2022

Rhinebeck Bancorp, Inc.

ANNUAL REPORT

Letter from the CEO

I am pleased to present Rhinebeck Bancorp, Inc.'s 2022 Annual Report.

During our first 162 years, we have successfully weathered wars, depressions, recessions, and now, a pandemic. In a year filled with continued economic uncertainty, 2022 was a year in which we gained even greater perspective on the role we play in the communities we serve. Our obvious role is one of a trusted financial partner to individuals, families, and businesses, providing the best banking and lending products to meet the ever-changing needs of our customers.

The year was challenging as the Federal Reserve, after almost 14 years of low interest rates, raised their target rates by 425 basis points, while at the same time we were confronted by the highest level of inflation and the tightest labor market in decades. Throughout it all I am pleased to report that our 2022 financial performance delivered:

- Net income of $7.0 million, the second highest level of earnings in the Company's history.
- Asset growth of $54.8 million, or 4.3%, bringing our total assets to $1.34 billion at December 31, 2022.
- Net loan growth of $139.4 million, or 16.3%, to $994.4 million at December 31, 2022 on strong production of indirect automobile and commercial real estate loans.
- An increase in deposits of $27.9 million, or 2.5%, to $1.13 billion at year end.
- Strong asset quality when evaluated from almost every measure.

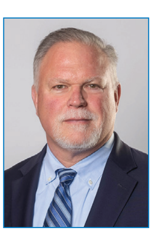
I was very pleased with the performance of our Capital District Commercial Lending office in its first full year of operation. Thanks to an outreach strategy that maximized their existing business network and cultivated new relationships with Capital District businesses and developers, our Albany-based team originated $22.5 million in commercial loans and ended the year with $36.1 million in loan commitments that are expected to close in 2023.

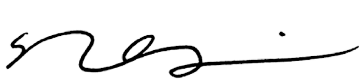
Through our Express Business Loan program, we were able to fund $8.2 million in vehicle and equipment financing to help small businesses sustain themselves and grow. We also applied and were approved as a Preferred Lender of the Small Business Administration (SBA), a distinction that allows us to expedite SBA loan funding to prospective borrowers through streamlined underwriting and approval processes. SBA loans are often utilized by start-up and other businesses that may not qualify for traditional bank lending.

After celebrating multiple Orange County branch openings in the prior year, we made the difficult decision to close our Monroe branch in December after it did not meet our financial projections. However, we will continue to cultivate and nurture consumer and business banking relationships, while also enhancing our brand awareness in the Orange County market.

At our core remains the drive to serve and make a difference within our community. Our employees, management team and Board of Directors share a passion for committing their time to charitable organizations, causes and community events. These efforts impact a wide array of housing initiatives and local youth, family, educational and arts programs. In addition, we continued our financial support of numerous non-profit organizations across the Mid-Hudson Valley through our Community Support program. We presented multiple financial education workshops and seminars during the year, both in-person and virtually.

To that end, our Mission Statement, "To give customers, employees and communities hope, making their future less uncertain and lives more rewarding, and to treasure them while inspiring others to do the same," continues to serve as a guidepost for us as we navigate through the challenges we face. I would like to thank our customers, employees, investors, and the Board of Directors for their commitment to our success.





Michael J. Quinn - President & CEO
Rhinebeck Bancorp, Inc.
Rhinebeck Bank

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Fiscal Year Ended December 31, 2022
or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File No. 001-38779

Rhinebeck Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Maryland **(State or other jurisdiction of incorporation or organization)**	**83-2117268** **(I.R.S. Employer Identification Number)**
2 Jefferson Plaza, Poughkeepsie, New York **(Address of Principal Executive Offices)**	**12601** **(Zip Code)**

(845) 454-8555
(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	RBKB	The NASDAQ Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐	Emerging growth company	☒
Non-accelerated filer	☒	Smaller reporting company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of March 1, 2023, there were 11,284,565 shares issued of the Registrant's Common Stock of which 6,345,975 are owned by Rhinebeck Bancorp, MHC.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price at the end of the most recently completed second quarter was $36,924,574.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement, in connection with its 2023 annual meeting of stockholders, to be filed within 120 days of December 31, 2022, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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FORWARD LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “expect,” "intend," “predict,” “forecast,” “improve,” “continue,” "will," "would," "should," "could," "may" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Forward looking statements, by their nature, are subject to risks and uncertainties.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market area, including potential recessionary conditions;
- changes in the level and direction of loan delinquencies and charge-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to implement our business strategies;
- our ability to manage or reduce expenses;
- competition among depository and other financial institutions;
- inflation and changes in market interest rates that affect our margins and yields, the fair value of financial instruments or reduce our volume of loan originations, the level of defaults, losses and prepayments on loans we have made and make whether held in portfolio or sold in the secondary market;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees, Federal Deposit Insurance Corporation premiums and capital requirements, and changes in the monetary and fiscal policies of the Board of Governors of the Federal Reserve System;

- negative financial impact from unfavorable regulatory penalties and/or settlements;
- our ability to manage market risk, credit risk and operational risk;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate into our operations any assets, liabilities or systems we may acquire, as well as new management personnel or customers, and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- system failures or cybersecurity threats against our informational technology and those of our third party providers and vendors;
- the failure to maintain current technologies and to successfully implement future information technology enhancements;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to attract or retain key employees;
- our compensation expense associated with equity allocated or awarded to our employees;
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own; and
- conditions relating to the Coronavirus (“COVID-19”) pandemic, that are worse than expected.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Please also see “Item 1A. Risk Factors.”

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PART I

Item 1. Business

Rhinebeck Bancorp, Inc.

Rhinebeck Bancorp, Inc., (the "Company") a Maryland corporation, was incorporated in August 2018. On January 16, 2019, the Company became the holding company for Rhinebeck Bank (the "Bank") when it closed its stock offering in connection with the completion of the reorganization of the Company and the Bank into a two-tier mutual holding company form of organization. The Company is regulated by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and the New York State Department of Financial Services (the "NYSDFS"). The consolidated financial results contained herein reflect the consolidated accounts of the Company and the Bank.

At December 31, 2022, the Company had consolidated total assets of $1.34 billion, total deposits of $1.13 billion and stockholders' equity of $108.1 million. The Company's executive offices are located at 2 Jefferson Plaza, Poughkeepsie, New York 12601. The telephone number at this address is (845) 454-8555. Our website address is www.Rhinebeckbank.com. Information on this website is not and should not be considered a part of this report.

Rhinebeck Bancorp, Inc. files interim, quarterly and annual reports with the Securities and Exchange Commission (the "SEC"). The SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers such as Rhinebeck Bancorp, Inc. that file electronically with the SEC. All filed SEC reports and interim filings can also be obtained from the Bank's website (www.Rhinebeckbank.com), on the "Investor Relations" page, without charge from Rhinebeck Bancorp, Inc.

Rhinebeck Bancorp, MHC

Rhinebeck Bancorp, MHC, a New York-chartered non-stock corporation, is a mutual holding company that owns 56.24% of the outstanding common stock of Rhinebeck Bancorp, Inc.

Rhinebeck Bank

Rhinebeck Bank is a New York-chartered stock savings bank that was organized in 1860. The Bank provides a full range of banking and financial services to consumer and commercial customers through its 14 branches and one representative office located in Dutchess, Ulster and Orange counties. We also maintain a representative office in Albany County to originate indirect automobile and commercial loans. Financial services, including investment advisory and financial product sales, are offered through a division of the Bank doing business as Rhinebeck Asset Management ("RAM"). The Bank's primary business activity is accepting deposits from the general public and using those funds, primarily to originate indirect automobile loans (automobile loans referred to us by automobile dealerships), commercial real estate loans (which includes multi-family real estate loans and commercial construction loans), commercial business loans and one- to four-family residential real estate loans, and to purchase investment securities. The Bank is subject to regulation and examination by the NYSDFS and by the Federal Deposit Insurance Corporation (the "FDIC").

Market Area

Our primary market area encompasses Albany, Dutchess, Orange, and Ulster Counties (and their contiguous counties), which are located in the Hudson Valley region of New York. Our retail banking offices are located in these four counties and serve the surrounding areas. The Hudson Valley region has a diversified economy and representative industries include education, health, government, leisure and hospitality and professional business services. We also maintain a representative office in Albany County to originate indirect automobile and commercial loans. We view Orange and Albany Counties, which have larger populations than Dutchess and Ulster Counties, as primary areas for growth.

Based on published statistics, the U.S. unemployment rate was 3.5%, while the New York State unemployment rate was 4.3% as of December 31, 2022. The four counties in our primary market area each had a lower unemployment rate than New York State as a whole (Dutchess County, 2.5%, Orange County, 2.6%, Ulster County, 2.6% and Albany County, 2.5%). According to the New York State Department of Labor, for the twelve-month period ended December 31, 2022, the Hudson Valley's private sector job growth increased by 3.0%. Unemployment rates, which soared during the shutdowns brought on by the COVID-19 pandemic, have now mostly returned to pre-pandemic levels. Based on published statistics, median household income for 2021 (the latest date for which information was available) was $87,112 in Dutchess County, $85,640 in Orange County, $71,040 in Ulster County and $73,810 in Albany County, compared to $69,021 in the U.S. and $75,157 in New York State as a whole. Based on published statistics, the 2021 estimated population was 297,112 in Dutchess County, 404,525 in Orange County, 182,951 in Ulster County and 313,743 in Albany County.

Competition

We face significant competition for deposits and loans. Our most direct competition for deposits has historically come from the numerous financial institutions operating in our market area (including other community and commercial banks and credit unions), many of which are significantly larger than we are and have greater resources. We also face competition for investors' funds from other sources such as brokerage firms, money market funds and mutual funds, as well as securities, such as Treasury bills, offered by the Federal Government. Based on FDIC data, at June 30, 2022 (the latest date for which information is available), we had 10.37% of the FDIC-insured deposit market share in Dutchess County, which was 4th among the 15 institutions with offices in the county, 1.72% of the FDIC-insured deposit market share in Ulster County, which was 15th among the 19 institutions with offices in the county, and 0.90% of the FDIC-insured deposit market share in Orange County, which was 17th among the 23 institutions with offices in the county. In all three counties, New York City money center banks or large regional banks have a significant presence.

Our competition for loans comes primarily from the competitors referenced above and from other financial service providers, such as mortgage companies and mortgage brokers. Competition for loans also comes from the increasing number of non-depository financial service companies participating in the mortgage market, such as insurance companies, securities companies, specialty finance firms and financial technology companies.

We expect competition to remain intense in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered barriers to entry, allowed banks to expand their geographic reach by providing services over the internet and made it possible for non-depository institutions, including financial technology companies, to offer products and services that traditionally have been provided by banks. Competition for deposits and the origination of loans could limit our growth in the future.

We seek to meet this competition by the convenience of our branch locations, emphasizing personalized banking and the advantage of local decision-making in our banking businesses. Specifically, we promote and maintain relationships and build customer loyalty within local communities by focusing our marketing and community involvement on the specific needs of individual neighborhoods. We do not rely on any individual, group, or entity for a material portion of our deposits.

Lending Activities

General.

Loans are our primary interest-earning asset. At December 31, 2022, net loans represented 74.4% of our total assets.

Loan Portfolio Composition.

The following table sets forth the composition of the loan portfolio at the dates indicated.

	At December 31, 2022 Amount	2022 Percent	2021 Amount	2021 Percent
	(Dollars in thousands)			
Residential Real Estate Loans[1][2]	$ 53,720	5.42 %	$ 35,646	4.18 %
Commercial Real Estate Loans:				
Non-residential	282,422	28.52 %	245,568	28.78 %
Multi-family	67,777	6.84 %	55,926	6.55 %
Construction[3]	20,329	2.05 %	10,095	1.18 %
Total	370,528	37.41 %	311,589	36.51 %
Commercial Loans:[4]	87,982	8.88 %	104,323	12.22 %
Consumer Loans:				
Indirect automobile	457,223	46.17 %	382,088	44.77 %
Home equity	11,507	1.16 %	11,857	1.39 %
Other consumer	9,479	0.96 %	7,955	0.93 %
Total	478,209	48.29 %	401,900	47.09 %
Total loans receivable, gross	990,439	100.00 %	853,458	100.00 %
Net deferred loan origination fees	11,872		9,068	
Allowance for loan losses	(7,943)		(7,559)	
Loans receivable, net	$ 994,368		$ 854,967	

(1) Includes residential construction loans totaling $2.3 million and $2.0 million at December 31, 2022 and 2021, respectively.
(2) Includes loans held for sale totaling $247,000 and $3.9 million at December 31, 2022 and 2021, respectively.
(3) Represents the amounts distributed at the dates indicated.
(4) Includes $537,000 and $29.5 million in U.S. Small Business Administration ("SBA") Paycheck Participation Program ("PPP") loans at December 31, 2022 and 2021, respectively.

Loan Portfolio Maturities. The following table sets forth certain information regarding the dollar amount of loans that will mature in the given period. The table does not include any estimate of prepayments that significantly shorten the average loan life and may cause actual repayment experience to differ from that shown below. Demand loans, which are loans having no stated repayment schedule or no stated maturity, are reported as due in one year or less.

