Turn challenges into OPPORTUNITIES and outperform EXPECTATIONS

Our customer-first approach leads to record earnings in unprecedented times.

ORANGE COUNTY BANCORP, INC.

2020 ANNUAL REPORT

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

BOARD OF DIRECTORS

LOUIS HEIMBACH
Chairman

MICHAEL J. GILFEATHER
President & CEO

GREG HOLCOMBE
President & CEO
Holcombe Development Companies

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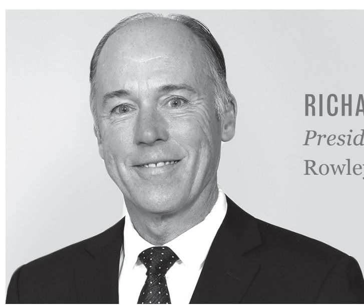
JONATHAN ROUIS
CPA
Partner at RBT CPAs



RICHARD ROWLEY
President & CEO
Rowley Companies

TERRY R. SATURNO
Former President & CEO
Orange Bank & Trust Company

GUS SCACCO
Chief Investment Officer & CEO
Hudson Valley Investment Advisors, Inc.

Letter from the Chairman and President

Dear Shareholders:

As those of you who have followed our story the past several years know, we consistently speak about community banks' inherent power to understand their clients' needs and develop products and services to meet them. This knowledge and the ability to identify, assess, and respond to evolving or even rapidly changing regional circumstances explain much of Orange Bank's 128 years of success, as well as our recent, successful expansion. In 2020, the COVID-19 pandemic put every facet of this institution to the test like few periods in its history. We are pleased to report, our people – rose to the challenge and responded admirably.

Despite unprecedented economic and operational challenges presented by the virus and related business shutdown, we were able to generate record earnings for the year of $11.7 million, a 1.7% increase over 2019. It resulted in growth in Tangible Book value of $3.16 per share, or 12.5%, for the year to $28.57. We achieved these results despite recording higher provisions for loan losses during the year to account for elevated economic uncertainty due to the pandemic. Total Assets grew an impressive $435.4 million, or 35.4%, during the year to $1.66 billion, while Loans and Total Deposits grew 29.2%, to $1.2 billion, and 37.5%, to $1.5 billion, year-over-year, respectively. We achieved these results despite COVID's dramatic impact on our ability to meet directly with clients, who were themselves managing through unprecedented health and business challenges. It reflects our employees' extraordinary dedication. Risking their health, they came to work and sought ways to help our clients navigate this unsettling period. More than our financial results, our employees' commitment characterize Orange's 2020 story, and we as well as our clients, are incredibly humbled by and appreciative of their efforts.

Early in the year, New York State joined the nation in shutting down large portions of the economy to slow the spread of the emerging COVID pandemic. Naturally, this put immediate – and profound – stress on businesses throughout the communities we serve. Given our familiarity with these communities and our clients' needs, we sought ways to help them manage the resulting impact, allowing many to defer loan payments to bridge the historic decline in economic activity. At our Q2 peak, we had extended 90-day deferrals on more than $300 million of commercial loans. Since then, New York State's ongoing efforts to balance economic interests with the further spread of the virus allowed for a partial reopening of business. The ensuing increase in economic activity, though significantly below pre-COVID levels, enabled us to reduce deferred loan balances by more than 84% by year-end. We are encouraged by this but will continue to monitor and work closely with clients through what remains a very challenging business environment.

Our efforts to help clients manage this challenging period weren't limited to loan deferrals and cash flow management. In response to the unprecedented economic shutdown, the federal government authorized a massive fiscal stimulus package in March that included creating the Payroll Protection Program (PPP). We knew this program, which was designed to provide direct, low-cost, and ultimately forgivable loans to businesses to help retain employees, would be vital to our customers and immediately set about building the systems required to offer and qualify PPP loans. It was a monumental effort for our team, which ultimately resulted in over $100 million in PPP loans for more than 800 bank clients on an extraordinarily expedited basis. And, most importantly, our clients knew we had their backs. We should add that while we hoped to be past the worst of the pandemic by early in 2021, Congress authorized an additional round of PPP funding, and we have over $68 million in approved and pending applications as of March 19, 2021.

In addition to direct government stimulus, the Federal Reserve also injected unprecedented liquidity into the financial system through aggressive fiscal and monetary policy. These policies met their objective of providing businesses across the economic spectrum access to low-cost capital. Still, they left the U.S. banking system with the challenge of historically low-interest rates and high liquidity levels, creating significant margin pressure across our industry. Yet, we managed to increase net interest income by 12.6% year-over-year. Though a portion of this growth represents liquidity added to the financial system by the Fed, it also reflects our successful efforts to expand business client outreach and earn a more significant share of their banking business.

Further leveraging the challenging interest environment to our advantage, the Bank secured $20 million in low-cost financing in the 3rd quarter through the issuance of 10-year Subordinated Notes with a fixed 5-year interest rate of 4.25%. The Bank also authorized a $5 million share repurchase program late in the year and took advantage of a decline in our share price to acquire 25,772 shares at an average price of $26.50 per share. Proceeds from our debt offering and growth of our low-cost deposit base strengthen the Bank's financial foundation and support continued growth.

In addition to core lending and deposits, the Bank's Trust Services Division and HVIA investment advisory subsidiary have long been integral components of the products and services we offer our clients. Together, they finished the year with more than $1.2 billion in combined assets under management ("AUM"), a

continued...

$108 million increase, with HVIA representing $937 million of this, up 8.5%, or $73 million, over the prior year through growth and appreciation in its institutional and retail segments.

Following the successful introduction of Orange's Private Banking program in 2017, we announced in the fourth quarter the establishment of Orange Wealth Management, a platform that provides a comprehensive suite of wealth management services which are delivered through our fully owned subsidiaries – HVIA and the Bank.

To this end, the Bank also recently announced the launch of its new "Orange Wealth Solutions," which combines the best-in-class personal guidance with technology to provide sound and actionable financial planning. It features "Orange Wealth Navigator," a cloud-based account aggregation tool offering comprehensive, real-time analysis and insight through a secure online portal and a "data vault," where clients can store and access essential documents on a single dynamic platform. Comprehensive Financial Planning by certified advisors is the other key component. This service will enable clients to better evaluate and plan for their current and long-term financial needs and represents an important addition to our product offering.

Despite the unforeseen challenges that defined 2020, we never lost our regional focus or belief in the advantages it offers us. In 2021, we will expand into the Bronx and solidify our Rockland County presence in Nanuet with two new branches. These locations hold great potential and are natural extensions for the business, trust, and wealth services we offer. We are excited by the opportunity to support and better serve these communities.

With 2020 behind us, we know you share our sentiments, hoping for a safer, healthier, more predictable business and living environment in the year ahead. However, many of last year's challenges will remain with us for some time or even permanently change the way we work and live. Over our 128-year history, experience has consistently proven that dedication to our clients, adherence to conservative banking and lending standards, and delivering excellence in products and services are our best means to navigate challenges and deliver outstanding results to our clients and shareholders. We proved it again in 2020. The entire Orange team wishes to thank you for your continued support.

We look forward to more opportunities together – and remain prepared for the challenges – of 2021 and beyond.

Louis Heimbach, *Chairman*	Michael J. Gilfeather, *President & CEO*

Orange County Bancorp, Inc.
Performance Highlights

PRE-TAX INCOME

$ INCREASED TO $14.5 MILLION

FROM $14.4 MILLION

TOTAL LOANS
29%

GREW 29.21% TO
$1.2 BILLION FROM
$892 MILLION

TOTAL ASSETS
35%

INCREASED 35.41%
TO $1.7 BILLION
FROM $1.2 BILLION

DEPOSIT GROWTH
38%

INCREASED 37.50%
TO $1.5 BILLION
FROM $1.1 BILLION
NON-INTEREST BEARING DEPOSITS
UP BY $186 MILLION

ASSETS UNDER MANAGEMENT

$1.2 BILLION

MORE THAN $1.2 BILLION IN COMBINED
ASSETS UNDER MANAGEMENT
(A $108 MILLION INCREASE)

PPP LOANS

$100 MILLION

OVER $100 MILLION IN PPP LOANS
FOR OVER 800 BANK CLIENTS

High Tech and High Touch

"If I could scream from the top of a mountain how great Remote Deposit Capture is, I would."

Paula Fidanza, Owner –C'est LaVie Spa and Salon

Paula Fidanza uses Orange Bank and Trust's RDC technology and Online Banking services to streamline her day. She has accurate information and records right in her office. And it just keeps getting better. Paula likes the user-friendliness, the technology upgrades to the Bank's systems, and not worrying about anything.

It's not just the technology she likes. This businesswoman from a family of self-employed Italian immigrants grew up here in Orange County. She went to school here and followed in her family's footsteps, earning a degree in Cosmetology and starting a business of her own. As the company grew, so did her discomfort with her previous Bank. "I felt like a number." When I was looking for a new bank, I was looking for local support. I wanted to know who I was banking with." Orange Bank and Trust helps her in every way, including a call when there's a new banking product that will benefit her business. She says that other banks don't do that; they don't say, "I'm going to call Paula. It's just awesome— on a scale of 1 to 10, it's a 12."

