

| | Years ended December 31, | |
|---|---|---|
| | **2019** | 2018 |
| Cash flows from operating activities | | |
| Net income | **11,098** | 7,552 |
| Adjsutments to reconcile net income to net cash provided by operating activities | | |
| Equity in undistributed earnings of subsidiary companies | **(7,840)** | (13,006) |
| Stock-based compensation | **144** | - |
| Amortization of intangibles | **286** | 285 |
| Restricted stock expense | **271** | 228 |
| Other, net | **143** | 21 |
| Net cash provided by (used in) operating activities | **4,102** | (4,920) |
| Cash flows from investing activities | | |
| Investment in operating subsidiary | **(6,500)** | - |
| Net cash used in investing activities | **(6,500)** | - |
| Cash flows from financing activities | | |
| Proceeds from the issuance of common stock (net of costs) | **(87)** | 16,425 |
| Repayment of note payable | **(57)** | (56) |
| Dividends paid, common stock | **(3,587)** | (3,264) |
| Purchases of treasury stock | **(380)** | (186) |
| Net cash (used in) provided by financing activities | **(4,111)** | 12,919 |
| Net increase in cash and cash equivalents | **(6,509)** | 7,999 |
| Cash and cash equivalents at beginning of year | **8,868** | 869 |
| Cash and cash equivalents at end of year | **2,359** | 8,868 |

(Dollar Amounts in thousands except per share data)

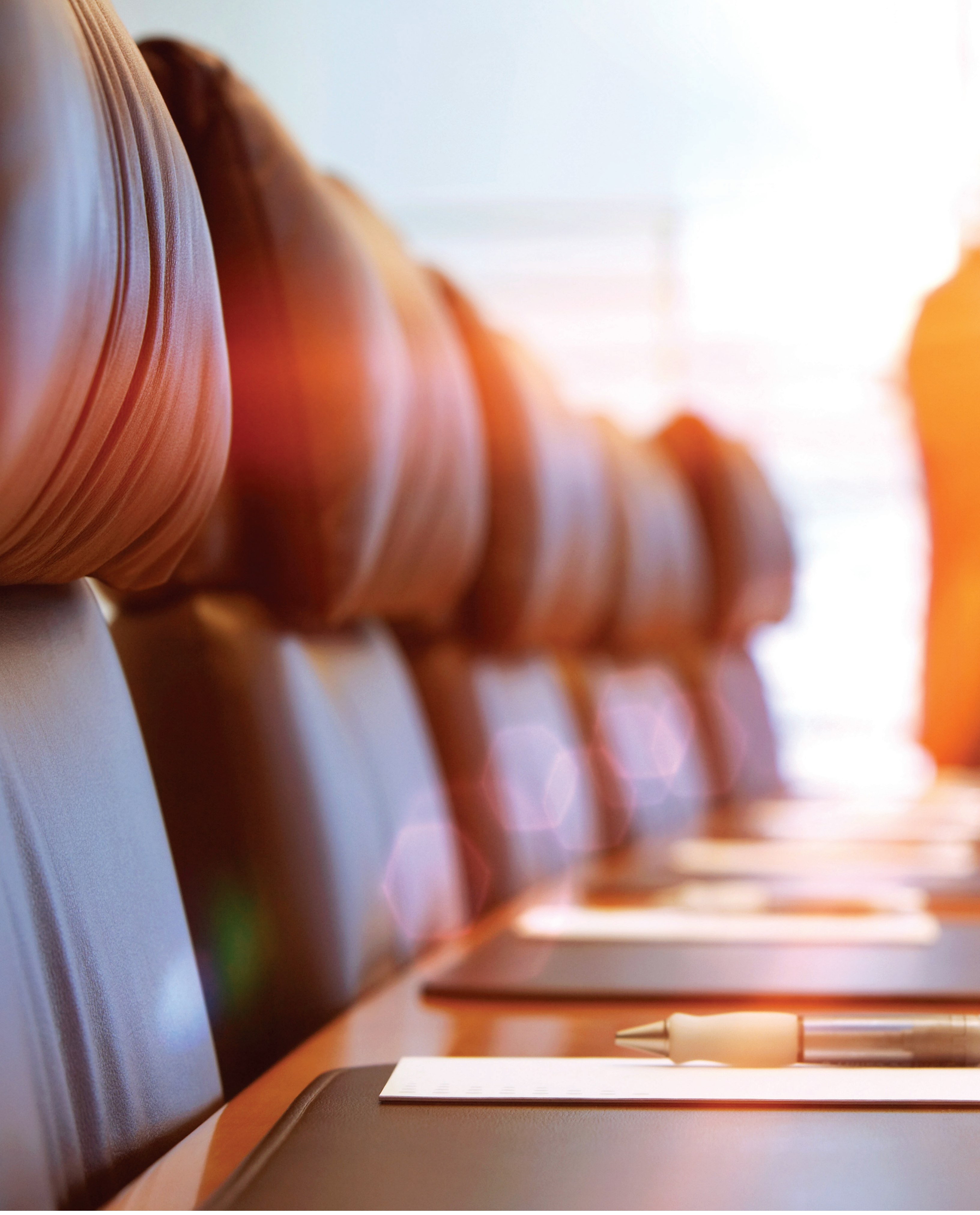
**Note 21-Segment Information**

The reportable segments are determined by the products and services offered by the Company, primarily distinguished between banking and wealth management. Loans, investments, and deposits provide the revenues in the banking operation, and trust fees and investment management fees provide the revenues in wealth management. All operations are domestic.