At December 31, 2022	Residential Real Estate Loans	Commercial Real Estate Loans: Construction Loans	Commercial Real Estate Loans: Non-Residential Loans	Commercial Real Estate Loans: Multifamily Loans	Commercial Loans	Consumer Loans: Indirect Automobile Loans	Consumer Loans: Home Equity Loans	Consumer Loans: Other Consumer Loans	Total Loans
	(In thousands)								
Amounts due in:									
One year or less	$ 2,356	$ 12,825	$ 1,245	$ —	$ 30,759	$ 5,990	$ 54	$ 910	$ 54,139
More than one year through five years	856	7,504	26,388	430	31,292	272,065	219	7,270	346,024
More than five years through fifteen years	12,294	—	146,188	44,514	25,931	179,168	3,490	1,299	412,884
More than 15 years	38,214	—	108,601	22,833	—	—	7,744	—	177,392
Total	$ 53,720	$ 20,329	$ 282,422	$ 67,777	$ 87,982	$ 457,223	$ 11,507	$ 9,479	$ 990,439

The following table sets forth the mix of fixed- and adjustable-rate loans at December 31, 2022 that are due after December 31, 2023, based on their contractual terms to maturity. The amounts shown below exclude unearned loan origination fees.

	Fixed Rates	Floating or Adjustable Rates	Total
		(In thousands)	
Residential real estate loans	$ 36,099	$ 15,265	$ 51,364
Commercial real estate loans			
Non-residential	27,628	253,549	281,177
Multi-family	1,151	66,626	67,777
Construction	—	7,504	7,504
Commercial loans	47,267	9,956	57,223
Consumer loans			
Indirect automobile	451,233	—	451,233
Home equity	309	11,144	11,453
Other consumer	8,569	—	8,569
Total	$ 572,256	$ 364,044	$936,300

Indirect Automobile Loans.

We have been in the business of providing indirect financing of automobile purchases since 1999. At December 31, 2022, indirect automobile loans totaled $457.2 million, or 46.2% of our total loan portfolio. While we still plan to originate indirect automobile loans, we plan to slow the growth of our indirect automobile portfolio by decreasing loan originations through increased pricing and limiting risk selections. We acquire our indirect automobile loans from 63 automobile dealerships located in the Hudson Valley region and 32 dealers located in the Albany area, either under an arrangement where the dealer receives a flat fee for referring the loan to us or receives a portion of the finance charge, which is known as dealer participation or dealer reserve. We typically pay 70% of the reserve to the dealer at the time of loan closing and retain the remainder to cover potential future prepayments. As of December 31, 2022, 45.8% of the aggregate principal balance of our indirect automobile loan portfolio was for the purchase of new vehicles and the remainder, 54.2%, was for used vehicles. The weighted average original term to maturity of our indirect automobile loan portfolio at December 31, 2022 was five years and ten months.

Each dealer that originates automobile loans makes representations and warranties with respect to our security interests in the related financed vehicles in a separate dealer agreement with us. These representations and warranties do not relate to the creditworthiness of the borrowers or the collectability of the loan. The dealers are also responsible for ensuring that our security interest in the financed vehicles is perfected. Each automobile loan requires the borrower to keep the financed vehicle fully insured against loss or damage by fire, theft and collision. The dealer agreements require the dealers to represent that adequate physical damage insurance (collision and comprehensive) was in effect at the time the related loan was originated and financed by us. In addition, we have the right to "force place" insurance coverage (supplemental insurance taken out by Rhinebeck Bank) if the required physical damage insurance on an automobile is not maintained by the borrower. Nevertheless, there can be no assurance that each borrower will maintain physical damage insurance for a financed vehicle during the entire term of an automobile loan. Vendors Single Interest Insurance, which is included on every automobile loan originated, protects the Bank against losses for physical damage to repossessed automobiles.

Each dealer submits loan applications directly to us, and the borrower's creditworthiness is the most important criterion we use in determining whether to approve the loan. Each credit application generally requires that the borrower provide current information regarding their employment history, indebtedness, and other factors that bear on creditworthiness. We also obtain a credit report from a major credit reporting agency summarizing the borrower's credit history and paying habits, including such items as open accounts, delinquent payments, bankruptcies, repossessions, lawsuits and judgments.

Each borrower's credit score is the principal factor we use in determining the appropriate interest rate on a loan. Our underwriting procedures evaluate the credit information relative to the value of the vehicle to be financed. At times, our underwriters may also verify a borrower's employment income and/or residency and, where appropriate, verify a borrower's payment history directly with the borrower's creditors. Based on these procedures, a credit decision is considered. We basically follow the same underwriting guidelines in originating direct (non-dealer) automobile loans.

We generally finance up to the full sales price of the vehicle plus sales tax, dealer preparation fees, license fees and title fees, plus the cost of service and warranty contracts (amounts in addition to the sales price are collectively referred to as the "additional vehicle costs"). In addition, we also may finance the negative equity related to the vehicle traded in by the borrower in connection with a prior financing. Accordingly, the amount we finance may exceed, depending on the borrower's credit score, in the case of new vehicles, the aggregate of the dealer's invoice price of the financed vehicle and the additional vehicle costs, or in the case of a used vehicle, the aggregate of the vehicle's value and the additional vehicle costs. The maximum amount that can be borrowed for an automobile loan by borrowers with our lowest risk rating generally may not exceed 135% of the full sales price of a new vehicle, or the vehicle's "wholesale" value in the case of a used vehicle. The vehicle's value is determined by using one of the standard reference sources for dealers of used cars. We regularly review the quality of the loans we purchase from the dealers and periodically conduct quality control audits to ensure compliance with our established policies and procedures.

At December 31, 2022, our automobile loans to borrowers with credit scores of 639 or less at origination totaled $42.6 million, or 9.3% of our total indirect automobile loan portfolio. We typically will not originate these types of loans with loan-to-value ratios greater than 100% of the sales price of the automobile or debt-to-income ratios greater than 40%.

Non-Residential Commercial Real Estate Loans.

At December 31, 2022, non-residential commercial real estate loans were $282.4 million, or 28.5%, of our total loan portfolio. Our commercial real estate loans are generally secured by properties used for business purposes, such as office buildings, industrial facilities and retail facilities. At December 31, 2022, $112.4 million of our commercial real estate portfolio was owner-occupied real estate and $170.0 million was secured by income producing, non-owner occupied real estate. At December 31, 2022, substantially all of our commercial real estate loans were secured by properties located in our market area. However, occasionally we will originate commercial real estate loans on properties located outside this area based on an established relationship with a strong borrower. As of December 31, 2022, we had three loans located outside of the state of New York totaling $11.4 million.

We originate a variety of commercial real estate loans with terms and amortization periods generally up to 25 years, for large newly constructed commercial developments, including retail plazas and up to 20 years for almost all other commercial properties. The interest rate on commercial real estate loans is generally adjustable and based on a margin over an index, typically The Wall Street Journal Prime Rate or the FHLBNY Amortizing Advance Rate. Commercial real estate loans are generally originated in amounts up to 75% of the appraised value or the purchase price of the property securing the loan, whichever is lower. The Bank does selectively offer interest rate swaps for both commercial and multi-family real estate loans. See Note 13 to the Consolidated Financial Statements for additional information.

In underwriting commercial real estate loans, we consider a number of factors, including the projected net cash flows to the loan's debt service requirement (generally requiring a minimum of 1.20x), the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Where appropriate, we also require corporate guarantees and/or personal guarantees. We monitor borrowers' and guarantors' financial information on an ongoing basis by requiring periodic financial statement updates.

At December 31, 2022, our largest commercial real estate loan had an outstanding balance of $9.9 million and was secured by a hotel located in Wallkill, New York. At December 31, 2022, this loan was performing according to its original terms.

Commercial Business Loans.

We originate commercial business loans and lines of credit to a variety of small- and medium-sized businesses in our market area. Our commercial business borrowers include professional organizations, family-owned businesses, and not-for-profit organizations. These loans are generally secured by business assets and we may require support of this collateral with liens on real property. At December 31, 2022, commercial business loans were $88.0 million, or 8.9% of our total loan portfolio. At December 31, 2022, commercial business loans included $537,000 of SBA PPP loans. We encourage our commercial business borrowers to maintain their primary deposit accounts with us, many of which are non-interest-bearing, which improves our overall interest rate spread and profitability.

Our commercial business loans include term loans and revolving lines of credit. Commercial loans and lines of credit are made with either variable or fixed rates of interest. Variable interest rates are based on a margin over an index we select, typically The Wall Street Journal Prime Rate. Commercial business loans typically have shorter terms to maturity and higher interest rates than commercial real estate loans, but may involve more credit risk because of the type of collateral and our reliance primarily on the success of a borrower's business for the repayment of the loan.

When making commercial business loans, we consider the financial history of the borrower, our lending experience with the borrower, the debt service capabilities and global cash flows of the borrower and other guarantors, and the value of the collateral, such as accounts receivable, inventory and equipment. Depending on the collateral used to secure the loans, commercial business loans are made in amounts up to 90% of the value of the collateral securing the loan. We require commercial business loans extended to closely held businesses to be guaranteed by the principals, as well as other appropriate guarantors, when personal assets are in joint names or a principal's net worth is not sufficient to support the loan.

Commercial business loans include participations we purchase from a single, board-approved third party in leveraged lending transactions. Leveraged lending transactions are generally used to support a merger- or acquisition-related transaction, to back a recapitalization of a company's balance sheet or to refinance debt. When considering a participation in the leveraged lending market, we will participate only in first lien senior secured term loans and lines of credit that are more closely aligned to middle market transactions. To further minimize risk, based on our current capital levels and loan portfolio, we have limited the total amount of leveraged loans to $1.0 million with a single obligor while maintaining that the total of all leveraged loans cannot exceed more than 15% of our risk-based capital. We also monitor industry and customer concentrations. At December 31, 2022, our leverage loans totaled $6.2 million, all of which were performing in accordance with their contractual terms.

At December 31, 2022, our largest commercial business loan had an outstanding balance of $4.8 million and was secured by all business assets. At December 31, 2022, this loan was performing according to its original terms.

Residential Mortgage and Residential Construction Loans.

Our one- to four-family residential loan portfolio consists of mortgage loans that enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the borrower. At December 31, 2022, one- to four-family residential real estate loans totaled $53.7 million, or 5.4% of our total loan portfolio, and consisted of $38.4 million of fixed-rate loans and $15.3 million of adjustable-rate loans. Most of these one- to four-family residential properties are located in our primary market area. We will consider originating one- to four-family residential real estate loans secured by properties located outside our normal lending area on a case by case basis, preferably to preexisting customers with a relationship of one year or longer, and provided the property is located in New York.

We offer fixed-rate and adjustable-rate residential mortgage loans with maturities up to 30 years. The one- to four-family residential mortgage loans that we originate are generally underwritten according to Freddie Mac guidelines, and we refer to loans that conform to such guidelines as "conforming loans." Loans to be sold to other approved investors or secondary market sources are underwritten to their specific requirements. We originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits. To a lesser extent, we also originate loans above the conforming limits, which are referred to as "jumbo loans." We usually underwrite jumbo loans, whether originated or purchased, in a manner similar to conforming loans.

Historically we have sold all of the fixed-rate residential mortgage loans that we originated to reduce our interest rate risk exposure and generate fee income. The majority of the mortgage loans that we originated were sold to Freddie Mac on a servicing rights retained basis. We also originated State of New York Mortgage Agency ("SONYMA") loans, which were sold on a servicing released basis. More recently we have begun to retain in our portfolio more high quality fixed-rate mortgages with terms up to 30 years as we believe the interest rates on the mortgages are more favorable relative to market interest rates. We sold $23.8 million and $72.9 million of fixed-rate residential mortgages during the years ended December 31, 2022 and 2021, respectively. At December 31, 2022, we serviced $301.2 million of one- to four-family residential mortgage loans for others. We generated $744,000 and $717,000 in loan servicing fee income during the years ended December 31, 2022 and 2021, respectively.

We will originate one- to four-family residential mortgage loans with loan-to-value ratios of up to 80% of the appraised value, depending on the size of the loan. Our conforming mortgage loans may be for up to 97% of the appraised value of the property provided the borrower obtains private mortgage insurance. Additionally, mortgage insurance is required for all mortgage loans that have a loan-to-value ratio greater than 80%. The required coverage amount varies based on the loan-to-value ratio and term of the loan. We only permit borrowers to purchase mortgage insurance from companies that have been approved by Freddie Mac or Fannie Mae. We maintain wholesale broker relationships that give us a wider range of products to better serve our existing customers and to attract new customers for our mortgage loan products. These wholesale relationships provide us access to government-backed loan programs such as Federal Housing Administration and Department of Veterans Affairs financing.

We do not offer "interest only" mortgage loans on one- to four-family residential properties or loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. Additionally, we do not offer "subprime loans" (loans that are made with low down-payments to borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (defined as loans having less than full documentation).

We originate loans to finance the construction of one- to four-family residential properties. We also originate rehabilitation loans, enabling the borrower to partially or totally refurbish an existing structure, which are structured as construction loans and monitored in the same manner. At December 31, 2022, residential construction loans totaled $2.3 million, or 4.2% of our residential mortgage loan portfolio. Most of these loans are secured by properties located in our primary market area.

Our residential land and acquisition loans are generally structured as two-year interest-only balloon loans. The interest rate is generally a fixed rate based on an index rate, plus a margin. Our construction-to-permanent loans are generally structured as interest-only, one-year, fixed-rate loans during the construction phase. Construction loan-to-value ratios for one- to four-family residential properties generally will not exceed 80% of the appraised value on a completed basis or the cost of completion, whichever is less, during the construction phase of the mortgage. Once the construction project is satisfactorily completed, we provide permanent financing or sell the permanent mortgage to an investor like Freddie Mac.

Before making a commitment to fund a construction loan, we generally require an appraisal of the property by an independent licensed appraiser. The construction phase is carefully monitored to minimize our risk. All construction projects must be completed in accordance with approved plans and approved by the municipality in which they are located. Loan proceeds are disbursed periodically in increments as construction progresses and as inspections by our approved inspectors warrant.

Multi-Family Real Estate Loans.

At December 31, 2022, multi-family real estate loans totaled $67.8 million, or 6.8%, of our total loan portfolio. Our multi-family real estate loans are generally secured by properties consisting of five to 100 rental units in our market area.