Personal and Professional Service — Every Time

"Hello, Tony. How are you, how can we help you?"

Tony Dilluvio, President of Aqua Turf

Tony Dilluvio, President of Aqua Turf, says that sums up his relationship with Orange Bank & Trust. When he and his partner purchased their irrigation and landscape lighting business in 2003, they didn't have a lender and couldn't find one— until they talked with Orange Bank and Trust. Tony says he immediately felt like "family." The entire bank team worked together for Aqua Turf doing everything from setting up electronic banking services to connecting the company with legal and insurance professionals. "The kind, helpful, competent and informed service, based on knowing my business gives me confidence and a really good feeling."

Beyond the personal service and human touch, Tony takes full advantage of the Bank's technology offerings utilizing Remote Deposit Capture and other online products to make his financials easier to deal with and more accurate. He uses his dashboard to do most of it on his phone or iPad. Installation, integration, and use have all been seamless. Tony recommends Orange Bank and Trust to his friends because, "They're interested in my business, and they've become friends of mine."

Responsive and Resourceful

"My first bank couldn't respond to my needs in three months. Orange Bank and Trust approved my loan in two weeks."

Jonathan Shafran, President–JK Development Corporation

Jonathan Shafran followed his family into the construction business. As JK Development Corp. expanded, he needed a bank to help him grow with a one-on-one relationship— one where he could sit down and talk about his plans. Twenty-five years later, he remains a loyal customer and still finds responsiveness and a sense of urgency about his business with his Orange Bank and Trust bankers.

In the past year, he says the Bank was especially helpful in structuring his PPP loans. Jonathan is a big fan of Orange Bank and Trust technology, especially the ease of moving funds between accounts through Online Banking. He's such a fan of business banking; he's also a Private Banking client. He says, "They're there to help you, not slow you down. They work with me, tailor loans and products to my needs, and are a pleasure to work with."

A Long Term and High-Level Relationship

"In the 1930s, our first office and Orange County Trust were one block apart in Middletown. As they became Orange Bank & Trust and we grew, so did the relationship."

Jason Giordano, Managing Partner–JGS CPAs

Jason Giordano says JGS CPAs, a full-service accounting, tax and advisory firm with offices in Middletown and Poughkeepsie, has had many mutual clients through the decades and the constant has always been personal service with a small bank feel.

He especially appreciates the Bank's Trust Department for the level of service clients receive in planning important life and business decisions and the Bank's Investment Management division's strength to serve their needs and clients' needs. He also likes the Bank's innovative technology that allows his firm to work directly with mutual client's online accounts to provide convenient and timely service. Jason says it is all about the relationships, for JGS and their clients, whether they are using business products or Private Banking. "From day one and for over 90 years what has remained the same, day in and day out, is that the level of service has been second to none."

Passions and Partners

"Healthcare is different than other industries. They took the time to understand who we are and what our business model is."

Anthony R. Ruvo, MD, FACEP, President and CEO, MedExcel USA, Inc.

Dr. Anthony Ruvo has a passion for helping others and built his career in emergency medicine. When he decided to focus on emergency care management to build out urgent care centers in New York, New Jersey, and Connecticut, he found Orange Bank and Trust has the same passion for helping businesses.

In starting MedExcel, he banked with large national banks, which he says "became very problematic." Loan approvals took a long time, and the sheer volume of the accompanying paperwork and reporting involved in securing those loans required Dr. Ruvo to hire additional staff to keep up. He needed far faster approval times because sometimes staffing an emergency department could start-up in just two weeks.

He moved to Orange Bank and Trust, and their team, including the CEO, sat down with him, talked for hours, and developed a plan to give MedExcel the ability to finance initial start-ups and do it quickly.

As the business grew, so did the relationship. Dr. Ruvo says he's never experienced such personal attention. "We grew together–I'm extremely grateful for the partnership–we've never looked back."

Personal Service and Innovative Ideas

"At the height of the pandemic I'd ask colleagues if their banker called them during the pandemic. If they didn't, I'd tell them to switch to Orange Bank and Trust."

John Giacobbe, Esq, Law Office of John A. Giacobbe, LLC

John Giacobbe learned the foundations of business management from his grandmother realizing customers came because she made them feel special, appreciated, and treated like family. Growing a law practice, running the family business—The Imperial Yacht Club, located in New Rochelle—and building others, he followed her example. And when it came time to look for a bank he wanted one that shared those same values.

He left a successful banking career when he saw customers being treated like numbers. He looks to Orange Bank and Trust for personal service and innovative ideas. John says Remote Deposit Capture turns his office into a branch of the Bank and that he can reach his Orange banker anytime–big banks give you a call center-Orange Bank and Trust gives you a cell number. He adds the Bank was vital during COVID to keep the lights on and the doors open, guiding him though the PPP process. "At the height of the pandemic I'd ask colleagues if their banker called them during the pandemic. If they didn't, I'd tell them to switch to Orange Bank and Trust."

ORANGE Wealth Management

The ultimate measure of our success comes when we enrich shareholders. To do that it's critical that we diversify our revenue streams with non-interest rate related products. The Bank's **Private Banking** and **Trust Services**, along with **Hudson Valley Investment Advisors** help grow our bottom line while building client loyalty.

PRIVATE BANKING OFFERS CLIENTS A SINGLE POINT OF CONTACT

Personal. Memorable. Different. These benefits distinguish Private Banking, which offers Deposit Products, Loans, Trust, Estate, and Custody Services, and Investment Advisory.

Since its inception in 2017, our professionals advise their clients using a simple philosophy: making our clients' financial lives more manageable. We accomplish that first by learning everything we can about them and then by delivering undivided personal attention.

At the pandemic's peak, we shifted our **Private Banking** focus from acquisition mode to maintenance, assisting clients with PPP loan funding and forgiveness applications. Nevertheless, the team, led by VP/Senior Private Banker Carla Alfieri, **onboarded 47 new Private Banking clients**, bringing our total client-base to over 350 clients.

The Private Banking team continues to leverage the Salesforce Customer Relations Management system, which provides a view of each client's relationship, allowing for a Bank-wide holistic approach toward giving financial advice and solution. Ultimately, the team delivers services through deep research into client requirements, anticipating their needs, and reacting swiftly to day-to-day requests.

Through these differentiated services and our high-touch approach, our Private Banking business was a solid contributor to the Bank's financial results in 2020.

TRUST SERVICES DIVISION GROWS ASSETS ONCE AGAIN

Long a key component of the Bank's product offerings in non-interest income and dating back to its founding 127 years ago, the **Trust Services Division** grew yet again in 2020. Client assets reached a record $540 million, a 5% increase from the previous year's mark of $513 million. Our Orange County footprint accounts for $355 million in assets. The Westchester Division also continued to grow, ending the year with $185 million in assets compared to $135 million in the previous year.

Fiduciary assets in Trust Services grew to $325 million in 2020, a 25% increase over last year's $260 million.

INVESTMENT ADVISORY SERVICES SET RECORD GROWTH TWO YEARS RUNNING

Our subsidiary, **Hudson Valley Investment Advisors, Inc.** (HVIA), produced yet another year of record growth in the fiscal year 2020. With organic growth in both retail and institutional Assets under Management, the company recorded an increase of 8.5% in overall AUM to $937 million from $864 million the prior year. The company also benefitted from asset appreciation due to better performance.

Looking ahead, HVIA anticipates continued growth as the Registered Investment Advisor (RIA) sector, in which they compete, benefits from increases in the equity and fixed income markets. Additionally, the firm predicts that client additions and longer-term asset growth will benefit it and the overall holding company into 2021 and beyond.

RON COCCARO
Managing Sales Executive, Orange Wealth Management

ORANGE WEALTH MANAGEMENT AIMS TO SIMPLIFY CLIENTS' LIVES

In the fourth quarter, we established Orange Wealth Management, a platform that provides a comprehensive suite of wealth management services which are delivered through the Bank's Private Banking and Trust Services Division along with Hudson Valley Investment Advisors, Inc. We hired Ron Coccaro, Managing Sales Executive at the Bancorp level, to guide this new offering.

Orange Wealth Management provides a holistic approach to helping clients with their wealth and financial needs. Through the Bank and HVIA there are professionals that will advise and help clients plan for the future, build wealth for an enjoyable retirement, protect your assets and your family, and leave a legacy, all while continuing to enjoy the exclusive banking services from our Private Banking team.

Last fall, the Bank launched "Orange Wealth Solutions," a financial services product that combines high-touch service with high-tech to provide fee-based financial planning. It includes "Orange Wealth Navigator," a cloud-based secure portal and account aggregation tool that delivers comprehensive, real-time analysis and insight with a "data vault" for clients to place and have easy access to essential documents. This service will enable clients to better evaluate and plan for current and future financial needs.

Community Engagement:

MORE THAN WORDS — IT'S ACTION

We meet the credit needs of local businesses, which in turn helps our communities thrive. But we do so much more to strengthen the lives of our neighbors.