Significant segment totals are reconciled to the financial statements as follows:

| **2019** | **Banking** | **Wealth Management** | **Total Segments** |
|---|---|---|---|
| **Net interest income** | **$ 43,455** | **$ -** | **$ 43,455** |
| **Other revenue** | **2,009** | **8,423** | **10,432** |
| **Provision for loan loss** | **(2,195)** | **-** | **(2,195)** |
| **Noninterest expenses** | **(31,763)** | **(6,005)** | **(37,768)** |
| **Income tax expense** | **(2,499)** | **(327)** | **(2,826)** |
| **Net income** | **$ 9,006** | **$ 2,092** | **$ 11,098** |
| **Assets** | **$ 1,220,275** | **$ 8,155** | **$ 1,228,430** |

| 2018 | Banking | Wealth Management | Total Segments |
|---|---|---|---|
| Net interest income | $ 35,912 | $ - | $ 35,912 |
| Other revenue | 2,522 | 7,497 | 10,019 |
| Provision for loan loss | (2,465) | - | (2,465) |
| Noninterest expenses | (28,488) | (5,798) | (34,286) |
| Income tax expense | (1,349) | (279) | (1,628) |
| Net income | $ 6,132 | $ 1,420 | $ 7,552 |
| Assets | $ 1,058,388 | $ 6,485 | $ 1,064,873 |



## Orange County Bancorp, Inc. Board of Directors

Louis Heimbach, Chairman

David A. DeWilde

Michael Gilfeather

Greg Holcombe

Paul T. McDermott

William D. Morrison

Susan Metzger

Virginia Rizzo

Jonathan Rouis

Richard Rowley

Terry R. Saturno

Gus Scacco

Jayne Rzeczkowski, Corporate Secretary

## Orange Bank & Trust Company Board of Directors

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Gus Scacco

Michael Gilfeather

Thomas Guarino

Louis Heimbach

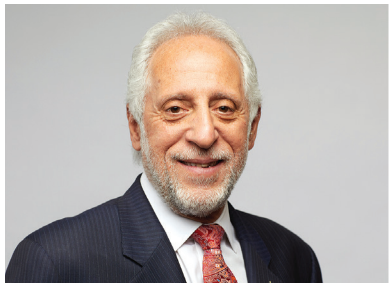
Michael Markhoff

Elizabeth Stradar

Jayne Rzeczkowski, Corporate Secretary

# Senior Leadership Team

**MICHAEL GILFEATHER**
President & CEO

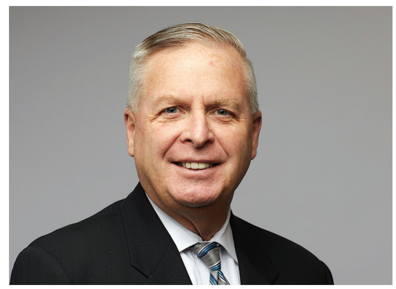


**JOHN P. BARTOLOTTA**
Executive Vice President
Regional President – Rockland

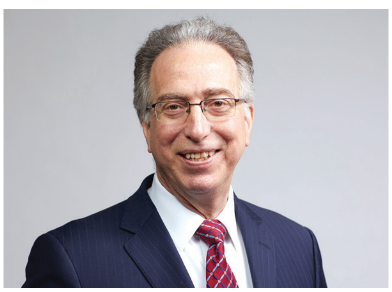
**MICHAEL COULTER**
Executive Vice President,
Chief Lending Officer

**PAM JONES**
1st Vice President,
Human Resources Director

**KATHRYN M. MALONEY**
Senior Vice President,
Trust Services Director



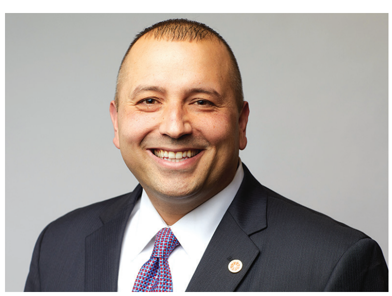
**TIMOTHY MCCAUSLAND**
Managing Director
of Private Banking



**ROBERT PEACOCK**
Executive Vice President,
Chief Financial Officer

**JOSEPH A. RUHL**
Executive Vice President
Regional President – Westchester

**JAYNE RZECZKOWSKI**
Senior Vice President,
Chief Operating Officer



**GREG SOUSA**
Senior Vice President,
Senior Relationship Manager

## Leadership Officers

**ANTHONY MORMILE**
Senior Vice President,
Commercial Loan Officer

**GLENN WASSERMAN**
Senior Vice President,
Senior Trust Officer

**ELIZABETH JONES**
1st Vice President,
Senior Operations Officer

**MICHAEL LISTNER**
1st Vice President,
Senior Credit Officer

**DIANE PASSARO**
1st Vice President,
Market Manager
& Commercial Loan Officer

**ANTHONY PILI**
1st Vice President Director
of Cash Management

## Hudson Valley Investment Advisors, Inc. Officers

**GUS SCACCO**
CEO/Chief Investment Officer

**MICHAEL RUNDLE**
Vice President, Portfolio Manager

**THOMAS MCGIMPSEY**
Vice President, Portfolio Manager

**MARK LAZARCZYK**
COO, Chief Compliance Officer

**MELISSA MINEAU**
Vice President, Relationship Manager

**JAYNE RZECZKOWSKI**
Corporate Secretary

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