We will originate multi-family real estate loans with terms and amortization periods of up to 30 years. The interest rates on our multi-family real estate loans are generally adjustable based on a margin over an index. Multi-family real estate loans are generally originated in amounts up to 75% of the appraised value or the purchase price of the property securing the loan, whichever is lower.

In underwriting multi-family real estate loans, we consider a number of factors including the projected net cash flows to the loan's debt service requirement (generally requiring a minimum of 1.20x), the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Where appropriate, we also require corporate guarantees or personal guarantees. We monitor borrowers' and guarantors' financial information on an ongoing basis by requiring periodic financial statement updates.

At December 31, 2022, our largest multi-family real estate loan had an outstanding balance of $14.8 million and was secured by an apartment complex located in Poughkeepsie, New York. At December 31, 2022, this loan was performing according to its original terms.

Commercial Construction and Land Development Loans.

We originate loans to finance the construction of commercial properties, multi-family projects (including one- to four-family non-owner occupied residential properties) and professional complexes, or to acquire land for development for these purposes. We also originate rehabilitation loans, enabling the borrower to partially or totally refurbish an existing structure, which are structured as a construction loan and monitored in the same manner. At December 31, 2022, commercial construction and land development loans totaled $20.3 million, or 2.1% of our total loan portfolio. All of these loans are secured by properties located in our primary market area. We also had undrawn amounts on the commercial construction loans totaling $29.5 million at December 31, 2022.

Our construction and land development loans are generally structured as two-year interest-only balloon loans. The interest rate is generally a variable rate based on an index rate, typically The Wall Street Journal Prime Rate plus a margin. We generally offer commercial construction loans with a loan-to-value ratio of up to 75% of the appraised value on a completed basis or the cost of completion, whichever is less. We offer financing to purchase land for development with a maximum loan-to-value ratio of 50%.

Before making a commitment to fund a commercial construction loan, we generally require an appraisal of the property by an independent licensed appraiser. The construction phase is carefully monitored to minimize our risk. All construction projects must be completed in accordance with approved plans and approved by the municipality in which they are located. Loan proceeds are disbursed periodically in increments as construction progresses and as inspections by our approved inspectors warrant.

At December 31, 2022, our largest construction and land development loan was an automotive dealer construction project located in Fishkill, New York, and had an available balance of $12.6 million and an outstanding balance of $1.8 million. At December 31, 2022, this loan was performing according to its original terms.

Consumer Loans.

We offer consumer loans to customers residing in our primary market area. Our consumer loans consist primarily of indirect automobile loans as discussed above. Other consumer loans consist mostly of home equity loans, lines of credit and direct automobile loans. At December 31, 2022, $11.5 million of our consumer loans were home equity loans and lines of credit, and $8.3 million of our consumer loans were direct automobile loans.

Home equity loans and lines of credit are multi-purpose loans used to finance various home or personal needs, where a one- to four-family primary or secondary residence serves as collateral. We generally originate home equity loans and lines of credit of up to $150,000, with a maximum loan-to-value ratio of 80% (including any first lien position) and terms of up to 20 years. Home equity lines of credit have adjustable rates of interest that are based on the prime interest rate published in The Wall Street Journal, plus a margin, and reset monthly. Home equity lines of credit are secured by residential real estate in a first or second lien position.

The procedures for underwriting consumer loans include assessing the applicant's payment history on other indebtedness, the applicant's ability to meet existing obligations and payments on the proposed loan, and the loan-to-value ratio. Although the applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

Loan Underwriting Risks

Indirect Automobile and Other Consumer Loans.

Indirect automobile and other consumer loans entail greater risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as motor vehicles. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and any small remaining deficiency often does not warrant further substantial collection efforts against a borrower. Indirect automobile and consumer loan collections depend on a borrower's continuing financial stability, and therefore are likely to be adversely affected by various factors, including job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount we can recover on such loans.

Additional risk elements associated with indirect lending include the limited personal contact with the borrower as a result of indirect lending through non-bank channels, namely automobile dealers, and reliance on automobile dealers to comply with fair lending practices.

Commercial and Multi-Family Real Estate Loans.

Loans secured by commercial and multi-family real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in commercial and multi-family real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of a project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. If we foreclose on a commercial or multi-family real estate loan, the marketing and liquidation period to convert the real estate asset to cash can be lengthy with substantial holding costs. In addition, vacancies, deferred maintenance, repairs and market stigma can result in prospective buyers expecting sale price concessions to offset their real or perceived economic losses for the time it takes them to return the property to profitability. Direct costs may be required to rehabilitate or prepare the property to be marketed. Depending on the individual circumstances, initial charge-offs and subsequent losses on commercial or multi-family real estate loans can be unpredictable and substantial.

To monitor cash flows on income properties, we require borrowers and loan guarantors, if any, to provide financial statements on the business operations underlying the commercial and multi-family real estate loans on an ongoing basis. In reaching a decision whether to make a commercial or multi-family real estate loan, we consider and review a global cash flow analysis of the borrower and consider the net operating income and profitability of the property, the borrower's expertise, credit history and the value of the underlying property. We generally require properties securing these real estate loans to have debt service coverage ratios (the ratio of earnings before interest, taxes, depreciation, and amortization before debt service to debt service) of at least 1.20x. We obtain an environment report on all commercial real estate properties. We obtain an environmental Phase 1 report for all loans over $1.0 million or when hazardous materials may have existed on the site, or the site may have been impacted by adjoining properties that handled hazardous materials. We will also obtain a Phase 1 report if the initial environmental reports indicate that there may be an environmental issue on a property. We require indemnification from our commercial real estate borrowers and/or guarantors for potential exposure to environmental issues.

Commercial Business Loans.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans have higher risk because they are made typically on the basis of the borrower's ability to repay a loan from the cash flows of the borrower's business and the collateral securing these loans may fluctuate in value. Our commercial business loans are underwritten and evaluated primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral consists of accounts receivable, inventory or equipment, or real estate. Commercial business loans to closely held businesses are also required to be personally guaranteed by the principal(s), as well as by other appropriate guarantors when personal assets are in joint names or if the principal's net worth is insufficient by itself to support the loan. The availability of funds to repay commercial business loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Our Credit Administration Department is responsible for monitoring industry concentrations among commercial borrowers and for reporting the industries represented by commercial borrowers to senior management on at least an annual basis.

Adjustable-Rate Loans.

Rising interest rates may require adjustable-rate loan borrowers to make higher monthly payments that could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate loans make our assets more responsive to changes in market interest rates, the extent of this interest rate sensitivity may be somewhat limited by the annual and lifetime interest rate adjustment limits on residential mortgage loans.

Construction Loans.

Construction lending involves additional risks when compared to permanent residential or commercial lending because funds are advanced upon the security of the project, which is of uncertain value before its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation on real property, it is relatively difficult to accurately evaluate the total funds required to complete a project and the related loan-to-value ratio. In addition, generally during the term of a construction loan, interest may be funded by the lender or disbursed from an interest reserve set aside from the construction loan budget. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If the appraised value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss.

Our ability to originate construction loans is dependent on the strength of the housing and commercial markets in our region. We focus our loan underwriting on the borrower's financial strength, credit history and demonstrated ability to produce a quality product and effectively market and manage their operations. Before making a commitment to fund a construction loan, we generally require an appraisal of the property by an independent licensed appraiser. The construction phase is carefully monitored to minimize our risk. All construction projects must be completed in accordance with approved plans and approved by the municipality in which they are located. Loan proceeds are disbursed periodically in increments as construction progresses and as inspections by our approved inspectors warrant.

Loan Originations and Sales.

Loan originations come from a variety of sources. The primary sources of loan originations are current customers, business development by our relationship managers, walk-in traffic, automobile dealerships, referrals from customers, and brokers.

Fixed-rate residential mortgages may be sold upon origination to limit our interest rate risk exposure and generate fee income. Mortgage loans are usually sold to Freddie Mac on a servicing rights retained basis; however, we may sell mortgages on a servicing released basis to free up capital, maximize profitability and protect us from risk.

Loan Approval Procedures and Authority.

Our lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by our Board of Directors and management. The Board of Directors has granted loan approval authority to certain officers up to prescribed limits, depending on the officer's experience and the type of loan. Our policies also limit the aggregate loans to one entity that an individual officer may approve, up to prescribed limits, depending on the officer's experience. Loan officers are not allowed to approve loans they have originated.

Loans in excess of individual officers' lending limits require approval of our Credit Committee, which is comprised of our President and Chief Executive Officer, Chief Credit Officer, Chief Lending Officer, Senior Vice President-Commercial Lending Team Leader, Vice President-Credit Administration, and other lending officers appointed from time to time. The Credit Committee can approve individual loans of up to prescribed limits, depending on the type of loan. Officers that sit on the Credit Committee must abstain from voting on loans they have originated.

Loans in excess of the Credit Committee's loan approval authority require the approval of the Board of Directors. Loans in excess of our internal loans-to-one borrower limitation and certain loans that involve policy exceptions also must be approved by the Board of Directors.

Loans-to-One Borrower.

Under New York banking law, our total loans or extensions of credit to a single borrower or group of related borrowers ("loans-to-one borrower") cannot exceed, with specified exceptions, 15% of our capital stock, surplus fund and undivided profits. We may lend additional amounts up to 10% of our capital stock, surplus and undivided profits if the loans or extensions of credit are fully secured by readily-marketable collateral.

Pursuant to our internal policies, our internal loans-to-one borrower limitation is set at 25% of Tier 1 capital (excluding the capital attributable to our $5.0 million of outstanding trust preferred securities), of which no more than 10% can be lent on an unsecured basis. This general standard is further restricted as follows:

- Commercial or Multi-Family Real Estate Loans. We will not lend more than 25% of capital to any one borrower, and no more than 15% of capital to any one project or property. We may consider on a case-by-case basis requests for loans of more than 15% of capital to any one project/property. In no event will we make a commercial or multi-family real estate loan in excess of 17.5% of capital to any one project or property.

- Commercial Business Loans. We will not lend more than 15% of capital to any one borrower, with only 10% of capital lent on an unsecured basis under normal policy. Our Board of Directors may make exceptions to the 10% limit for unsecured credit for borrowers with strong credit profiles.

At December 31, 2022, our regulatory limit on loans-to-one borrower and our internal loans-to-one borrower limit were $32.8 million and $30.0 million, respectively. As of December 31, 2022, we had no loans that equaled or exceeded our internal loans-to-one borrower limit or our individual regulatory loan limit.

At December 31, 2022, our largest lending relationship consisted of 33 loans aggregating $24.0 million, which consisted of $21.0 million secured by multiple commercial properties and $3.0 million secured by equipment, inventory and receivables. At December 31, 2022, each loan in this relationship was performing according to its original repayment terms.

Non-Performing Loans and Problem Assets

Performance of the loan portfolio is reviewed on a regular basis by Bank management. A number of factors regarding the borrower and loan, such as overall financial strength, collateral values and repayment ability, are considered in deciding what actions should be taken when determining the collectability of interest for accrual purposes.

When a loan, including a loan that is impaired, is classified as non-accrual, the accrual of interest on such a loan is discontinued. A loan is typically classified as non-accrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on non-accrual status, unpaid accrued interest is fully reversed. Interest payments received on non-accrual loans are applied against principal.

Loans are usually restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Non-performing Loans. At December 31, 2022, $4.4 million, or 0.4% of our total loans, were non-performing loans. The breakdown by loan classification was as follows: $1.4 million of commercial real estate, $1.8 million of residential real estate, $797,000 of indirect automobile, $183,000 of commercial and $268,000 of other consumer loans.

Other Real Estate Owned. At December 31, 2022 and 2021, the Company had no other real estate owned.

Troubled Debt Restructurings. The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider, resulting in a modified loan which is then identified as a troubled debt restructuring ("TDR"). These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Company's allowance for loan losses.

The principal balance of TDRs at December 31, 2022 was $1.3 million, comprised of two residential loans totaling $1.2 million and one home equity loan of $98,000, all of which were in non-accrual status. The same three TDRs at December 31, 2021 totaled $1.4 million and were also in non-accrual status.

COVID-19 Loan Forbearance Program.

Section 4013 of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act provided that a qualified loan modification was exempt by law from classification as a TDR pursuant to generally accepted accounting principles ("GAAP"), for a limited period of time. Loan modifications that did not meet the CARES Act criteria but that were made in connection with COVID-19 could be presumed not to be TDRs, pursuant to the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working With Customers Affected by the Coronavirus (Revised)" (the "Revised Statement"), dated April 17, 2020, if they were current at a time the loan modification program was implemented and the modifications were short-term (e.g., six months). If the criteria were not met under either Section 4013 or the Revised Statement, banks were required to follow their existing accounting policies to determine whether COVID-related modifications should be accounted for as a TDR.

For consumer borrowers, the Bank deferred payments for indirect and direct automobile loans for up to 60 days and an additional 30 days, if needed. We also provided forbearance to our residential real estate borrowers which allowed them to defer their principal and interest payments for up to 90 days and an option for an additional 90 days, if needed. In addition, for commercial borrowers we provided deferment and forbearance options that include interest-only and tax escrow only payments. Some borrowers that met the Bank's underwriting criteria were granted working capital loans to provide financial assistance. These deferrals were maintained within the CARES Act guidance and did not exceed twelve consecutive months of deferred payment.

During 2021, the Bank approved 120 loan deferrals totaling $1.9 million. As of December 31, 2022, all of the modifications granted to customers had expired and there were no deferrals outstanding.