Every year our employees participate in our Community Giving and Volunteer Program. All of us— from the CEO and board members to loan officers and tellers— are deeply engaged with the work of not-for-profit organizations and other associations. Together, we support economic development groups, food banks, homeless shelters, literacy programs, family and children's programs, and other social service groups. Undeterred by the pandemic, we continued our charitable giving and volunteered our time, talent, and professional expertise to these and many more outstanding groups:

COVID Relief

When the pandemic crisis hit, the Community Foundation of Orange and Sullivan launched the CFOS COVID-19 Response Fund to address residents' immediate and longer-term needs in Orange and Sullivan counties. Orange Bank and Trust was among the first to answer the call, contributing $10,000 to the fund.

HONOR
(Helping Others Needing Our Resources)

We donated Pizza and ice-cream to over 100 guests to HONOR, a Middletown, New York non-profit that provides housing, food, crisis intervention, counseling, residential stabilization, and rehabilitation and vocational skills to homeless individuals and families.

People to People Food Pantry

Our Regional President, John Bartolotta, and Portfolio Manager, Jeremiah Downey, help unload 80,000 pounds of food at Rockland's largest food pantry. Families, children, seniors, and veterans are among the county's 5,000 residents who count on help putting food on their tables every month.

Mobile Life

First responders in our communities were among the thousands of people on the front lines, especially in the pandemic's early days. We donated lunches to the Mobile Life Support Services team to show our appreciation for the selfless work and long hours they put in to help the community.

Giving Hope in the Bronx

Last December we helped set the standard, that when small businesses join together to help people in need, we offer hope. The Bank, the 49th precinct, business owners, friends, family, local not for profits, Bronx Tourism and St. Benedict's Hospital, participated in a holiday parade to help bring joy in the time of COVID-19. All participants donated toys to the local shelter.

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Stockholders and Board of Directors of
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, 2020 and 2019, 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.

(Continued)

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, 2020 and 2019, 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, 2020, 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 purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated April 29, 2021, expressed an unmodified opinion.

Crowe LLP

Crowe LLP

Livingston, New Jersey
April 29, 2021

CONSOLIDATED STATEMENTS OF CONDITION

December 31, 2020 and 2019

(Dollar Amounts in thousands except per share data)

	2020	2019
ASSETS		
Cash and due from banks	$ 121,232	$ 25,112
Investment securities - available-for-sale	330,105	254,915
Restricted investment in bank stocks	1,449	1,474
Loans	1,152,738	892,124
Allowance for loan losses	(16,172)	(12,275)
Loans, net	1,136,566	879,849
Net Premises and equipment	14,017	14,599
Accrued interest receivable	6,295	3,202
Bank owned life insurance	28,520	27,818
Goodwill	5,359	5,359
Intangible assets	1,963	2,249
Other assets	19,430	14,975
TOTAL ASSETS	$ 1,664,936	$ 1,229,552
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 521,093	$ 335,469
Interest bearing	968,201	747,663
Total deposits	1,489,294	1,083,132
FHLB advances	-	5,000
Note payable	3,000	3,000
Subordinated notes, net of issuance costs	19,323	-
Accrued expenses and other liabilities	17,896	16,357
TOTAL LIABILITIES	1,529,513	1,107,489
STOCKHOLDERS' EQUITY		
Common stock, $0.50 par value; 15,000,000 shares authorized; 4,533,304 issued; 4,483,102 and 4,504,389 outstanding, at December 31, 2020 and 2019, respectively	2,266	2,266
Surplus	85,111	85,178
Retained Earnings	47,683	39,589
Accumulated other comprehensive income (loss), net of taxes	1,819	(4,044)
Treasury stock, at cost; 50,202 and 28,915 shares at December 31, 2020 and 2019, respectively	(1,456)	(926)
TOTAL STOCKHOLDERS' EQUITY	135,423	122,063
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,664,936	$ 1,229,552

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2020 and 2019

(Dollar Amounts in thousands except per share data)

	2020	2019
INTEREST INCOME		
Interest and fees on loans	$ 47,522	$ 40,803
Interest on investment securities:		
Taxable	4,651	5,732
Tax exempt	994	641
Interest on Federal funds sold and other	294	945
TOTAL INTEREST INCOME	53,461	48,121
INTEREST EXPENSE		
Interest on savings and NOW accounts	3,389	3,291
Interest on time deposits	917	1,221
Interest on FHLB advances	10	147
Interest on note payable	160	181
Interest on subordinated notes	246	-
TOTAL INTEREST EXPENSE	4,722	4,840
NET INTEREST INCOME	48,739	43,281
Provision for loan losses	5,413	2,195
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	43,326	41,086
NONINTEREST INCOME		
Service charges on deposit accounts	682	921
Trust income	4,074	3,531
Investment advisory income	4,105	3,927
Investment securities gains(losses)	804	(219)
Earnings on bank owned life insurance	702	690
Other	1,056	964
TOTAL NONINTEREST INCOME	11,423	9,814
NONINTEREST EXPENSE		
Salaries	17,788	16,407
Employee benefits	4,163	4,128
Occupancy expense	3,744	3,523
Professional fees	3,318	2,342
Directors' fees and expenses	1,088	1,108
Computer software expense	4,038	3,133
FDIC assessment	910	370
Advertising expenses	1,191	1,177
Advisor expenses related to trust income	455	377
Telephone expenses	552	459
Intangible amortization	286	286
Other	2,698	3,181
TOTAL NONINTEREST EXPENSE	40,231	36,491
Income before income taxes	14,518	14,409
Provision for income taxes	2,839	2,928
NET INCOME	$ 11,679	$ 11,481
Basic and diluted earnings per share	$ 2.59	$ 2.56
Weighted average shares outstanding	4,508,508	4,484,317

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2020 and 2019

(Dollar Amounts in thousands except per share data)

	2020	2019
Net Income	$ 11,679	$ 11,481
Other comprehensive income:		
Unrealized gains/losses on securities:		
Unrealized holding gain arising during the year	6,512	5,356
Reclassification adjustment for (gains)/losses included in net income	(804)	219
Tax effect	1,198	1,171
Net of tax	4,510	4,404
Defined benefit pension plans:		
Net gain arising during the period	1,664	584
Reclassification adjustment for amortization of prior service cost and net gains included in net periodic pension cost	65	111
Tax effect	364	146
Net of tax	1,365	549
Deferred compensation liability:		
Unrealized loss	(15)	(13)
Tax effect	(3)	(2)
Net of tax	(12)	(11)
Total other comprehensive income	5,863	4,942
Total comprehensive income	$ 17,542	$ 16,423

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2020 and 2019

(Dollar amounts in thousands except per share data)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2019	$ 2,266	$ 85,496	$ 31,695	$ (8,986)	$ (1,192)	$ 109,279
Net income	-	-	11,481	-	-	11,481
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)	-	(375)	-	-	375	-
Treasury stock purchased (16,873 shares)	-	-	-	-	(455)	(455)
Restricted stock expense	-	319	-	-	-	319
Stock-based compensation (6,264 shares)	-	(175)	-	-	346	171
Stock issuance costs	-	(87)	-	-	-	(87)
Balance, December 31, 2019	2,266	85,178	39,589	(4,044)	(926)	122,063
Net income	-	-	11,679	-	-	11,679
Other comprehensive income, net of taxes	-	-	-	5,863	-	5,863
Cash dividends declared ($0.80 per share)	-	-	(3,585)	-	-	(3,585)
Issue of restricted stock (14,532 shares)	-	(442)	-	-	442	-
Treasury stock purchased (41,201 shares)	-	-	-	-	(1,164)	(1,164)
Restricted stock expense	-	413	-	-	-	413
Stock-based compensation (5,382 shares)	-	(38)	-	-	192	154
Balance, December 31, 2020	$ 2,266	$ 85,111	$ 47,683	$ 1,819	$ (1,456)	$ 135,423

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2020 and 2019

(Dollar amounts in thousands except per share data)

	2020	2019
Cash flows from operating activities		
Net income	$ 11,679	11,481
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Provision for loan losses	5,413	2,195
Depreciation	1,274	1,189
Accretion on loans	(2,843)	(1,258)
Amortization of intangibles	286	286
Deferred income tax provision (benefit)	(260)	(426)
Investment securities (gains) losses	(804)	219
Restricted stock expense	413	319
Stock-based compensation	154	171
Net amortization of investment premiums	2,329	2,242
Earnings on bank owned life insurance	(702)	(690)
Net change in:		
Accrued interest receivable	(3,093)	(194)
Other assets	(4,029)	(5,331)
Other liabilities	1,527	3,530
Net cash from operating activities	11,344	13,733
Cash flows from investing activities		
Purchases of investment securities available-for-sale	(218,813)	(99,355)
Proceeds from sales and paydowns of investment securities available-for-sale	100,947	82,388
Proceeds from maturities and calls of investment securities available-for-sale	46,860	20,702
Decrease (increase) in restricted investment in bank stocks, net	25	1,048
Loans purchased	(43,305)	(24,540)
Principal returned on loans purchased	17,322	3,821
Net increase in loans	(233,304)	(132,718)
Additions to premises and equipment	(692)	(1,854)
Net cash from investing activities	(330,960)	(150,508)
Cash flows from financing activities		
Net increase in deposits	406,162	178,124
Net change in FHLB overnight advances	(5,000)	(20,500)
Net change in FHLB term advances	-	(10,000)
Repayments of note payable	-	(57)
Issuance of subordinated notes, net of issuance costs	19,323	-
Expenses for proceeds from issuance of common stock	-	(87)
Cash dividends paid	(3,585)	(3,587)
Purchases of treasury stock	(1,164)	(380)
Net cash from financing activities	415,736	143,513
Net change in cash and cash equivalents	96,120	6,738
Beginning cash and cash equivalents	25,112	18,374
Ending cash and cash equivalents	$ 121,232	$ 25,112
Supplementary Cash Flow Information		
Interest paid	4,616	4,840
Income taxes paid	3,015	2,876
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

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 $1,189,119 and $1,102,794 at December 31, 2020 and 2019, respectively.