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

	At December 31, 2022	At December 31, 2021
	(Dollars in thousands)	
Non-accrual loans:		
Residential real estate loans	$ 1,794	$ 2,230
Commercial real estate loans		
Non-residential	1,382	2,721
Commercial loans	183	687
Consumer loans		
Indirect automobile	797	734
Home equity	217	270
Other consumer	51	47
Total	$ 4,424	$ 6,689
Troubled debt restructurings (accruing):		
Total troubled debt restructurings (accruing)	$ —	$ —
Total non-performing assets and total troubled debt restructurings (accruing)	$ 4,424	$ 6,689
Total non-performing loans to total loans	0.45 %	0.78 %
Total non-performing loans to total assets	0.33 %	0.52 %
Total non-performing assets and troubled debt restructurings (accruing) to total assets	0.33 %	0.52 %

Classified Assets. Banking regulations and our Asset Classification Policy provide that loans and other assets considered to be of lesser quality should be classified as “Substandard,” “Doubtful” or “Loss” assets. An asset is considered Substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all of the weaknesses inherent in those classified Substandard, with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as Loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

At December 31, 2022, the Company classified $6.3 million of loans as Substandard, of which $3.0 million were commercial non-residential real estate loans, $1.5 million were residential loans, $477,000 were commercial and industrial loans, $1.1 million were indirect automobile loans, $217,000 were home equity loans and $51,000 were other consumer loans. At December 31, 2021, the Company classified $7.0 million of loans as Substandard, of which $3.0 million were commercial non-residential real estate loans, $2.2 million were residential loans, $775,000 were commercial and industrial loans, $734,000 were indirect automobile loans, $270,000 were home equity loans and $47,000 were other consumer loans. The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

Allowance for Loan Losses

Our allowance for loan losses is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the risks of loss inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions among other qualitative factors. Our allowance for loan losses consists of two elements: (1) an allocated allowance, which comprises specific allowances established on impaired loans, and general allowances based on historical loss experience and current trends, and (2) an unallocated allowance based on general economic conditions and other risk factors in our markets and portfolios. We maintain a loan review system, which allows for a periodic review (at least quarterly) of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Loan impairment is measured based on the fair value of collateral method, taking into account the appraised value, any valuation assumptions used, estimated costs to sell and trends in the market since the appraisal date. General loan loss allowances, which is for loans (other than impaired loans) reviewed collectively by type, are based upon a combination of factors including, but not limited to, actual loan loss experience, size and composition of the loan portfolio, current economic conditions and management’s judgment and losses which are probable and reasonably estimable. The allowance is increased through provisions charged against current earnings and recoveries of previously charged-off loans. Loans that are determined to be uncollectible are charged against the allowance. While management uses available information to recognize probable and reasonably estimable loan losses, future loss provisions may be necessary based on changing economic conditions. We did not maintain an unallocated allowance at either December 31, 2022 or December 31, 2021.

Although we believe that we have established the allowance at levels to absorb probable and estimable losses, future additions may be necessary if economic or other conditions in the future differ from the current environment. In addition, the FDIC and the NYDFS, as an integral part of their examination process, periodically review our allowance for loan losses. The banking regulators may require that we recognize additions to the allowance based on their analysis and review of information available to them at the time of their examination.

The Company adopted Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments effective January 1, 2023. For a discussion regarding that accounting standard and its implementation, see "Management's Discussion and Analysis if Financial Condition and Results of Operation – Terms of Critical Accounting Policies."

The following table sets forth activity in our allowance for loan losses for the periods indicated.

	Year Ended December 31,	
	2022	2021
	(Dollars in thousands)	
Allowance for loan losses at beginning of period	$ 7,559	$ 11,633
Provision for (credit to) loan losses	1,414	(3,667)
Charge-offs:		
Residential real estate loans	(44)	—
Commercial loans	(456)	(12)
Consumer loans		
Indirect automobile	(2,660)	(2,048)
Other consumer	(107)	(24)
Total charge-offs	(3,267)	(2,084)
Recoveries:		
Residential real estate loans	156	6
Commercial loans	119	101
Consumer loans		
Indirect automobile	1,907	1,525
Other consumer	55	45
Total recoveries	2,237	1,677
Net charge-offs	(1,030)	(407)
Allowance for loan losses at end of period	$ 7,943	$ 7,559
Allowance for loan losses to non-performing loans at end of period	179.54 %	113.01 %
Allowance for loan losses to total loans outstanding at end of period	0.80 %	0.89 %
Non-performing loans to total loans	0.45 %	0.78 %
Net charge-offs to average loans outstanding during period	(0.11)%	(0.05)%

During the year, our allowance for loan losses increased $384,000, or 5.1%, reflecting an increase in our loan portfolio partially offset by a reduction in the overall risk rating of our indirect loan portfolio.

The following table sets forth the ratios of net charge-offs to average loans by loan category.

	Year Ended December 31,	
	2022	2021
Net recoveries (charge-offs) to average loans outstanding		
Residential real estate loans	0.28 %	0.02 %
Commercial loans	(0.38)%	0.07 %
Consumer loans		
Indirect automobile	(0.17)%	(0.14)%
Other consumer	(0.50)%	0.22 %

Net charge-offs for the year ended December 31, 2022 totaled $1.0 million, compared to $407,000 for the year ended 2021. Net charge-offs for indirect automobiles totaled $753,000 for the year ended December 31, 2022, compared to $523,000, for the year ended December 31, 2021. In 2022, we had one residential real estate recovery of $143,000, contributing to an increase in the net recovery of residential real estate loans. The net charge-off of commercial loans in 2022 was primarily due to one large commercial loan charge-off of $449,000. Other consumer loans had net charge-offs of $52,000 for the year ended December 31, 2022 as compared to a net recovery of $21,000 for the year ended December 31, 2021.

Allocation of Allowance for loan losses. The following table sets forth the allowance for loan losses allocated by loan category, the allocation of the allowance for loan losses by loan segment and the percent of loan balances by category at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,					
	2022			2021		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in thousands)					
Residential real estate loans	$ 103	1.30 %	5.42 %	$ 54	0.71 %	4.18 %
Commercial real estate loans						
Non-residential	2,652	33.39	28.52	3,093	40.92	28.78
Multi-family	379	4.77	6.84	224	2.96	6.55
Construction	—	—	2.05	—	—	1.18
Commercial loans	881	11.09	8.88	725	9.59	12.22
Consumer loans						
Indirect automobile	3,868	48.69	46.17	3,416	45.19	44.77
Home equity	18	0.23	1.16	20	0.27	1.39
Other consumer	42	0.53	0.96	27	0.36	0.93
Total allowance	$ 7,943	100.00 %	100.00 %	$ 7,559	100.00 %	100.00 %

We use the accrual method of accounting for all performing loans. The accrual of interest income is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. When a loan is placed on non-accrual status, unpaid interest previously credited to income is reversed. Interest received on non-accrual loans is applied against principal. Generally, residential and consumer loans are restored to accrual status when the obligation is brought current in accordance with the contractual terms for a reasonable period of time and ultimate collectability of total contractual principal and interest is no longer in doubt. Commercial loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and ultimate collectability of total contractual principal and interest no longer is in doubt.

In our collection efforts, we will first attempt to cure any delinquent loan. If a real estate secured loan is placed on non-accrual status, it could be subject to transfer to other real estate owned (“OREO”) (comprised of properties acquired by or in lieu of foreclosure), of which our credit administration department will pursue the sale of the real estate. Prior to this transfer, the loan balance will be adjusted, if necessary, to reflect its current market value less estimated costs to sell. Write downs of OREO that occur after the initial transfer from the loan portfolio and costs of holding the property are recorded within other operating expenses, except for significant improvements, which are capitalized to the extent that the carrying value does not exceed estimated net realizable value.

Fair values for determining the value of collateral are estimated from various sources, such as real estate appraisals, financial statements and from any other reliable sources of available verifiable information. For those loans deemed to be impaired, collateral value is reduced for the estimated costs to sell. Reductions of collateral value are based on historical loss experience, current market data, and any other verifiable source of reliable information specific to the collateral.

This analysis is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available.

Investment Activities

We have legal authority to invest in various types of investment securities and liquid assets, including U.S. Treasury obligations, securities of various government-sponsored enterprises, residential mortgage-backed securities, municipal securities, deposits at the Federal Home Loan Bank (the "FHLB") of New York, certificates of deposit of federally insured institutions, investment grade corporate bonds, equity securities and Small Business Investment Companies. At December 31, 2022, our investment portfolio had a fair value of $223.7 million and consisted primarily of U.S. Government securities, U.S. Government agency securities, including residential and collateralized mortgage-backed securities, municipal securities and corporate bonds in the form of subordinated bank debt.

Our investment objectives are to maximize portfolio yield over the long term and manage our risk profile in a manner consistent with liquidity needs, pledging requirements, asset/liability strategies and safety and soundness concerns. Our current investment strategy uses a risk management approach of diversified investing in fixed-rate securities with short- to intermediate-term maturities, as well as adjustable-rate securities, which may have a longer term to maturity. The emphasis of this approach is to increase overall investment securities yields while managing interest rate risk. Our Board of Directors has overall responsibility for the investment portfolio, including reviewing and evaluating our investment policy on an annual basis. The Investment Committee of the Board of Directors, consisting of three directors, meets at least three times annually to review our portfolio's performance, quality and composition, and provides reports to the full Board of Directors at the next monthly meeting of the full board following the meeting of the Investment Committee. The Investment Committee also reviews and discusses policy changes prior to their presentation to the full board. Our management has the overall responsibility for implementing the investment policy and supervising our investment activities and performance. Management is also responsible for providing regular reports to the Investment Committee to allow for a complete consideration of the portfolio's composition, cash flow characteristics, quality and risk profile. The President and CEO is responsible for the overall supervision of the investment activity. The Chief Financial Officer is responsible for the implementation of the Bank's investment policy and strategy. The Controller is responsible for the accounting and reporting requirements of the policy.

There are no limits on security purchases or sales executed for the purpose of cash management or for providing for the liquidity needs of the Bank. Transactions require the approval of both the President and CEO and the Chief Financial Officer and must be reported to the Investment Committee, which reports them to the Board.

Our policy is that, at the time of purchase, we designate a security as held to maturity, available-for-sale, or trading, depending on our ability and intent. Securities that are available-for-sale or held for trading are reported at fair value, while securities held to maturity are reported at amortized cost. Currently, all securities we hold are classified as available-for-sale.

FHLB Securities. In addition, we hold FHLB common stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the FHLB advance program. There is no market for the common stock.

The aggregate fair value of our FHLB common stock as of December 31, 2022 was $3.3 million based on its par value. No unrealized gains or losses have been recorded because we have determined that the par value of the common stock represents its fair value. We owned shares of FHLB common stock at December 31, 2022 equal to what we were required to own to maintain our membership in the Federal Home Loan Bank System and was necessary to support the balance of our advances. We are required to purchase stock as our outstanding advances increase. Our stock position is reviewed and adjusted weekly by the FHLB.

Evaluation of Securities Portfolio. Each reporting period, we evaluate all securities with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other-than-temporary. Other-than-temporary impairment ("OTTI") is required to be recognized if, (1) we intend to sell the security; (2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For impaired debt securities that we intend to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI, resulting in a realized loss that is a charged to earnings through a reduction in our non-interest income. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income/loss, net of applicable taxes. Management has considered these factors and determined that there were no securities with impairments that are other than temporary at December 31, 2022 and 2021.

Portfolio Maturities and Yields. The following table sets forth the stated maturities and weighted average yields of investment securities at December 31, 2022. Weighted average yields are calculated by dividing the income by amortized cost. No tax equivalent adjustments were made in calculating the weighted average yield. Certain mortgage-backed securities have adjustable interest rates and will reprice annually within the various maturity ranges. These repricing schedules are not reflected in the table below. Weighted average yield calculations on investment securities available for sale do not give effect to changes in fair value that are reflected as a component of equity.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Securities available-for-sale:											
U.S. Treasury securities	$ 14,992	0.29 %	$ 25,180	0.98 %	$ —	— %	$ —	— %	$ 40,172	$ 37,857	0.72 %
Mortgage-backed securities – residential	5	1.50 %	1,250	2.04 %	5,991	2.68 %	166,680	1.51 %	173,926	144,534	1.56 %
U.S. government and agency obligations	—	— %	19,785	0.74 %	5,000	3.01 %	—	— %	24,785	22,449	1.20 %
Municipal securities	1,931	2.71 %	1,197	1.40 %	1,989	2.11 %	—	— %	5,117	4,786	2.17 %
Corporate bonds	—	— %	—	— %	14,700	4.07 %	—	— %	14,700	13,217	4.07 %
Other	—	— %	644	10.15 %	—	— %	—	— %	644	816	10.15 %
Total	$ 16,928	0.57 %	$ 48,056	1.04 %	$ 27,680	3.44 %	$ 166,680	1.51 %	$ 259,344	$ 223,659	1.57 %

Sources of Funds

General. Deposits have traditionally been our primary source of funds for our lending and investment activities. We also use borrowings, primarily FHLB advances, and brokered certificates of deposit, depending on market conditions, to supplement cash flows, as needed. In addition, funds are derived from scheduled loan and investment payments, investment maturities, loan sales, loan prepayments, retained earnings and income on earning assets. While scheduled loan payments, investment maturities and income on earning assets are relatively stable sources of funds, deposit inflows and outflows, loan prepayments and loan sales can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

Deposit Accounts. The substantial majority of our deposits are from depositors who reside in our primary market area. We access deposit customers by offering a broad selection of deposit instruments for both individuals and businesses. We encourage commercial business borrowers to maintain their primary deposit accounts with us. At December 31, 2022, our deposits totaled $1.13 billion. Brokered deposits are obtained when needed to build liquidity at favorable rates. Brokered deposits totaled $34.0 million at December 31, 2022.