***Risk and Uncertainties**:* On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic, which continues to spread throughout the United States and around the world. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to, among other things, provide emergency assistance for individuals, families and businesses affected by the COVID-19 pandemic. The COVID-19 pandemic has adversely affected, and continues to adversely affect economic activity globally, nationally and locally. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the New York metropolitan area in which the Company primarily operates. Although the Company has been able to continue operations while taking steps to ensure the safety of employees and customers, COVID-19 could also potentially create widespread business continuity issues for the Company. This could cause the Company to experience a material adverse effect on business operations, asset valuations, financial condition and results of operations. Material adverse impacts may include all or a combination of valuation impairments on the Company’s intangible assets, investments, and loans.

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.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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) 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.

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. Refer to Note 3 for discussion on loan modifications made under the guidelines of the CARES Act.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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 TDRs would be considered impaired. If a loan is impaired, a portion of the allowance is allocated so that the loan is 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.

TDRs 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.

The loan portfolio is segmented into commercial and industrial, commercial real estate, commercial real estate construction, residential real estate, home equity, and consumer loans.

Note 1 - Summary of Significant Accounting Policies (continued)

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.

During 2020, the Bank participated in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") created under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The PPP provided funds to guarantee forgivable loans originated by depository institutions to eligible small businesses through the SBA's 7(a) loan guaranty program. These loans are 100% federally guaranteed (principal and interest) and currently not subject to any allocation of allowance for loan losses. An eligible business could apply under the PPP during the applicable covered period and receive a loan up to 2.5 times its average monthly "payroll costs" limited to a loan amount of $10.0 million. The proceeds of the loan could be used for payroll (excluding individual employee compensation over $100,000 per year), mortgage, interest, rent, insurance, utilities and other qualifying expenses. PPP loans have: (a) an interest rate of 1.0%, (b) a two-year loan term (or five-year loan term for loans made after June 5, 2020) to maturity; and (c) principal and interest payments deferred until the date on which the SBA remits the loan forgiveness amount to the borrower's lender or, alternatively, notifies the lender no loan forgiveness is allowed. If the borrower did not submit a loan forgiveness application to the lender within 10 months following the end of the 24-week loan forgiveness covered period (or the 8-week loan forgiveness covered period with respect to loans made prior to June 5, 2020 if such covered period is elected by the borrower), the borrower would begin paying principal and interest on the PPP loan immediately after the 10-month period.

On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (the "Economic Aid Act") became law. Among other things, the Economic Aid Act extended the PPP through May 31, 2021 and allocated additional funds for new PPP loans, to be guaranteed by the SBA. The extension included an authorization to make new PPP loans to existing PPP loan borrowers, and to make loans to parties that did not previously obtain a PPP loan. The Company is participating in the newly extended PPP and will originate loans under the extended program. Loans originated under the extended PPP will have substantially the same terms as existing PPP loans, with a five year loan term.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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 December 31 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.

Intangible assets consist of acquired customer relationship intangible assets arising from wealth management acquisitions and are amortized on a straight lined basis over their estimated useful lives.

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 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.

Note 1 - Summary of Significant Accounting Policies (continued)

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, changes in the funded status of the pension plan and deferred compensation, 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.

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.

Recent Accounting Pronouncements: On January 1, 2020, the Company adopted ASU 2018-14, Compensation – Retirement Benefits Topic 715-20. This ASU amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The ASU eliminates the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost over the next year, and also removes the disclosure requirements for the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost and the benefit obligation for postretirement health care benefits. The adoption of the ASU did not have a significant impact on the Corporation's consolidated financial statements.

In 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 in 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 Statements of Income. Prior periods were not restated. Disclosures about the Company's leasing activities are presented in Note 14-Leases.

(Dollar amounts in thousands except per share data)

Note 1 - Summary of Significant Accounting Policies (continued)

In June, 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses Topic 326: Measurement of Credit Losses on Financial Instruments. The objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. In November 2019, the FASB adopted changes to delay the effective date of ASU 2016-13 to January 2023 for certain entities, including certain Securities and Exchange Commission filers, public business entities, and private companies. As a result, the Company is eligible for the delay and will adopt CECL effective January 1, 2023. The Company is currently evaluating the potential impact the adoption of ASU 2016-13 will have on its consolidated financial statements and results of operations.

Correction of Prior Period Error: During the preparation of the consolidated financial statements as of and for the year ended December 31, 2020, we corrected an immaterial error related to the historical lack of recognition of deferred costs related to loan originations on our consolidated financial statements as of and for the year ended December 31, 2019. We evaluated the impact and concluded that it was not material to our 2019 consolidated financial statements and corrected the omission, resulting in an increase in loans of $1,420 from $890,704 to $892,124 and an increase in total stockholders' equity of $1,122 from $120,941 to $122,063. For the year ended December 31, 2019, the effects of the correction reduced interest and fees on loans and salaries expense by $174 and $659, respectively, while provision for income taxes increased by $102. Net income for the same period increased $383 from $11,098 to $11,481 and basic and diluted earnings per share increased $0.09 from $2.47 to $2.56, as a result of the correction.

Note 2 - Investment Securities

The amortized cost and fair value of investment securities at December 31, 2020 and 2019 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale December 31, 2020				
U.S. government agencies	$ 82,409	$ 1,394	$ (382)	$ 83,421
Mortgage-backed securities	157,408	3,633	(257)	$ 160,784
Corporate Securities	10,603	57	(33)	$ 10,627
Obligations of states and political subdivisions	73,421	1,883	(31)	$ 75,273
Total debt securities	$ 323,841	$ 6,967	$ (703)	$ 330,105
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

The proceeds from sales of securities and associated gains and losses are listed below:

	2020	2019
Proceeds	$ 23,238	$ 30,280
Gross gains	954	41
Gross losses	150	260

The tax (provision) benefit related to these net realized gains and losses was $(169) and $46 for 2020 and 2019, respectively.

(Dollar amounts in thousands except per share data)

Note 2 - Investment Securities (continued)

The amortized cost and fair value of debt securities as of December 31, 2020 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.

	Available-for-sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 35,891	$ 36,033
Due after one through five years	33,585	34,030
Due after five through ten years	49,248	49,797
Due after ten years	47,709	49,461
	166,433	169,321
Mortgage-backed securities	157,408	160,784
Total debt securities	$ 323,841	$ 330,105

Securities pledged at year-end 2020 and 2019 had a carrying amount of $121,233 and $105,709 and were pledged to secure public deposits.

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

At year-end 2020 and 2019, 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, 2020 and 2019, 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, 2020						
U.S. government agencies	$ 17,948	$ (52)	$ 20,779	$ (330)	$ 38,727	$ (382)
Mortgage-backed securities	35,580	(208)	1,887	(49)	37,467	(257)
Corporate Securities	1,551	(33)			1,551	(33)
Obligations of states and political subdivisions	15,373	(31)	-	-	15,373	(31)
Total debt securities	$ 70,452	$ (324)	$ 22,666	$ (379)	$ 93,118	$ (703)
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)

There was no other than temporary impairment loss recognized on any securities at December 31, 2020 or 2019.

As of December 31, 2020, the Company's security portfolio consisted of 196 securities, 36 of which were in an unrealized loss position. As of December 31, 2019, the Company's security portfolio consisted of 156 securities, 42 of which were in an unrealized loss position. Unrealized losses are related to the Company's mortgage backed and U.S. government agency securities as discussed below.

At December 31, 2020, mortgage-backed securities held by the company were issued 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 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, 2020.

(Dollar amounts in thousands except per share data)

Note 2 - Investment Securities (continued)

The Company's unrealized losses on U.S. government agency securities relate primarily to its investment in 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 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, 2020.

Note 3 - Loans

Loans at year-end were as follows:

	2020	2019
Commercial and industrial	$ 299,049	$ 222,111
Commercial real estate	698,130	534,407
Commercial real estate construction	63,544	56,412
Residential real estate	57,941	65,290
Home equity	13,960	11,668
Consumer	20,114	2,236
Total	$ 1,152,738	$ 892,124

Included in commercial and industrial loans as of December 31, 2020 were PPP loans of $69.0 million.