Deposit account terms vary according to the minimum balance required, the time period that funds must remain on deposit, and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, effects on profitability, and customer preferences and concerns. We generally review our deposit pricing on a monthly basis and continually review our deposit mix. Our deposit pricing strategy has generally been to offer competitive rates, while generally not providing the highest rates in the market, and to periodically offer special rates to attract deposits of a specific type or term.

The following table sets forth the distribution of average deposit accounts, by account type, at the dates indicated.

	For the Years Ended December 31,					
	2022			2021		
	Average Balance	Percent	Average Rate Paid	Average Balance	Percent	Average Rate Paid
	(Dollars in thousands)					
Non-interest-bearing demand accounts	$ 304,488	27.39 %	- %	$ 284,279	27.59 %	- %
Interest-bearing demand accounts	160,172	14.41 %	0.14 %	148,851	14.45 %	0.16 %
Money market accounts	315,231	28.36 %	1.08 %	244,412	23.72 %	0.57 %
Savings accounts	188,188	16.93 %	0.24 %	174,369	16.93 %	0.16 %
Certificates of deposit	143,449	12.91 %	1.00 %	178,360	17.31 %	0.88 %
Total	$ 1,111,528	100.00 %	0.50 %	$ 1,030,271	100.00 %	0.34 %

As of December 31, 2022 and 2021, approximately $394.6 million and $394.0 million, respectively, of our deposit portfolio was uninsured. The uninsured amounts are estimates based on the methodologies and assumptions used for the Bank's regulatory reporting requirements.

As of December 31, 2022, the aggregate amount of certificates of deposits in denominations greater than $250,000 was $38.9 million. In addition, as of December 31, 2022, the portion of certificates of deposit in excess of the FDIC insurance limit of $250,000 was $14.1 million. The following table sets forth the maturity of those certificates as of December 31, 2022.

Maturity Period	Amount
	(In thousands)
Three months or less	$ 710
Over three through six months	1,782
Over six through twelve months	3,264
Over twelve months	8,391
Total	$ 14,147

At December 31, 2022, $151.6 million of our certificates of deposit will mature during 2023. We monitor activity on these accounts and, based on historical experience and our current pricing strategy, we believe we will retain a significant portion of these accounts upon maturity. However, if a substantial portion of these deposits is not retained, we may utilize FHLB advances or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

Borrowings. We primarily borrow from the Federal Home Loan Bank of New York to supplement our supply of investable funds. The FHLB functions as a central reserve bank providing credit for its member financial institutions. As a member, we are required to own capital stock in the FHLB and are authorized to apply for advances or loans on the security of such stock and first mortgage loans and other assets (principally securities that are obligations of, or guaranteed by, the United States), provided we meet certain creditworthiness standards. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the total amount of advances are based either on a fixed percentage of an institution's net worth or on the FHLB's assessment of the institution's creditworthiness.

At December 31, 2022, we had the ability to borrow $667.9 million under our credit facilities with the FHLB.

Subsidiaries

In addition to the Bank, the Company has one other wholly-owned subsidiary, RSB Capital Trust I (the "Trust"). In 2005, the Trust issued $5.0 million of pooled trust preferred securities in a private placement and issued 155 shares of common stock at $1,000 par value per share to Rhinebeck Bancorp, MHC. The Trust has no independent assets or operations and was formed to issue trust preferred securities and invest the proceeds in an equivalent amount of junior subordinated debentures issued by Rhinebeck Bancorp, MHC. All of the cash proceeds from the issuance of the junior subordinated debentures by Rhinebeck Bancorp, MHC were contributed as capital to the Bank. In connection with our reorganization in January 2019, all of the common stock of the Trust and the corresponding subordinated debentures issued by Rhinebeck Bancorp, MHC to the Trust were transferred to Rhinebeck Bancorp, Inc. At that time, the Trust became wholly-owned by, and the debt became an obligation of, Rhinebeck Bancorp, Inc. The trust preferred securities mature 30 years from the date of issuance and bear interest at a rate equal to the three-month London inter-bank offered rate "LIBOR" plus 2.00%. After June 30, 2023, the three month LIBOR rate will be replaced by the three month CME term Secured Overnight Financing Rate ("SOFR") as adjusted by 0.26%, the relevant spread adjustment. The interest rate on these securities at December 31, 2022 was 6.69%.

Rhinebeck Bank has the following four wholly-owned subsidiaries:

- Pleasant View Subdivision, LLC, a New York limited liability corporation, which was formed in 2006 to acquire a branch and subsequently to hold real estate acquired through foreclosure. As of November 22, 2021, all of the assets held by Pleasant View Subdivision, LLC had been sold.

- 456 Broadway, LLC, a New York limited liability corporation, which was formed in 2020 to acquire the Newburgh branch.

- Dutchess Golf Club, LLC, a New York limited liability corporation, which was formed in 2012 to hold a golf course that was acquired through foreclosure. As of June 30, 2018, all of the assets held by Dutchess Golf Club, LLC had been sold.

- New Horizons Asset Management Group, LLC, which was acquired in 2012. All of its business functions have been transferred to RAM.

Personnel and Human Capital Resources

Our success as a financial institution in our market areas is dependent on a workforce that embrace and are dedicated to our mission and culture. Our culture is grounded in a set of core values – "ICARE," which stands for "Integrity, Community, Accountability, Respect, and Empathy". In order to continue to deliver on our mission and maintain our culture, it is crucial that we attract and retain talent who desire and have the experience to provide creative and innovative financial solutions and options for the diverse communities we serve. Through our hiring and retention programs we aim to create an inclusive workforce with diversified backgrounds and experiences. We strive to maintain a safe and healthy workplace, with opportunities for our employees to grow and develop in their careers, supported by advantageous compensation, benefits, health, and welfare programs.

As part of our compensation philosophy, we offer market competitive total rewards programs for our employees in order to attract and retain superior talent. These programs, include annual bonus opportunities, an Employee Stock Ownership Plan, a stock compensation plan, a matched 401(k) Plan, healthcare and insurance benefits, health savings and flexible spending accounts, paid time off, family leave, family care resources, flexible work schedules, adoption assistance, education reimbursement program, and employee assistance programs.

We encourage and support the growth and development of our associates and, wherever possible, seek to fill positions by promotion and transfer from within the organization. Additionally, all of our employees are expected to display and encourage honest, ethical, and respectful conduct in the workplace. Our employees must adhere to our Code of Business Conduct and Ethics that sets standards for appropriate behavior and includes periodic training on preventing, identifying, reporting, and stopping discrimination of any kind.

Continual learning and career development is advanced through ongoing performance and development conversations with employees, internally developed training programs, customized corporate training engagements and educational reimbursement programs. Reimbursement is available to employees enrolled in pre-approved degree or certification programs at accredited institutions that teach skills or knowledge relevant to our business, in compliance with Section 127 of the Internal Revenue Code, and for seminars, conferences, and other training events employees attend in connection with their job duties.

Employee retention helps us operate efficiently and achieve our business objectives. We believe our commitment to living our core values, actively prioritizing concern for our employees' well-being, supporting our employees' career goals, offering competitive wages and providing valuable fringe benefits aids in retention of our top-performing employees.

As of December 31, 2022, we had 182 full-time employees and 10 part-time employees. Approximately 44% of our employees are employed at our banking center and loan production offices, and another 56% are employed at our corporate headquarters. We believe our relationship with our employees to be generally good. None of these employees are represented by a collective bargaining agreement.

As of December 31, 2022, approximately 61% of our current workforce was female and 39% male. Our average tenure is six and one half years, up slightly from the average tenure of six years as of December 31, 2021.

The safety, health and wellness of our employees is a top priority. We promote the health and wellness of our employees by strongly encouraging work-life balance, offering flexible work schedules, keeping the employee portion of health care premiums to a minimum and sponsoring various wellness programs.

Information about our Executive Officers

The following listing sets forth the name, principal position, recent business experience and age (as of December 31, 2022) of each executive officer:

Michael J. Quinn is President and Chief Executive Officer of Rhinebeck Bank. He was appointed as CEO in 2004 and has been a member of the Board of Directors since 2001 when he was President and COO. He began his career at Rhinebeck Bank in 1984 and has held various positions including Branch Manager, Treasurer, Senior Lending Officer and President and COO before being named as President and CEO in 2004. Age 61.

Jamie J. Bloom is the Chief Operating Officer at Rhinebeck Bank. She has over 30 years of financial services experience. She began her banking career at Rhinebeck Bank in 1994 as the Vice President of Sales. Age 56.

Michael J. McDermott is the Chief Financial Officer of Rhinebeck Bank, a position he has held since 2001. Prior to joining the Bank, Mr. McDermott held the position of CFO, as well as other senior executive positions, in several diverse industries including a large insurance brokerage, a healthcare software startup and two manufacturing companies. Age 70.

James T. McCardle III joined the Bank in 2001 and is currently the Chief Credit Officer of Rhinebeck Bank, a position he was appointed to in 2018. Prior to being named CCO, Mr. McCardle was the Chief Lending Officer for seven years. He has held various titles since joining the Bank including VP, Commercial Lending, SVP Commercial Lending and SVP and Senior Lending Officer. Age 57.

Philip Bronzi joined the Bank in 2012 as the Vice President of Lending. He became the Senior Vice President of Lending in 2018 and was named Chief Lending Officer in 2021. His career expands over 20 years in commercial lending with various banks in the Hudson Valley. Age 47.

Karen Morgan-D'Amelio, Esq. is the Chief Risk Officer and General Counsel for Rhinebeck Bank and a member of its executive leadership team. She was appointed to these positions in 2014. Prior to joining the Bank, Ms. Morgan-D'Amelio worked in both private practice and held managing attorney roles and leadership roles in financial institutions such as The Dime Savings Bank of NY, FSB, Washington Mutual and J.P. Morgan Chase, and was a Deputy County Attorney for Nassau County, New York. Age 52.

Francis X. Dwyer is the President of Rhinebeck Asset Management. He has been with Rhinebeck Bank in this position since 2015. His career expands over 34 years in the financial services industry. Prior to joining the Bank, he held other senior executive roles with various other financial institutions. Age 61.

Timmian C. Massie joined Rhinebeck Bank in October 2020 as Chief Marketing/Public Affairs Officer. He previously served as Senior Vice President for Marketing, Public Affairs and Government Relations at Nuvance Health and its predecessor, Health Quest Systems, Inc. With more than 40 years' experience in communications, he brings a wealth of knowledge to his role. He previously served in senior positions in healthcare, utilities, government and higher education, where he was also an adjunct professor. Age 64.

Emerging Growth Company Status

As an emerging growth company, Rhinebeck Bancorp, Inc. may delay adoption of new or revised financial accounting standards until such date that the standards are required to be adopted by non-public companies. Rhinebeck Bancorp, Inc. takes advantage of the benefits of the extended transition periods allowed under the Jumpstart Our Business Startups Act.

Accordingly, Rhinebeck Bancorp, Inc.'s financial statements may not be comparable to those of public companies that adopt new or revised financial accounting standards as of an earlier date.

SUPERVISION AND REGULATION

General

As a New York-chartered savings bank, Rhinebeck Bank is subject to comprehensive regulation by the NYSDFS, as its chartering agency, and by the FDIC, as its deposit insurer. Rhinebeck Bank is a member of the FHLB of New York and its deposits are insured up to applicable limits by the FDIC. Rhinebeck Bank is required to file reports with, and is periodically examined by, the FDIC and the NYSDFS concerning its activities and financial condition and must obtain regulatory approvals before entering into certain transactions, including mergers with or acquisitions of other financial institutions. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies regarding the classifying of assets and establishing an adequate allowance for loan losses for regulatory purposes.

As a New York-chartered mutual holding company, Rhinebeck Bancorp, MHC is regulated and subject to examination by the NYSDFS and the Federal Reserve Board. As a bank holding company, Rhinebeck Bancorp, Inc. is required to comply with the rules and regulations of the Federal Reserve Board and the NYSDFS. It is required to file certain reports with the Federal Reserve Board and is subject to examination by and the enforcement authority of the Federal Reserve Board and the NYSDFS. Rhinebeck Bancorp, Inc. also is subject to the rules and regulations of the SEC under the federal securities laws.

Set forth below is a brief description of material regulatory requirements that are applicable to Rhinebeck Bancorp, Inc., Rhinebeck Bancorp, MHC and Rhinebeck Bank. The description is limited to certain material aspects of certain statutes and regulations that are addressed, and is not intended to be a complete list or description of such statutes and regulations and their effects on Rhinebeck Bancorp, Inc., Rhinebeck Bancorp, MHC and Rhinebeck Bank.

New York Banking Laws and Supervision

Supervision and Enforcement Authority. Rhinebeck Bank, as a New York savings bank, is regulated and supervised by the NYSDFS. The NYSDFS is required to regularly examine each state-chartered bank. The approval of the NYSDFS is required to establish or close branches, to merge with another bank, to issue stock and to undertake many other activities. Any New York savings bank that does not operate according to the regulations, policies and directives of the NYSDFS may be subject to sanctions for non-compliance, including seizure of the property and business of the savings bank and suspension or revocation of its charter. The NYSDFS may, under certain circumstances, suspend or remove officers or directors who have violated the law, conducted the savings bank's business in an unsafe or unsound manner or contrary to the depositors' interests, or have been negligent in the performance of their duties. In addition, upon finding that a savings bank has engaged in an unfair or deceptive act or practice, the NYSDFS may issue an order to cease and desist and impose a fine on the savings bank. The NYSDFS also has the authority to appoint a receiver or conservator if it determines that the savings bank is conducting its business in an unsafe or unauthorized manner, and under certain other circumstances. New York consumer protection and civil rights statutes applicable to Rhinebeck Bank permit private individual and class action law suits, and provide for the rescission of consumer transactions, including loans, and the recovery of statutory and punitive damage and attorney's fees in the case of certain violations of those statutes.

The powers that New York-chartered savings banks can exercise under these laws include the following:

Lending Activities. A New York-chartered savings bank may make a wide variety of mortgage loans including fixed-rate loans, adjustable-rate loans, participation loans, construction and development loans, condominium and co-operative loans, second mortgage loans and other types of loans that may be made according to applicable regulations. Commercial loans may be made to corporations and other commercial enterprises with or without security. Consumer and personal loans may also be made with or without security.

Investment Activities. In general, the Bank may invest in certain types of debt securities (including certain corporate debt securities, and obligations of federal, state, and local governments and agencies thereof), certain types of corporate equity securities, and certain other assets. However, this investment authority is subject to restrictions under federal law. See "— Federal Bank Regulation — Investment Activities" for such federal restrictions.

Dividends. Under New York banking law, the Bank may declare and pay dividends from its net profits, unless there is an impairment of capital. Additionally, the approval of the NYSDFS is required if the total of all dividends declared in a calendar year would exceed the total of its net profits for that year combined with its retained net profits of the preceding two years. The term "net profits" is generally defined to mean earnings from current operations, subject to certain adjustments provided for under applicable law.

Loans to Directors and Executive Officers. Under applicable NYSDFS regulations (which are substantially similar to applicable federal banking regulations), Rhinebeck Bank generally may not make a loan or other extension of credit to any of its executive officers or directors unless the loan or other extension of credit (1) is made on terms, including interest rate and collateral, that are not more favorable to the executive officer or director than those customarily offered by the Bank to persons who are not executive officers or directors and who are not employed by the Bank, and (2) does not involve more than the normal risk of repayment or present other unfavorable features. Depending on the size of the loan or other extension of credit, prior approval of the Bank's Board of Directors (with the interested party, if a director, abstaining from participating directly or indirectly in the voting) may be required.

Federal Bank Regulation

Supervision and Enforcement Authority. Rhinebeck Bank is subject to extensive regulation, examination and supervision by the FDIC as the insurer of its deposits. This regulatory structure is intended primarily for the protection of the insurance fund and depositors.

The Bank must file reports with the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals before entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the FDIC to evaluate Rhinebeck Bank's safety and soundness and compliance with various regulatory requirements.

The regulatory structure also gives the FDIC extensive discretion in connection with its supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of an adequate allowance for loan losses for regulatory purposes. The enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations, breaches of fiduciary duty and unsafe or unsound practices. The FDIC may also appoint itself as conservator or receiver for an insured bank under specified circumstances, including: (1) insolvency; (2) substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices; (3) existence of an unsafe or unsound condition to transact business; (4) insufficient capital; or (5) the incurrence of losses that will deplete substantially all of the institution's capital with no reasonable prospect of replenishment without federal assistance.

Capital Requirements. Under FDIC regulations, Rhinebeck Bank is subject to a comprehensive capital framework for U.S. banking organizations that was effective January 2015 (the Basel III capital rules), subject to phase-in periods for certain components and other provisions.

The capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively, and a leverage ratio of at least 4% Tier 1 capital.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements.

Regulatory relief legislation enacted in May 2018 required the federal banking agencies, including the FDIC, to establish for institutions with assets of less than $10 billion of assets an elective "community bank leverage ratio" (the ratio of a bank's tangible equity capital to average total consolidated assets) of between 8 to 10%. A "qualifying community bank" with capital exceeding the specified requirement that opts into the alternative framework is considered compliant with all applicable regulatory capital and leverage requirements and deemed "well capitalized" for prompt corrective action purposes, discussed below. A final rule was issued in November 2019 establishing the community bank leverage ratio at 9% Tier 1 capital to average total consolidated assets. The community bank leverage ratio option became effective January 1, 2020. Management has chosen not to utilize the community bank leverage ratio.

The FDIC also has authority to establish individual minimum capital requirements in appropriate cases upon determination that an institution's capital level is, or is likely to become, inadequate in light of the particular circumstances. At December 31, 2022, Rhinebeck Bank exceeded all of its capital requirements.

Standards for Safety and Soundness. As required by statute, the federal banking agencies have adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness. The guidelines set forth the safety and soundness standards the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. The agencies have also established standards for safeguarding customer information. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

Investment Activities. All state-chartered savings banks insured by the FDIC are generally limited in their investment activities to principal and equity investments of the type and in the amount authorized for national banks, notwithstanding state law, subject to certain exceptions. For example, state-chartered banks may, with FDIC approval, continue to exercise state authority to invest in common or preferred stocks listed on a national securities exchange or the Nasdaq Global Market and to invest in the shares of an investment company registered under the Investment Company Act of 1940. The maximum permissible investment is 100% of Tier 1 Capital, as specified by the FDIC's regulations, or the maximum amount permitted by New York law, whichever is less.

In addition, the FDIC is authorized to permit state-chartered banks and savings banks to engage in state-authorized activities or investments not permissible for national banks (other than non-subsidiary equity investments) if it meets all applicable capital requirements and it is determined that such activities or investments do not pose a significant risk to the Deposit Insurance Fund. The FDIC has adopted procedures for institutions seeking approval to engage in such activities or investments. In addition, a nonmember bank may control a subsidiary that engages in activities as principal that would only be permitted for a national bank to conduct in a "financial subsidiary" if a bank meets specified conditions and deducts its investment in the subsidiary for regulatory capital purposes.

Prompt Corrective Regulatory Action. Federal law requires, among other things, that federal bank regulatory authorities take "prompt corrective action" with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The FDIC has adopted regulations to implement the prompt corrective action legislation. An institution is considered "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%. At December 31, 2022, Rhinebeck Bank was classified as a "well capitalized" institution.

At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, interest rates paid on deposits, payment of dividends, and acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. An undercapitalized bank's compliance with a capital restoration plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5.0% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" banks must comply with one or more of a number of additional restrictions, including an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, cease receipt of deposits from correspondent banks or dismiss directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

Transactions with Affiliates

Transactions between banks and their affiliates are governed by federal law. Generally, Section 23A of the Federal Reserve Act and the Federal Reserve Board's Regulation W limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10.0% of the bank's capital stock and surplus, and with all transactions with all affiliates to an amount equal to 20.0% of the bank's capital stock and surplus. Section 23B applies to "covered transactions" as well as to certain other transactions and requires that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes making loans to, purchasing assets from, and issuing guarantees to, an affiliate, and other similar transactions. Section 23B transactions also include the bank's providing services and selling assets to an affiliate. In addition, loans or other extensions of credit by a bank to an affiliate are required to be collateralized according to the requirements set forth in Section 23A of the Federal Reserve Act.

Sections 22(h) and (g) of the Federal Reserve Act place restrictions on loans to a bank's insiders, i.e., executive officers, directors and principal stockholders. Under Section 22(h) of the Federal Reserve Act, loans to a director, an executive officer and to a greater than 10.0% stockholder of a financial institution, and certain affiliated interests of these, together with all other outstanding loans to such person and affiliated interests, may not exceed specified limits. Section 22(h) of the Federal Reserve Act also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons and also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a financial institution to insiders cannot exceed the institution's unimpaired capital and surplus. Section 22(g) of the Federal Reserve Act places additional restrictions on loans to executive officers.

Insurance of Accounts and Regulation by the Federal Deposit Insurance Corporation

Deposit accounts in the Bank are insured by the FDIC's Deposit Insurance Fund ("DIF") generally up to a maximum of $250,000 per separately insured depositor.

The FDIC bases its risk-based assessment system upon each insured institution's total assets less tangible equity. Currently, the assessment range for most banks is 1.5 basis points to 30 basis points.

Beginning in 2020, in response to the pandemic, institutions were able to reduce their total assets by the PPP loans in the calculation of the assessment.

The FDIC may adjust its risk-based assessment system in the future, except that no adjustment can be made without notice and comment rulemaking. No institution may pay a dividend if in default of the federal deposit insurance assessment.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The Bank does not believe that it is taking or is subject to any action, condition or violation that could lead to termination of its deposit insurance.

Regulation of Brokered Deposits. Section 29 of the Federal Deposit Insurance Act establishes, among other things, a general prohibition on the acceptance by any insured depository institution that is not well capitalized of any deposit obtained, directly or indirectly, by or through any deposit broker. This statutory prohibition is further implemented through the regulations of the FDIC and, historically, numerous published and unpublished FDIC staff interpretations of the statute and the FDIC's regulation.

On December 15, 2020, the FDIC adopted a final rule substantially amending its brokered deposits regulation. The final rule sought to clarify and modernize the FDIC's existing regulatory framework for brokered deposits. Notable aspects of the rule include (1) the establishment of bright-line standards for determining whether an entity meets the statutory definition of deposit broker; (2) the identification of a number of business relationships in which the agent or nominee of the depositor is not deemed to be a "deposit broker" because the primary purpose of the agent or nominee is not the placement of funds with depository institutions; (3) the establishment of a more transparent application process for entities that seek to rely upon a "primary purpose" exception, but do not qualify as one of the enumerated business relationships to which the exception is deemed to apply; and (4) the clarification that third parties that have an exclusive deposit-placement arrangement with only one bank is not considered a deposit broker.

The final rule took effect on April 1, 2021; however, full compliance with the final rule was not required until January 1, 2022. Under the amended brokered deposits regulation, the range of activities viewed as deposit brokerage has been modified, which could have an impact on the Bank's deposit premiums, capital and liquidity risk management planning and regulatory monitoring and reporting obligations.

FDIC Improvement Act ("FDICIA"). Under FDICIA, an institution with over $1 billion in assets is subject to more vigorous audit requirements. Part 363 of FDICIA requires an internal control over financial reporting integrated audit by independent auditors. A ruling by the FDIC passed in October of 2020 allowed the Company to use the December 31, 2019 consolidated asset balance due to the unexpected growth of PPP loans. While these requirements would have been applicable for the Company in 2021, the interim ruling delayed this requirement. The Company complied with all FDICIA requirements in 2022.

Privacy Regulations. Cybersecurity has become a focus of federal and state regulators. The federal banking agencies have adopted regulations for consumer privacy protection that require financial institutions to adopt procedures to protect customers and their "non-public personal information." Federal law and regulations generally require that Rhinebeck Bank disclose its privacy policy, including identifying with whom it shares a customer's "non-public personal information," to customers at the time of establishing the customer relationship and, subject to certain exceptions, annually thereafter. In addition, Rhinebeck Bank is required to provide its customers with the ability to "opt-out" of having their non-public personal information shared with unaffiliated third parties and to not disclose account numbers or access codes to non-affiliated third parties for marketing purposes.

Effective March 1, 2017, the NYSDFS made effective regulations that require financial institutions regulated by the NYSDFS, including Rhinebeck Bank, to, among other things, (i) establish and maintain a cyber security program designed to ensure the confidentiality, integrity and availability of their information systems; (ii) implement and maintain a written cyber security policy setting forth policies and procedures for the protection of their information systems and nonpublic information; and (iii) designate a Chief Information Security Officer.

Community Reinvestment Act. Under the Community Reinvestment Act ("CRA"), as implemented by the FDIC, a state non-member bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examination of each state non-member bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, including applications to establish branches and acquire other financial institutions. The CRA requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. Rhinebeck Bank's latest Federal Deposit Insurance Corporation CRA rating was "Satisfactory."

New York has its own statutory counterpart to the CRA, which is applicable to Rhinebeck Bank. New York law requires the NYSDFS to consider a bank's record of performance under New York law in considering any application by the bank to establish a branch or other deposit-taking facility, to relocate an office or to merge or consolidate with or acquire the assets and assume the liabilities of any other banking institution. Rhinebeck Bank's most recent rating under New York law was "Satisfactory."

Consumer Protection and Fair Lending Regulations. Rhinebeck Bank is subject to a variety of federal and New York statutes and regulations that are intended to protect consumers and prohibit discrimination in the granting of credit. These statutes and regulations provide for a range of sanctions for non-compliance with their terms, including imposition of administrative fines and remedial orders, and referral to the Attorney General for prosecution of a civil action for actual and punitive damages and injunctive relief. Certain of these statutes, including Section 5 of the Federal Trade Commission Act, which prohibits unfair and deceptive acts and practices against consumers, authorize private individual and class action lawsuits and the award of actual, statutory and punitive damages and attorneys' fees for certain types of violations. New York's Attorney General has vigorously enforced fair lending and other consumer protection laws. Federal laws also prohibit unfair, deceptive or abusive acts practices against consumers, which can be enforced by the Consumer Financial Protection Bureau, the FDIC and state Attorneys General.

Holding Company Regulation

Federal Holding Company Regulation. Rhinebeck Bancorp, MHC and Rhinebeck Bancorp, Inc. are registered as bank holding companies with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended, and subject to its regulations, examinations, supervision and reporting requirements applicable to bank holding companies. In addition, the Federal Reserve Board has enforcement authority over Rhinebeck Bancorp, Inc. and its non-savings bank subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings bank.

A bank holding company is generally prohibited from engaging in non-banking activities, or acquiring direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities the Federal Reserve Board determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking are: (1) making or servicing loans; (2) performing certain data processing services; (3) providing discount brokerage services; (4) acting as fiduciary, investment or financial advisor; (5) leasing personal or real property; (6) making investments in corporations or projects designed primarily to promote community welfare; and (7) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies. A bank holding company that meets certain specified criteria may elect to be regulated as a "financial holding company" and thereby engage in a broader array of nonbank financial activities than those generally permitted for bank holding companies.