The following table presents the activity in the allowance for loan losses by portfolio segment for each of the years ending December 31, 2020 and 2019:

	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction	Residential Real Estate	Home Equity	Consumer	Total
December 31, 2020							
Allowance for loan losses:							
Beginning balance	$ 5,107	$ 5,951	$ 713	$ 384	$ 43	$ 77	$ 12,275
Provision for loan losses	917	4,046	88	48	34	280	5,413
Loans charged-off	(1,239)	(219)	-	(51)	-	(28)	(1,537)
Recoveries	10	4	-	-	-	7	21
Ending balance	$ 4,795	$ 9,782	$ 801	$ 381	$ 77	$ 336	$ 16,172

	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	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

(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, 2020 and 2019:

	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction	Residential Real Estate	Home Equity	Consumer	Total
December 31, 2020							
Allowance for loan losses:							
Ending balance:							
individually evaluated for impairment	$ 206	$ 1,084	$ -	$ 15	$ -	$ 27	$ 1,332
collectively evaluated for impairment	4,589	8,698	801	366	77	309	14,840
Total ending allowance balance	$ 4,795	$ 9,782	$ 801	$ 381	$ 77	$ 336	$ 16,172
Loans:							
Ending balance:							
individually evaluated for impairment	$ 2,410	$ 19,759	$ -	$ 1,358	$ -	$ 124	$ 23,651
collectively evaluated for impairment	296,639	678,371	63,544	56,583	13,960	19,990	1,129,087
Total ending loans balance	$ 299,049	$ 698,130	$ 63,544	$ 57,941	$ 13,960	$ 20,114	$ 1,152,738
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	221,609	522,280	56,412	65,066	11,668	2,104	879,139
Total ending loans balance	$ 222,111	$ 534,407	$ 56,412	$ 65,290	$ 11,668	$ 2,236	$ 892,124

Included in the commercial and industrial loans collectively evaluated for impaired are PPP loans of $69.0 million as of December 31, 2020. PPP loans receivable are guaranteed by the SBA and have no allocation of the allowance for loan losses.

(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, 2020 and 2019:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2020						
With no related allowance recorded						
Commercial and industrial	$ 331	$ 331	$ -	$ 169	$ 23	$ 23
Commercial real estate	10,621	9,248	-	4,937	296	296
Commercial real estate construction	-	-	-	-	-	-
Residential real estate	1,148	1,148	-	574	44	44
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total	$ 12,100	$ 10,727	$ -	$ 5,680	$ 363	$ 363
With an allowance recorded:						
Commercial and industrial	$ 2,079	$ 2,079	$ 206	$ 1,287	$ 147	$ 147
Commercial real estate	11,001	10,511	1,084	11,005	466	466
Commercial real estate construction	-	-	-	-	-	-
Residential real estate	219	210	15	217	5	5
Home equity	-	-	-	-	-	-
Consumer	124	124	27	128	7	7
Total	$ 13,423	$ 12,924	$ 1,332	$ 12,637	$ 625	$ 625
December 31, 2019						
With no related allowance recorded						
Commercial and industrial	$ 7	$ 7	$ -	$ 28	$ 1	$ 1
Commercial real estate	627	627	-	641	40	40
Commercial real estate construction	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total	$ 634	$ 634	$ -	$ 669	$ 41	$ 41
With an allowance recorded:						
Commercial and industrial	$ 495	$ 495	$ 446	$ 472	$ 9	$ 9
Commercial real estate	13,357	11,500	655	11,774	708	708
Commercial real estate construction	-	-	-	-	-	-
Residential real estate	224	224	24	232	10	10
Home equity	-	-	-	-	-	-
Consumer	132	132	28	137	8	8
Total	$ 14,208	$ 12,351	$ 1,153	$ 12,615	$ 735	$ 735

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, 2020 and December 31, 2019.

	Non-accrual		Loans Past Due Over 90 Days Still Accruing	
	2020	2019	2020	2019
Commercial and industrial	$ -	$ 502	$ 457	$ 215
Commercial real estate	1,345	959	-	-
Commercial real estate construction	-	-	-	-
Residential real estate	657	88	2	416
Home equity	-	-	-	51
Consumer	-	-	61	-
Total	$ 2,002	$ 1,549	$ 520	$ 682

The following table presents the aging of the recorded investment in past-due loans as of December 31, 2020 and 2019 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Loans Not Past Due
December 31, 2020					
Commercial and industrial	$ 123	$ 201	$ 457	$ 781	$ 298,268
Commercial real estate	-	-	1,345	1,345	696,785
Commercial real estate construction	-	-	-	-	63,544
Residential real estate	570	-	580	1,150	56,791
Home equity	-	-	-	-	13,960
Consumer	132	272	61	465	19,649
Total	$ 825	$ 473	$ 2,443	$ 3,741	$ 1,148,997

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Loans Not Past Due
December 31, 2019					
Commercial and industrial	$ 525	$ 118	$ 717	$ 1,360	$ 220,751
Commercial real estate	4,149	183	959	5,291	529,116
Commercial real estate construction	-	-	-	-	56,412
Residential real estate	875	-	416	1,291	63,999
Home equity	125	59	51	235	11,433
Consumer	-	-	-	-	2,236
Total	$ 5,674	$ 360	$ 2,143	$ 8,177	$ 883,947

As of December 31, 2020, loans in the process of foreclosure were $1,925 of which $578 were secured by residential real estate. As of December 31, 2019, loans in the process of foreclosure were $959 of which $0 were secured by residential real estate.

(Dollar amounts in thousands except per share data)

Note 3 – **Loans** (continued)

Troubled Debt Restructuring:

As of December 31, 2020 and 2019, the Company has a recorded investment in TDRs of $15,951 and $12,395 respectively. The Company has allocated $918 and $692 of specific allowance for these loans at December 31, 2020 and 2019, respectively, and there were no commitments to lend additional funds to borrowers whose loans were classified as TDRs. There were no restructured loans that defaulted within twelve months of restructure during 2020 or 2019.

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 TDRs during the year ending December 31, 2020 and 2019.

In March 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, ("the agencies") issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by COVID-19. The interagency statement was effective immediately and impacted accounting for loan modifications. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. This includes modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment related to the economic impact of COVID-19. Provisions of the CARES Act largely mirrored the provisions of the interagency statement, providing that modified loans would not be considered TDRs if they were performing at year-end 2019. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented or at year-end 2019. As of December 31, 2020, the Bank had twenty nine deferred loans totaling $48.8 million.

The following table sets forth the composition of these loans by loan segments as of December 31, 2020:

	Number of Loans	Unpaid Principal Balance
Commercial and industrial	9	$ 3,390
Commercial real estate	19	44,782
Consumer	1	596
Total	29	$ 48,768

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.

(Dollar amounts in thousands except per share data)

Note 3 – Loans (continued)

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, 2020						
Commercial and industrial	$ 293,763	$ 3,023	$ 2,263	$ -	$ -	$ 299,049
Commercial real estate	685,808	4,164	8,158	-	-	698,130
Commercial real estate construction	63,544	-	-	-	-	63,544
Residential real estate	56,793	-	1,148	-	-	57,941
Home equity	13,960	-	-	-	-	13,960
Consumer	19,990	-	124	-	-	20,114
Total	$ 1,133,858	$ 7,187	$ 11,693	$ -	$ -	$ 1,152,738

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2019						
Commercial and industrial	$ 217,994	$ 1,581	$ 2,536	$ -	$ -	$ 222,111
Commercial real estate	519,416	4,049	10,942	-	-	534,407
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	$ 872,473	$ 5,630	$ 14,021	$ -	$ -	$ 892,124

Loans to certain directors and principal officers of the Company, including their immediate families and companies in which they are affiliated, amounted to $5,392 and $5,443 at December 31, 2020 and December 31, 2019. Activity for these loans for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Balance, beginning of year	$ 5,443	$ 418
Additions	-	5,069
Repayments	(51)	(44)
Balance, end of year	$ 5,392	$ 5,443

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.

(Dollar amounts in thousands except per share data)

Note 4 - Fair Value (continued)

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 and Other Real Estate Owned: The fair value of collateral dependent loans that are individually evaluated for impairment 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 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. 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, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government agencies	83,421	$ -	$ 83,421	$ -
Mortgage-backed securities	160,784	-	160,784	-
Corporate securities	10,627	-	10,627	-
Obligations of states and political subdivisions	75,273	-	75,273	-
Total securities available for sale	$ 330,105	$ -	$ 330,105	$ -

(Dollar amounts in thousands except per share data)

Note 4 - Fair Value (continued)

		Fair Value Measurements Using:		
	Total at December 31, 2019	Quoted Prices in Active Markets for Identical 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	$ -

There were no transfers between Level 1 and Level 2 during 2020 or 2019.

There were no material collateral dependent impaired loans as of December 31, 2020. Assets measured at fair value on a non-recurring basis as of December 31, 2019 are summarized below:

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

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 for December 31, 2019.

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

December 31, 2019	Fair Value Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired loans	$ 1,622	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.

(Dollar amounts in thousands except per share data)

Note 4 - Fair Value (continued)

The carrying amounts and estimated fair values of the Company's financial instruments not carried at fair value are as follows at December 31, 2020 and 2019:

	December 31, 2020				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 121,232	$ 121,232	$ 121,232	$ -	$ -
Loans, net	1,136,566	1,139,472	-	-	1,139,472
Accrued interest receivable	6,295	6,295	-	1,389	4,906
Restricted investment in bank stocks	1,449	NA	-	-	-
Financial liabilities:					
Deposits	1,489,294	1,489,615	1,398,095	91,520	-
Note payable	3,000	3,087	-	3,087	-
Subordinated notes	19,323	19,758	-	19,758	-
Accrued interest payable	307	307	-	307	-
Off-balance sheet financial instruments	-	-	-	-	-

	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	$ -	$ -
Loans, net	879,849	879,551	-	-	879,551
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	-
FHLB advances	5,000	4,996	-	4,996	-
Note payable	3,000	3,000	-	3,000	-
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:

	2020	2019
Land	$ 3,152	$ 3,152
Buildings and improvements	12,727	12,545
Furniture and equipment	6,514	6,183
Leasehold improvements	5,332	5,521
	27,725	27,401
Accumulated depreciation and amortization	(13,708)	(12,802)
Premises and equipment, net	$ 14,017	$ 14,599

Depreciation included in occupancy expense on the Consolidated Statements of Income amounted to $1,274 in 2020 and $1,189 in 2019.

Note 6 - Goodwill and Intangible Assets

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

	2020	2019
Beginning of year	$ 5,359	$ 5,359
Acquired goodwill impairment	-	-
End of year	$ 5,359	$ 5,359

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2020, the Company's reporting unit had positive equity and the Company elected to perform a Step 0 qualitative analysis and concluded that there was no goodwill impairment.

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

	Gross Intangible Asset	Accumulated Amortization
December 31, 2020		
Customer lists and intangible assets	$ 4,284	(2,321)
	$ 4,284	(2,321)
December 31, 2019		
Customer lists and intangible assets	$ 4,284	(2,035)
	$ 4,284	(2,035)

Aggregate amortization expense was $286 for both 2020 and 2019. Estimated amortization expense for each of the next five years is $286 per year.

(Dollar amounts in thousands except per share data)

Note 7 - Deposits

A summarized analysis of the Bank's deposits at December 31, 2020 and 2019 follows:

	2020	2019
Non-interest bearing demand accounts	$ 521,093	$ 335,469
Interest-bearing demand accounts	236,951	166,907
Money market accounts	483,044	368,799
Savings accounts	157,007	123,300
Certificates of Deposit	91,199	88,657
Total deposits	$ 1,489,294	$1,083,132

Time deposits that meet or exceed the FDIC insurance limit of $250 at year-end 2020 and 2019 were $23,747 and $27,373, respectively.

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

2020 (matured not renewed)	$ 700
2021	74,061
2022	11,347
2023	5,091
	$ 91,199

Deposits of executive officers, directors and principal officers of the Company, including their immediate families and companies in which they are affiliated, amounted to $6,910 and $6,620 at December 31, 2020 and 2019, respectively.

Note 8 - FHLB Advances

At year-end, FHLB Advances were as follows:

	2020		2019	
	Amount	Rate	Amount	Rate
Federal Home Loan Bank (FHLB) advances	$ -	0.00%	$ 5,000	1.81%

All outstanding FHLB advances at December 31, 2019 matured during the year ended December 31, 2020. Additionally, the Company has outstanding municipal letters of credit (“MULOC”) outstanding with FHLB for purposes of securing public funds held by the Company. MULOC outstanding were $119,000 and $133,000 as of December 31, 2020 and 2019, respectively.

At December 31, 2020 the Bank has no securities and $537,274 of loans pledged to FHLB under a blanket lien arrangement. The advances and MULOC outstanding at December 31, 2019 were collateralized by $25,882 of securities along with $440,325 of loans.

Based on the collateral and the Company’s holding of FHLB stock, the Company was eligible to borrow up to an additional total of $273,668 at year-end 2020 and $219,034 at year-end 2019.

(Dollar amounts in thousands except per share data)

Note 9 - Borrowings

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

	2020		2019	
	Amount	Rate	Amount	Rate
Note payable	$ 3,000	5.60%	$ 3,000	5.60%

On November 16, 2019, the Company refinanced its note payable, with a remaining balance of $3,000 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 on November 16, 2022.

On September 24, 2020, the Company completed a private placement of $20 million in aggregate principal amount of fixed-to-floating rate subordinated notes ("Subordinated Notes") to certain qualified institutional buyers and accredited institutional investors. In conjunction with the issuance, the Company incurred costs of $694, which are amortized over the life of the borrowings on a level yield basis and are included in interest on subordinated notes on the Consolidated Statements of Income. At December 31, 2020, there were $19.3 million of Subordinated Notes outstanding, which is net of the unamortized issuance costs. The Subordinated Notes have a maturity date of September 30, 2030 and bear interest, payable semi-annually, at the rate of 4.25% per annum, until September 30, 2025. Commencing on that date, the interest rate applicable to the outstanding principal amount due will reset quarterly to an interest rate per annum equal to the then current three-month secured overnight financing rate plus 413 basis points, payable quarterly until maturity. The Company may, at its option, beginning on September 30, 2025, but not prior thereto except upon the occurrence of certain events specified in the Subordinated Notes agreements, redeem the Subordinated Notes, in whole or in part, subject to obtaining any required regulatory approvals.

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:

	2020	2019
Change in projected benefit obligation:		
Beginning of year	$ 26,665	$ 23,829
Service cost	141	163
Interest cost	920	1,043
Benefits paid	(1,407)	(1,472)
Actuarial loss	3,109	3,102
End of year	$ 29,428	$ 26,665
Change in fair value of assets:		
Beginning of year	$ 31,738	$ 24,955
Contributions	3,000	3,000
Actual return on plan assets	6,680	5,238
Benefits paid and expenses	(1,455)	(1,455)
End of year	$ 39,963	$ 31,738

	2020	2019
Funded status at end of year (plan assets less benefit obligation)	$ 10,535	$ 5,073

(Dollar amounts in thousands except per share data)

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

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

	2020	2019
Total net actuarial loss	$ (4,544)	$ (6,320)
Transition asset	76	123
	$ (4,468)	$ (6,197)

The accumulated benefit obligation was $29,428 and $26,665 at year-end 2020 and 2019.

Components of net periodic benefit cost and other amounts recognized in other comprehensive income:

	2020	2019
Service cost	$ 141	$ 163
Interest cost	920	1,043
Expected return on plan assets	(1,860)	(1,569)
Amortization of transition cost	(48)	(48)
Amortization of net loss	113	159
Net periodic benefit cost	$ (734)	$ (252)
Net gain	$ (1,664)	$ (584)
Amortization of transition asset	48	48
Amortization of prior service cost	(113)	(159)
Total recognized in other comprehensive income	$ (1,729)	(695)
Total recognized in net periodic benefit cost and other comprehensive income	$ (2,463)	$ (947)

The components of net periodic benefit cost other than the service cost component are included in employee benefits in the Consolidated Statements of Income.

Assumptions

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

	2020	2019
Discount rate	2.65%	3.55%
Rate of compensation increase	0.00%	0.00%

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

	2020	2019
Discount rate	3.55%	4.53%
Expected long-term rate of return on plan assets	6.00%	6.50%
Rate of compensation increase	0.00%	0.00%

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

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.

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.

(Dollar amounts in thousands except per share data)

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

The Company's pension plan asset allocation at year-end 2020 and 2019, target allocation and expected long-term rate of return by asset class are as follows:

	2020		2019	
	Target Allocation	Actual Allocation	Target Allocation	Actual Allocation
Asset category:				
Cash equivalents	0.00%	0.00%	0.00%	0.00%
Equity securities	28.25%	31.56%	28.25%	31.75%
Fixed income securities	59.75%	62.60%	59.75%	57.65%
Other financial instruments	12.00%	5.84%	12.00%	10.60%
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:

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 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 are based upon the net asset values of the funds reported by the fund managers as of the System's financial statement dates and recent transaction prices (Level 2 inputs).

(Dollar amounts in thousands except per share data)

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

The fair value of the plan assets at December 31, 2020, by asset class, is as follows:

		Fair Value Measurements at December 31, 2020 Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Foreign currencies	$ 2	$ 2	$ -	$ -
	2	2	-	-
Fixed income securities:				
Corporate Bonds	2	-	2	-
	2	-	2	-
Other investments				
Commingled pension trust funds-realty	39,959	-	39,959	-
	39,959	-	39,959	-
Total plan assets	$ 39,963	$ 2	$ 39,961	$ -

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 Identical 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	$ -

Contributions: The Company contributed $3,000 to its pension plan during 2020.

(Dollar amounts in thousands except per share data)

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

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

	Pension Benefits
2021	$ 1,336
2022	1,416
2023	1,478
2024	1,517
2025	1,544
Following 5 years	$ 7,704

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 $709 and $730 as of December 31, 2020 and 2019, respectively. The Bank recorded expense of $58 in both 2020 and 2019 in relation to this plan. Supplemental benefits for this plan expected to be paid in each year from 2021 to 2024 are $79 each year. The aggregate supplemental benefits expected to be paid in the five years from 2025 to 2029 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 $159 and $187 for the years ended December 31, 2020 and 2019, respectively.

Deferred Directors' Fee Plan

The Bank and the 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 $6,703 and $6,022 at December 31, 2020 and 2019, respectively, which are included in accrued expenses and other liabilities in the Consolidated Statements of Condition. The Bank and the Company recorded an expense of $817 and $761 in 2020 and 2019 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 $209 and $416 at December 31, 2020 and 2019, respectively, which are included in accrued expenses and other liabilities in the Consolidated Statements of Condition. The Bank and HVIA recorded an expense of $19 and $35 in 2020 and 2019, 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 $636 and $716 at December 31, 2020 and 2019, respectively, which are included in accrued expenses and other liabilities in the Consolidated Statements of Condition. The Bank recorded an expense of $32 and $37 in 2020 and 2019, 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 non-elective 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 non-elective 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 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 $501 and $483 for 2020 and 2019, respectively.