Capital. Federal law required the Federal Reserve Board to establish for all bank and savings and loan holding companies minimum consolidated capital requirements that are as stringent as those required for the insured depository subsidiaries. Pursuant to recent federal regulatory relief legislation, bank holding companies with less than $3.0 billion in consolidated assets, including Rhinebeck Bancorp, MHC and Rhinebeck Bancorp, Inc., are not subject to the holding company capital requirements unless otherwise advised by the Federal Reserve Board.

Dividends and Stock Repurchases. A bank holding company is generally required to give the Federal Reserve Board prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. There is an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.

The Federal Reserve Board has issued a policy statement regarding capital distributions, including dividends, by bank holding companies. In general, the policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity, and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary.

Additionally, under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. Federal Reserve Board supervisory guidance indicates that bank holding companies should provide prior notice of proposed dividends or stock repurchases under certain specified circumstances. The purpose of such notice is to provide the Federal Reserve Board with an opportunity for supervisory review of, and possible objection to, the proposal. These regulatory policies could affect the ability of Rhinebeck Bancorp, Inc. to pay dividends, engage in stock repurchases, or otherwise engage in capital distributions.

Waivers of Dividends by Rhinebeck Bancorp, MHC. Rhinebeck Bancorp, Inc. has the authority to pay dividends on its common stock to public stockholders. If it does, it is also required to pay the same dividends per share to Rhinebeck Bancorp, MHC, unless Rhinebeck Bancorp, MHC elects to waive the receipt of dividends. Rhinebeck Bancorp, MHC must receive the prior approval of the Federal Reserve Board before it may waive the receipt of any dividends from Rhinebeck Bancorp, Inc., and current Federal Reserve Board policy prohibits any mutual holding company that is regulated as a bank holding company, such as Rhinebeck Bancorp, MHC, from waiving the receipt of dividends paid by its subsidiary holding company.

Because of the foregoing Federal Reserve Board restrictions on the ability of a mutual holding company, such as Rhinebeck Bancorp, MHC, to waive the receipt of dividends declared by its subsidiary mid-tier stock holding company, it is unlikely that Rhinebeck Bancorp, MHC will waive the receipt of any dividends declared by Rhinebeck Bancorp, Inc. Moreover, since Rhinebeck Bancorp, Inc. has sold only a minority of its shares to the public and contributed the remaining shares to Rhinebeck Bancorp, MHC, Rhinebeck Bancorp, Inc. raised significantly less capital than would have been the case if it sold all its shares to the public. As a result, paying dividends to Rhinebeck Bancorp, MHC may be inequitable to public stockholders and not in their best financial interests. Therefore, unless Federal Reserve Board regulations and policy change by allowing Rhinebeck Bancorp, MHC to waive the receipt of dividends declared by Rhinebeck Bancorp, Inc. without diluting minority stockholders, it is unlikely that Rhinebeck Bancorp, Inc. will pay any dividends.

Possible Conversion of Rhinebeck Bancorp, MHC to Stock Form. In the future, Rhinebeck Bancorp, MHC may convert from the mutual to capital stock form of ownership, in a transaction commonly referred to as a "second-step conversion." Any second-step conversion of Rhinebeck Bancorp, MHC would require the approval of the NYSDFS and the Federal Reserve Board.

Acquisition. The Change in Bank Control Act and related regulations provide that no person or entity may acquire control of a bank holding company, such as Rhinebeck Bancorp, Inc., without the prior non-objection or approval of the Federal Reserve Board. Control, as defined under the applicable regulations, means the power, directly or indirectly, to direct the management or policies of the company or to vote 25% or more of any class of voting securities of the company. Acquisition of more than 10% of any class of a bank holding company's voting securities constitutes a rebuttable presumption of control under certain circumstances, including where, as will be the case with Rhinebeck Bancorp, Inc., the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934. Separately, any company that acquires control of a bank holding company, as "control" is defined in the federal Bank Holding Company Act, must receive the prior approval of the Federal Reserve Board under that law and becomes a "bank holding company" subject to examination and regulation by the Federal Reserve Board.

New York Holding Company Regulation. Rhinebeck Bancorp, MHC and Rhinebeck Bancorp, Inc. are also subject to regulation under New York banking law. Among other requirements, Rhinebeck Bancorp, MHC and Rhinebeck Bancorp, Inc. must receive the approval of the NYSDFS before acquiring 10% or more of the voting stock of another banking institution, or to otherwise acquire a banking institution by merger or purchase.

Federal Securities Laws

Rhinebeck Bancorp, Inc.'s common stock was registered with the Securities and Exchange Commission after its offering. Rhinebeck Bancorp, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of common stock issued in the offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not affiliates of Rhinebeck Bancorp, Inc. may be resold without registration. Shares purchased by an affiliate of Rhinebeck Bancorp, Inc. will be subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If Rhinebeck Bancorp, Inc. meets the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of the outstanding shares of Rhinebeck Bancorp, Inc., or the average weekly volume of trading in the shares during the preceding four calendar weeks.

Emerging Growth Company Status. Under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), a company with total annual gross revenues of less than $1.07 billion during its most recently completed fiscal year qualifies as an "emerging growth company." Rhinebeck Bancorp, Inc. qualifies as an emerging growth company under the JOBS Act.

An "emerging growth company" may choose not to hold stockholder votes to approve annual executive compensation (more frequently referred to as "say-on-pay" votes) or executive compensation payable in connection with a merger (more frequently referred to as "say-on-golden parachute" votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company's internal control over financial reporting and can provide scaled disclosure regarding executive compensation. Finally, an emerging growth company may elect to comply with new or amended accounting pronouncements in the same manner as a private company, but must make such election when the company is first required to file a registration statement. Such an election is irrevocable during the period a company is an emerging growth company. Rhinebeck Bancorp, Inc. has elected to comply with new or amended accounting pronouncements in the same manner as a private company.

A company loses emerging growth company status on the earlier of: (1) the last day of the fiscal year of the company during which it had total annual gross revenues of $1.07 billion or more; (2) the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the company pursuant to an effective registration statement under the Securities Act of 1933; (3) the date on which such company has, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; or (4) the date on which such company is deemed to be a "large accelerated filer" under Securities and Exchange Commission regulations (generally, a "large accelerated filer" is defined as a corporation with at least $700 million of voting and non-voting equity held by non-affiliates).

The USA PATRIOT Act

The USA PATRIOT Act of 2001 gave the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. The USA PATRIOT Act also required the federal banking agencies to take into consideration the effectiveness of controls designed to combat money laundering activities in determining whether to approve a merger or other acquisition application of a member institution. Accordingly, if we engage in a merger or other acquisition, our controls designed to combat money laundering would be considered as part of the application process. We have established policies, procedures and systems designed to comply with these regulations.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. Rhinebeck Bancorp, Inc. has policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

Regulatory Enforcement Authority

Federal law provides federal banking regulators with substantial enforcement powers. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease-and-desist or removal orders, and initiate injunctive actions against banking organizations and institution-affiliated parties, as defined In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

COVID-19 Legislation

In response to the COVID-19 pandemic, Congress and the federal banking agencies, though legislation, rulemaking, interpretive guidance and modifications to agency policies and procedures, have taken a series of actions to provide national emergency economic relief measures including, among others, the CARES Act and Consolidated Appropriations Act ("CAA") of 2021. As the COVID-19 pandemic has evolved, federal and state regulatory authorities continued to issue additional guidance with respect to COVID-19. In addition, it is possible that Congress will enact additional COVID-19 response legislation in response to new COVID-19 variants. We will continue to assess the impact of the CARES Act, CAA, and other statues, regulations and supervisory guidance related to the COVID-19 pandemic.

FEDERAL AND STATE TAXATION

Federal Taxation

General. The Company and the Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to the Company and the Bank.

Method of Accounting. For federal income tax purposes, the Company currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its consolidated federal income tax returns.

Net Operating Loss Carryovers. Generally, a financial institution may carry forward net operating losses indefinitely and are subject to a limitation of 80% of taxable income. See Note 9 to the Consolidated Financial Statements for additional information.

Capital Loss Carryovers. Generally, a financial institution may carry back capital losses to the preceding three taxable years and forward to the succeeding five taxable years. Any capital loss carryback or carryover is treated as a short-term capital loss for the year to which it is carried. As such, it is grouped with any other capital losses for the year to which carried and is used to offset any capital gains. Any un-deducted loss remaining after the five-year carryover period is not deductible. At December 31, 2022, Rhinebeck Bank had no capital loss carryovers.

Corporate Dividends. We may generally exclude from our income 100% of dividends received from Rhinebeck Bank as a member of the same affiliated group of corporations. As of December 31, 2022, no dividends had been paid by Rhinebeck Bank.

Audit of Tax Returns. Rhinebeck Bank's federal income tax returns have not been audited in the most recent three-year period.

State Taxation

Rhinebeck Bancorp, MHC, Rhinebeck Bancorp, Inc. and Rhinebeck Bank report income on a combined fiscal year basis to New York State. The statutory tax rate is currently 6.5% for general business taxpayers, and 7.25% for general business taxpayers with a business income base of more than $5,000,000. An alternative tax of 0.1875% on apportioned capital is imposed to the extent that it exceeds the tax on apportioned income. The New York State alternative tax is capped at $5 million for a tax year and is no longer applicable for tax years beginning January 1, 2024. Thrift institutions that maintain a qualified residential loan portfolio are entitled to a specially computed modification that reduces the income taxable to New York State; this is the case for the Bank.

Item 1A. Risk Factors

In addition to factors discussed in the description of our business and elsewhere in this report, the following are factors that could adversely affect our future results of operations and financial condition.

Risks Related to Economic Conditions

Our business may be adversely affected by downturns in the national economy and in the economies in our market areas.

Substantially all of our loans are to businesses and individuals in the Hudson Valley in New York. Recessionary conditions or adverse economic conditions in our local market areas may reduce our rate of growth, affect our customers' ability to repay loans and adversely impact our business, financial condition, and results of operations. General economic conditions, including inflation, unemployment and money supply fluctuations, also may adversely affect our profitability. Weakness in the global economy and global supply chain issues may adversely affect businesses operating in our market.

A deterioration in economic conditions in the market areas we serve as a result of inflation, a recession, the effects of COVID-19 variants or other factors could result in the following consequences, any of which could have a materially adverse impact on our business, financial condition and results of operations:

- loan delinquencies, problem assets and foreclosures may increase;
- we may increase our allowance for loan losses;
- demand for our products and services may decline possibly resulting in a decrease in our total loans, total deposits, or assets;
- collateral for loans may decline in value, thereby reducing customers’ borrowing power, and reducing the value of assets and collateral associated with existing loans;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; and
- the amount of our low-cost or non-interest bearing deposits may decrease and the composition of our deposits may be adversely affected.

A decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loans are geographically diverse. Many of the loans in our portfolio are secured by real estate. Deterioration in the real estate markets where collateral for a mortgage loan is located could negatively affect the borrower's ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various other factors, including changes in general or regional economic conditions, government rules or policies and natural disasters. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values, our financial condition and profitability could be adversely affected.

Further, a U.S. government debt default would have a material adverse impact on our business and financial performance, including a decrease in the value of Treasury bonds and other government securities held by us, which could negatively impact the Bank's capital position and its ability to meet regulatory requirements. Other negative impacts could be volatile capital markets, an adverse impact on the U.S. economy and the U.S. dollar, as well as increased default rates among borrowers in light of increased economic uncertainty. Some of these impacts might occur even in the absence of an actual default but as a consequence of extended political negotiations around the threat of such a default and a government shutdown.

Inflation can have an adverse impact on our business and on our customers.

Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. The annual inflation rate in the United States hit a high in June of 2022 at 9.1%, and while currently declining, was still at 6.5% as of December 31, 2022. As a result, the Federal Reserve has continued to increase the target federal funds rate, up 425 basis points in 2022, and has indicated its intention to continue to increase interest rates in an effort to combat inflation. As inflation increases, the value of our investment securities, particularly those with longer maturities, would decrease. In addition, inflation increases the cost of goods and services we use in our business operations, such as electricity and other utilities, which increases our non-interest expenses. Furthermore, our customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us. Sustained higher interest rates by the Federal Reserve to tame persistent inflationary price pressures could also push down asset prices and weaken economic activity. A deterioration in economic conditions in the United States and our markets could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for our products and services, all of which, in turn, would adversely affect our business, financial condition and results of operations.

Risks Related to Interest Rates

The reversal of the historically low interest rate environment may adversely affect our net interest income and profitability.

Since March 2022, in response to inflation, the Federal Open Market Committee ("FOMC") of the Federal Reserve has increased the target range for the federal funds rate by 425 basis points, to a range of 4.25% to 4.50% as of December 31, 2022. As it seeks to control inflation without creating a recession, the FOMC has indicated further increases are to be expected. If the FOMC further increased the targeted federal funds rates, overall interest rates will likely continue to rise, which may positively impact our interest income but may negatively impact both the housing market by reducing refinancing activity and new home purchases and the U.S. economy. Further, as discussed below, the increase in market interest rates is expected to have an adverse effect on our net interest income and profitability.

Changes in interest rates may reduce our profits.

Our profitability, like that of most financial institutions, depends to a large extent upon our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and securities, and our interest expense on interest-bearing liabilities, such as deposits and borrowed funds. Accordingly, our results of operations depend largely on movements in market interest rates and our ability to manage our interest-rate-sensitive assets and liabilities in response to these movements. Factors such as inflation, recession and instability in financial markets, among other factors beyond our control, may affect interest rates.

If interest rates rise, and the interest rates on our deposits increased faster than the interest rates we receive on our loans and investments, our interest rate spread would decrease, which would have a negative effect on our net interest income and profitability. Furthermore, increases in interest rates may adversely affect the ability of borrowers to make loan repayments on adjustable-rate loans, as the interest owed on such loans would increase as interest rates increase. Conversely, decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to reinvest such loan or securities prepayments into lower-yielding assets, which may also negatively impact our income. Changes in market interest rates may also affect the demand for the Company's products and services, competition for deposits, the secondary mortgage market, and our ability to realize gains from the sale of assets.