Restricted Stock Grants

The Company has a time based restricted stock plan. For the years ended December 31, 2020 and 2019 the Company's recognized stock-based compensation costs of $413 and $319, 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 14,532 and 13,873 restricted stock units granted for the years ended December 31, 2020 and 2019, 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, 2020 was $262.

A summary of the status of the Company's non-vested restricted stock awards as of December 31, 2020, and changes during the year ended December 31, 2020 are presented below:

	Shares	Weighted Average Fair Value
Non-vested at December 31, 2019	24,012	$ 26.31
Granted	14,532	$ 30.40
Vested	(10,567)	$ 25.84
Forfeited	(2,608)	$ 26.98
Non-vested at December 31, 2020	25,369	$ 28.78

(Dollar amounts in thousands except per share data)

Note 11 - Income Taxes

Income tax expense was as follows:

	2020	2019
Current expense		
Federal	$ 3,007	$ 3,236
State	92	118
Total	3,099	3,354
Deferred expense (benefit)		
Federal	(140)	(339)
State	(393)	(766)
Total	(533)	(1,105)
Change in valuation allowance	273	679
Total provision for income taxes	$ 2,839	$ 2,928

Effective tax rates differ from the federal statutory rate of 21% for 2020 and 2019 applied to income before taxes due to the following:

	2020	2019
Tax expense at statutory rate	$ 3,049	$ 3,026
(Decrease) increase in taxes resulting from:		
Net earnings on bank-owned life insurance	(147)	(145)
Tax-exempt municipal bond income, net of disallowed interest expense	(198)	(134)
State income tax, net of federal tax benefit	(349)	(498)
Valuation allowance	273	679
Other	211	-
Total provision for income tax	$ 2,839	$ 2,928

(Dollar amounts in thousands except per share data)

Note 11 – Income Taxes (continued)

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

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 4,181	$ 3,237
Reserve for unfunded commitments	52	167
Deferred loan fees, net of costs	292	268
Deferred compensation	2,319	2,218
Accumulated depreciation	-	70
Non accrual interest	355	387
State NOL	1,977	1,651
Pension/deferred compensation OCI	1,098	1,576
	10,274	9,574
Deferred tax liabilities:		
Intangible assets	(761)	(683)
Organization costs - holding company	(18)	(16)
Organization costs - HVIA	(20)	(17)
Pension	(2,349)	(1,670)
Available for sale securities	(1,279)	(116)
Accumulated depreciation	(353)	-
Accretion	(54)	(41)
	(4,834)	(2,543)
Net deferred tax asset before valuation allowance	5,440	7,031
Valuation allowance	(2,780)	(2,838)
Net deferred tax asset	$ 2,660	$ 4,193

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 $2,780, against the New York State portion of the deferred tax asset, which includes state net operating losses, at December 31, 2020 and 2019 is appropriate. At December 31, 2020, the Company has net operating loss carryforwards available for state income tax purposes of approximately $30.4 million, with expiration dates beginning 2025 through 2030.

The Company did not have any uncertain tax positions at December 31, 2020 and 2019. 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 2016.

(Dollar amounts in thousands except per share data)

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, 2020 and 2019.

	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Deferred Compensation Liability	Total
December 31, 2020				
Beginning balance	$ 439	$ (4,642)	$ 159	$ (4,044)
Other comprehensive income (loss) before reclassification	5,145	1,314	(12)	6,447
Less amounts reclassified from accumulated other comprehensive income	(635)	51	-	(584)
Net current period other comprehensive income	4,510	1,365	(12)	5,863
Ending balance	$ 4,949	$ (3,277)	$ 147	$ 1,819

	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 (loss) before reclassification	4,577	461	(11)	5,027
Less amounts reclassified from accumulated other comprehensive income (loss)	(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)

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the years ending December 31, 2020 and 2019.

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
	2020	2019	
Unrealized gains and losses on available-for-sale securities			
Realized (losses) gains on securities available-for-sale	$ 804	$ (219)	Investment security gains (losses)
Total before tax	804	(219)	
Tax effect	169	(46)	Provision for income taxes
Net of tax	$ 635	$ (173)	
Amortization of defined benefit pension items			
Transition asset	(48)	(48)	Other expense
Actuarial gains (losses)	$ 113	$ 159	Other expense
Total before tax	65	111	
Tax effect	14	23	Provision for income taxes
Net of tax	$ 51	$ 88	
Total reclassifications for the period, net of tax	$ 686	$ (85)	

Note 13 - Regulatory Capital Matters

The Bank is subject to regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and 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 was 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, 2020, the Bank meets all capital adequacy requirements to which it is 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 2020 and 2019, 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.

(Dollar amounts in thousands except per share data)

Note 13 - Regulatory Capital Matters (continued)

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

	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
2020								
Total capital to risk weighted assets	$ 150,397	13.49%	$ 89,207	8.00%	$ 110,115	9.875%	$ 111,509	10.00%
Tier 1 (Core) capital to risk weighted assets	136,446	12.24%	66,906	6.00%	87,814	7.875%	89,207	8.00%
Common Tier 1 (CET1) to risk weighted assets	136,446	12.24%	50,179	4.50%	71,087	6.375%	72,481	6.50%
Tier 1 (Core) Capital to average assets	136,446	8.16%	66,891	4.00%	N/A	N/A	83,613	5.00%
2019								
Total capital to risk weighted assets	$ 129,233	13.87%	$ 74,517	8.00%	$ 91,982	9.875%	$ 93,147	10.00%
Tier 1 (Core) capital to risk weighted assets	117,588	12.62%	55,888	6.00%	73,353	7.875%	74,517	8.00%
Common Tier 1 (CET1) to risk weighted assets	117,588	12.62%	41,916	4.50%	59,381	6.375%	60,545	6.50%
Tier 1 (Core) Capital to average assets	117,588	9.47%	49,664	4.00%	N/A	N/A	62,079	5.00%

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 one to ten years, some of which include renewal or termination options to extend the lease for up to five 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 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 twelve 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. Currently, the Company does not have any leases classified as financing leases. 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 advance rates, adjusted for the lease term and other factors.

Right-of-use assets and lease liabilities are included in other assets and accrued expenses and other liabilities, respectively, in the Consolidated Statements of Condition. The right-of-use assets as of December 31, 2020 and 2019 were $1,812 and $1,368, respectively. Lease liabilities as of December 31, 2020 and 2019 were $1,812 and $1,368, respectively.

(Dollar amounts in thousands except per share data)

Note 14 – Leases (continued)

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2020 are as follows:

Years Ending December 31,		
2021	$	625
2022		326
2023		278
2024		220
2025		143
Thereafter		451
Total undiscounted lease payments	$	2,043
Discount	$	114
Total discounted lease payments	$	1,929
Operating lease weighted average remaining lease term (years)		5.69 years
Operating lease weighted average discount rate		2.93%

Rent expense for all operating leases was $719 in 2020 and $648 in 2019.

Note 15 - Revenue from Contracts with Customers

All of the Company’s revenue from contracts with customers in the scope of ASC 606 is recognized within Noninterest Income. The following table presents the Company’s gross sources of noninterest income for the twelve months ended December 31, 2020 and 2019.

	Year Ended December 31, 2020	Year Ended December 31, 2019
Noninterest Income		
Service charges on deposit accounts	$ 682	$ 921
Trust income	4,074	3,531
Investment advisory income	4,105	3,927
Investment securities gains (losses) [a]	804	(219)
Earnings on bank owned life insurance [a]	702	689
Other [b]	1,056	965
Total Noninterest Income	$ 11,423	$ 9,814

(a) Not within the scope of ASC 606.
(b) The Other category includes safe deposit income, checkbook fees, and debit card fee income, totaling $657 and $666 for 2020 and 2019, respectively, that are within the scope of ASC 606 and loan related fee income and miscellaneous income, totaling $399 and $299 for 2020 and 2019, respectively, which are outside the scope of ASC 606.

The Company earns wealth management fees, which includes trust income and investment advisory income, from its contracts with trust and brokerage customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Company provides the contracted services and are generally assessed based on a tiered scale of the market value of the assets under management at month-end or quarter-end.

Note 16- 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 Statements of Condition.

Note 16- Financial Instruments with Off-Balance Sheet Risk (continued)

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, 2020 and 2019 were as follows (in thousands):

	2020	2019
Commitments to extend credit	$ 230,200	$ 207,733
Standby letters of credit	6,510	4,738

Note 17- 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 18- Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through April 29, 2021, which is the date the financial statements were available to be issued.

On February 19, 2021 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 15, 2021 to shareholders of record as of March 3, 2021.

(Dollar amounts in thousands except per share data)

Note 19- Parent Company Information

Financial Information for the Company only is presented in the following tables:

Condensed Statements of Condition

	December 31, 2020	December 31, 2019
Assets		
Cash and due from banks	$ 10,929	$ 2,359
Investment in subsidiaries	145,497	120,832
Goodwill and intangible assets	2,136	2,421
Other assets	26	24
Total assets	$ 158,588	$ 125,636
Liabilities and stockholders' equity		
Subordinated notes, net of issuance costs	$ 19,323	$ -
Note payable	3,000	3,000
Other liabilities	842	573
Total liabilities	23,165	3,573
Total stockholders' equity	135,423	122,063
Total liabilities and stockholders' equity	$ 158,588	$ 125,636

Condensed Statements of Income and Comprehensive Income

	Years ended December 31, 2020	Years ended December 31, 2019
Operating Income		
Dividend income from operating subsidiaries	$ 4,511	$ 4,591
Total operating income	4,511	4,591
Operating Expenses		
Interest on borrowings	407	181
Salaries and employee benefits	514	362
Professional fees	142	141
Directors' fees and expenses	164	223
Intangible amortization	286	286
Other expenses and income taxes	450	140
Total operating expenses	1,963	1,333
Equity in undistributed earnings of subsidiary	9,131	8,223
Net income	$ 11,679	$ 11,481
Comprehensive income	$ 17,542	$ 16,423

(Dollar amounts in thousands except per share data)

Note 19- Parent Company Information (continued)

Condensed Statements of Cash Flows

	2020	2019
Cash flows from operating activities		
Net income after equity in undistributed earnings of subsidiary	$ 11,679	$ 11,481
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed earnings of subsidiary companies	(9,131)	(8,223)
Stock-based compensation	154	171
Amortization of intangibles	286	286
Restricted stock expense	413	319
Other, net	595	68
Net cash provided by (used in) operating activities	3,996	4,102
Cash flows from investing activities		
Investment in operating subsidiary	(10,000)	(6,500)
Net cash used in investing activities	(10,000)	(6,500)
Cash flows from financing activities		
Proceeds from the issuance of common stock (net of costs)	-	(87)
Repayment of note payable	-	(57)
Issuance of subordinated notes, net of issuance costs	19,323	
Dividends paid, common stock	(3,585)	(3,587)
Purchases of treasury stock	(1,164)	(380)
Net cash (used in) provided by financing activities	14,574	(4,111)
Net increase in cash and cash equivalents	8,570	(6,509)
Cash and cash equivalents at beginning of year	2,359	8,868
Cash and cash equivalents at end of year	$ 10,929	$ 2,359

Note 20-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:

2020	Banking	Wealth Management	Total Segments
Net interest income	$ 48,739	$ -	$ 48,739
Noninterest income	3,365	8,058	11,423
Provision for loan loss	(5,413)	-	(5,413)
Noninterest expenses	(33,838)	(6,393)	(40,231)
Income tax expense	(2,510)	(329)	(2,839)
Net income	$ 10,343	$ 1,336	$ 11,679
Total assets	$ 1,656,517	$ 8,419	$ 1,664,936

(Dollar amounts in thousands except per share data)

Note 20-Segment Information (continued)

2019	Banking	Wealth Management	Total Segments
Net interest income	$ 43,281	$ -	$ 43,281
Noninterest income	2,009	7,805	9,814
Provision for loan loss	(2,195)	-	(2,195)
Noninterest expenses	(31,104)	(5,387)	(36,491)
Income tax expense	(2,601)	(327)	(2,928)
Net income	$ 9,390	$ 2,091	$ 11,481
Total assets	$ 1,221,397	$ 8,155	$ 1,229,552

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ORANGE COUNTY BANCORP, INC. BOARD OF DIRECTORS

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Michael Gilfeather

Greg Holcombe

William D. Morrison

Susan Metzger

Virginia Rizzo

Jonathan Rouis

Richard Rowley

Terry R. Saturno

Gus Scacco

Jennifer Staub, *Corporate Secretary*

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Michael Gilfeather

Greg Holcombe

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Terry R. Saturno

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HUDSON VALLEY INVESTMENT ADVISORS, INC. BOARD OF DIRECTORS

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Gus Scacco

Michael Gilfeather

Thomas Guarino

Louis Heimbach

Michael Markhoff

Elizabeth Stradar

Jennifer Staub, *Corporate Secretary*


ORANGE
Bank & Trust
COMPANY

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President & Chief Executive Officer

ROBERT PEACOCK
Senior Executive Vice President
Chief Financial Officer

JOHN P. BARTOLOTTA
Executive Vice President
Regional President – Rockland

MICHAEL COULTER
Executive Vice President
Chief Lending Officer

JOSEPH A. RUHL
Executive Vice President
Regional President – Westchester

GREG SOUSA
Executive Vice President
Chief Commercial Banking Officer

PAM JONES
Senior Vice President
Human Resources Director

MIKE LISTNER
Senior Vice President
Chief Credit Officer

JAYNE RZECZKOWSKI
Senior Vice President
Chief Operating Officer

FRANK SKUTHAN
Senior Vice President
Trust Services Director

LEADERSHIP OFFICERS

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1st Vice President
Senior Operations Officer

ANTHONY MORMILE
Senior Vice President
Senior Commercial
Loan Officer

ANTHONY PILI
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Cash Management Director

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Senior Compliance Officer

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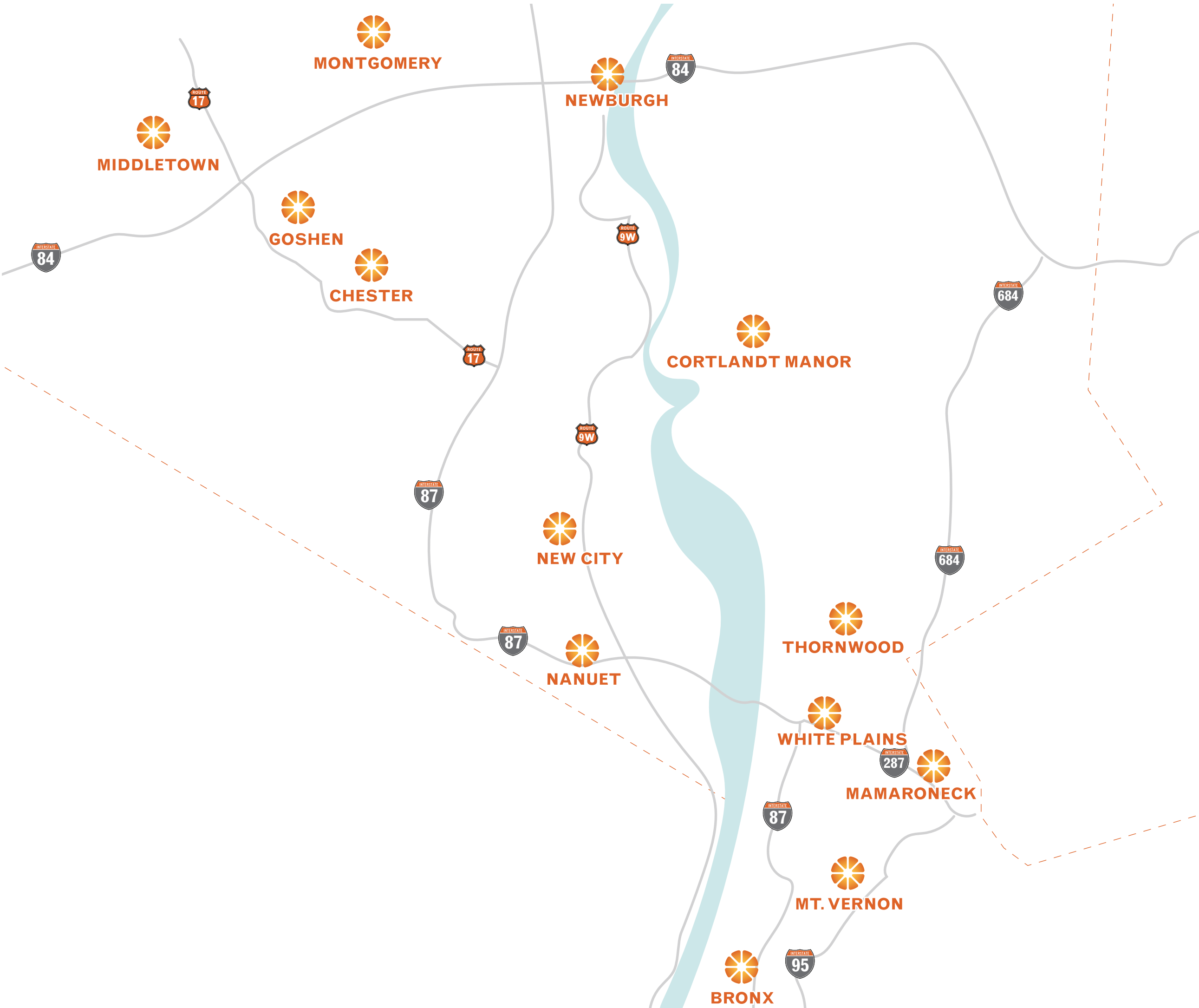
Chief Executive Officer
& Chief Investment Officer

MICHAEL RUNDLE
Vice President
Portfolio Manager

MARK LAZARCZYK
Chief Operating Officer
& Chief Compliance Officer

MELISSA MINEAU
Vice President
Relationship Manager



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Hudson Valley Investment Advisors, Inc.
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Bronx, NY 10461