Changes in interest rates also affect the value of our interest-earning assets and, in particular, our investment securities portfolio. Generally, the fair value of fixed-rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on investment securities available for sale are reported as a separate component of equity, net of tax. Decreases in the fair value of investment securities available for sale resulting from increases in interest rates have an adverse effect on stockholders' equity. Stockholders' equity, specifically accumulated other comprehensive income (loss) ("AOCI"), is increased or decreased by the amount of change in the estimated fair value of our securities available for sale, net of deferred income taxes. Increases in interest rates generally decrease the fair value of securities available for sale, which adversely impacts stockholders' equity. During the year ended December 31, 2022, we incurred other comprehensive losses, net of tax, of $25.5 million related to net changes in unrealized holding losses in the available-for-sale investment securities portfolio.

Any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. Changes in interest rates also may negatively affect our ability to originate real estate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which may ultimately affect our earnings. For further discussion of how changes in interest rates could impact us, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Management of Market Risk."

Risks Related to our Lending Activities

Our automobile lending exposes us to increased credit risks.

At December 31, 2022, $457.2 million, or 46.2% of our total loan portfolio and 34.2% of our total assets, consisted of indirect automobile loans, which represents loans originated through automobile dealers for the purchase of new or used automobiles. At that date, $8.3 million, or 0.8% of our total loan portfolio, consisted of automobile loans that we also originated directly. We serve customers that cover a range of creditworthiness and the required terms and rates are reflective of those risk profiles. Automobile loans are inherently risky as they are secured by assets that may be difficult to locate and can depreciate rapidly. In some cases, repossessed collateral for a defaulted automobile loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency may not warrant further collection efforts against the borrower. Automobile loan collections depend on the borrower's continuing financial stability, and therefore, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Additional risk elements associated with indirect lending include the limited personal contact with the borrower as a result of indirect lending through non-bank channels, namely automobile dealers, and reliance on automobile dealers to comply with fair lending practices. See "Item 1. Business — Loan Underwriting Risks."

Our emphasis on commercial real estate and commercial business lending involves risks that could adversely affect our financial condition and results of operations.

We intend to continue to emphasize the originations of commercial real estate and commercial business loans. At December 31, 2022, our commercial real estate (which includes multi-family real estate loans and commercial construction loans) and commercial business loans totaled $458.5 million, or 46.3% of our loan portfolio. While these types of loans are potentially more profitable than residential mortgage loans due primarily to bearing generally higher interest rates and larger balances, they are generally more sensitive to regional and local economic conditions, making future losses more difficult to predict, and possibly more likely. These loans also generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, any charge-offs may be larger on a per loan basis than those incurred with our residential or consumer loans. See “Item 1. Business — Loan Underwriting Risks.”

Our allowance for loan losses may not be sufficient to cover actual loan losses.

We maintain an allowance for loan losses, which is established through a provision for loan losses that represents management’s best estimate of probable incurred losses within the existing portfolio of loans. We make various assumptions and judgments about the collectability of loans in our portfolio, including the creditworthiness of borrowers and the value of the real estate, automobiles and other assets serving as collateral for the repayment of loans. In determining the adequacy of the allowance for loan losses, we rely on our experience and our evaluation of economic conditions and other qualitative factors. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, and adjustments may be necessary. A problem with one or more loans could require us to significantly increase our provision for loan losses. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Significant additions to the allowance could materially decrease our net income.

We expect that the implementation of Current Expected Credit Loss (“CECL”), which will require us to record an allowance for credit losses in excess of our existing allowance for loan losses, could cause increased volatility in our financial condition and results of operation.

The Financial Accounting Standards Board (“FASB”) has adopted a new accounting standard, CECL. CECL will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, other financial instruments and other commitments to extend credit and provide for the expected credit losses as allowances for credit losses. The Company adopted CECL as of January 1, 2023. This will change the current method of providing allowances for loan losses that are probable, which will require us to record an allowance for credit losses as of January 1, 2023 in excess of our existing allowance for loan losses, and will greatly increase the analysis we will need to undertake to determine the appropriate level of the allowance for credit losses. Although we expect that we will continue to meet all capital adequacy requirements to which we are subject following recording of the impact of adoption to stockholders’ equity, future provisioning for expected credit losses under CECL may have a material adverse effect on our financial condition and results of operations.

Our non-owner occupied commercial real estate loans may expose us to increased credit risk.

At December 31, 2022, $112.4 million, or 11.3% of our total loan portfolio and 39.8% of our commercial real estate loan portfolio, consisted of loans secured by non-owner occupied commercial real estate loans. Loans secured by non-owner occupied properties generally expose a lender to greater risk of non-payment and loss than loans secured by owner occupied properties because repayment of such loans depend primarily on the tenant’s continuing ability to pay rent to the property owner, who is our borrower, or, if the property owner is unable to find a tenant, the property owner’s ability to repay the loan without the benefit of a rental income stream. In addition, the physical condition of non-owner occupied properties may be below that of owner occupied properties due to lenient property maintenance standards that negatively impact the value of the collateral properties.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real estate, and we could become subject to environmental liabilities with respect to one or more of these properties. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous conditions or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us.

Risk Related to our Business Strategy

Our business strategy involves moderate growth, and our financial condition and results of operations may be adversely affected if we fail to grow or fail to manage our growth effectively.

Our assets increased $54.8 million, or 4.3%, from $1.28 billion at December 31, 2021 to $1.33 billion at December 31, 2022, primarily due to increases in loans. Over the next several years, we expect to experience moderate growth in our total assets and deposits, and the scale of our operations. Achieving our growth targets requires us to attract customers that currently bank at other financial institutions in our market. Our ability to grow successfully will depend on a variety of factors, including our ability to attract and retain experienced bankers, the availability of attractive business opportunities and competition from other financial institutions in our market area. While we believe we have the management resources and internal systems in place to successfully manage our future growth, there can be no assurance that growth opportunities will be available or that we will successfully manage our growth. If we do not manage our growth effectively, we may not be able to execute our business plan, which would have an adverse effect on our financial condition and results of operations.

Building market share through de novo branching may cause our expenses to increase faster than revenues.

In 2021, we continued to build market share by opening two newly acquired and two de novo branches in Orange County, New York. There are considerable costs involved in establishing new branches as they require time to generate sufficient revenues to offset their initial start-up costs. Accordingly, any new branch can be expected to negatively impact our earnings until the branch attracts a sufficient level of depositors and borrowers to offset expenses. We were unable to gain substantial traction in our Monroe branch and decided to permanently close the branch at year-end 2022. While it appears the other locations have been finding success in their respective market places, we cannot assure you that our new branches will be successful even after they have been established. Additionally, while our branch network continues to be a very significant source of new business generation, consumers continue to migrate much of their routine banking to self-service channels, which may decrease the cost-effectiveness of our branch network and negatively affect earnings.

Risks Related to Laws and Regulations

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and/or increase our costs of operations.

We are subject to extensive regulation, supervision and examination by our banking regulators. Such regulation and supervision govern the activities in which a financial institution and its holding company may engage and are intended primarily for the protection of insurance funds and the depositors and borrowers of Rhinebeck Bank rather than for the protection of our stockholders. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the ability to impose restrictions on our operations, classify our assets and determine the level of our allowance for loan losses. These regulations, along with the currently existing tax, accounting, securities, deposit insurance and monetary laws, rules, standards, policies, and interpretations, control the methods by which financial institutions conduct business, implement strategic initiatives, and govern financial reporting and disclosures. Any change in such regulation and oversight, whether in the form of regulatory policy, new regulations, legislation or supervisory action, may have a material impact on our operations.

Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions.

The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers that open new financial accounts. Failure to comply with these regulations could result in fines or sanctions, including restrictions on conducting acquisitions or establishing new branches. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, these policies and procedures may not be effective in preventing violations of these laws and regulations.

Changes in accounting standards could affect reported earnings.

The bodies responsible for establishing accounting standards, including the Financial Accounting Standards Board, the Securities and Exchange Commission and bank regulators, periodically change the financial accounting and reporting guidance that governs the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply new or revised guidance retroactively.

We are subject to more stringent capital requirements, which may adversely impact our return on equity, or constrain us from paying dividends or repurchasing shares.

Federal regulations establish minimum capital requirements for insured depository institutions, including minimum risk-based capital and leverage ratios, and define what constitutes "capital" for calculating these ratios. The regulations establish a "capital conservation buffer" of 2.5%, which, when added to the minimum capital ratios, result in the following minimum ratios: (1) a common equity Tier 1 capital ratio of 7.0%, (2) a Tier 1 to risk-based assets capital ratio of 8.5%, and (3) a total capital ratio of 10.5%. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that can be utilized for such actions.

The application of more stringent capital requirements could, among other things, require us to maintain higher capital levels resulting in lower returns on equity, and result in regulatory actions if we were to be unable to comply with such requirements. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy, and could limit our ability to make distributions, including paying out dividends or buying back shares. See "Item 1. Supervision and Regulation — Federal Bank Regulation — Capital Requirements."

Climate change and related legislative and regulatory initiatives may materially affect the Company's business and results of operations.

The effects of climate change continue to create a significant level of concern for the state of the global environment. As a result of the increased political and social awareness surrounding the issue, the U.S. Congress, state legislatures and federal and state regulatory agencies continue to propose numerous initiatives to supplement the global effort to combat climate change. While it is impossible to predict how climate change may directly impact our financial condition and operations; the physical effects of climate change may present certain risks to our customers. Unpredictable and more frequent weather disasters may adversely impact the value of real property securing the loans in our portfolios. Further, the effects of climate change may negatively impact regional and local economic activity, which could lead to an adverse effect on our customers and impact our ability to raise and invest capital in potentially impacted communities.

Risks Related to Privacy, Security and Technology

Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and adversely affect our business opportunities.

We are subject to various privacy, information security and data protection laws, such as the Gramm-Leach-Bliley Act, which, among other things, requires privacy disclosures, and maintenance of a robust security program that are increasingly subject to change which could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of consumer or employee information, and some of our current or planned business activities. New laws or changes to existing laws may increase our costs of compliance and business operations and could reduce income from certain business initiatives, including increased privacy-related enforcement activity, and higher compliance and technology costs and could restrict our ability to provide certain products and services, which could have a material adverse effect on our business, financial conditions or results of operations. Our regulators also hold us responsible for privacy and data protection obligations performed by our third-party service providers while providing services to us. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition or results of operations.

Systems failures or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

Our operations depend upon our ability to protect our computer systems and network infrastructure against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures designed to prevent such damage, our security measures may not be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

It is possible that we could incur significant costs associated with a breach of our computer systems. While we have cyber liability insurance, there are limitations on coverage. Furthermore, cyber incidents carry a great risk of injury to our reputation. Finally, depending on the type of incident, banking regulators can impose restrictions on our business and consumer laws may require reimbursement of customer losses.

Our inability to successfully implement technological change may adversely impact our business.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new, technology-driven products and services which increases efficiency and enables financial institutions to better serve customers and reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. We may not be able to effectively implement new, technology-driven products and services or be successful in marketing these products and services to our customers, which failure could have a material adverse effect on our business, financial condition or results of operations.

Risks Related to Our Business and Operations

Our cost of operations is high relative to our assets. Our failure to maintain or reduce our operating expenses may reduce our profits.

Our non-interest expenses totaled $37.4 million and $35.5 million for the years ended December 31, 2022 and 2021, respectively. Although we continue to monitor our expenses and have achieved certain efficiencies, we have experienced increased costs, especially due to market expansion activities and the opening of new branch offices in 2021. In 2022, the closure of our Monroe branch also increased costs as did inflation. Moreover, our efficiency ratio, comparative to peers, remains high as a result of our higher operating expenses, even though we have increased our net interest income. Our efficiency ratio totaled 78.40% and 75.82% for the years ended December 31, 2022 and 2021, respectively. Failure to control or maintain our expenses may reduce future profits.

Changes in the valuation of our securities portfolio may reduce our profits and our capital levels.

The market value of our securities portfolio may fluctuate, potentially increasing accumulated other comprehensive loss or reducing earnings. During the year ended December 31, 2022, we incurred other comprehensive losses, net of tax, of $25.5 million related to net changes in unrealized holding losses in the available-for-sale investment securities portfolio. Fluctuations in market value may be caused by changes in market interest rates, lower market prices for securities and limited investor demand.

Declines in market value may result in other-than-temporary impairments of these assets, which may lead to accounting charges that could have a material adverse effect on our net income and stockholders’ equity. Management evaluates securities for other-than-temporary impairment on a quarterly basis, with more frequent evaluation for selected issues. In analyzing a debt issuer’s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, industry analysts’ reports and spread differentials between the effective rates on instruments in the portfolio compared to risk-free rates. If this evaluation shows impairment to the actual or projected cash flows associated with one or more securities, we may take a charge to earnings to reflect such impairment. Changes in interest rates may also have an adverse effect on our financial condition, as our available-for-sale securities are reported at their estimated fair value, and therefore are affected by fluctuations in interest rates. We increase or decrease our stockholders’ equity by the amount of change in the estimated fair value of the available-for-sale securities, net of taxes.

Strong competition within our market area may reduce our profits and slow growth.

We face strong competition in making loans and attracting deposits. Price competition for loans and deposits sometimes requires us to charge lower interest rates on our loans and pay higher interest rates on our deposits, which may reduce our net interest income. Many of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. Our competitors often aggressively price loan and deposit products when they enter into new lines of business or new market areas. If we are unable to effectively compete in our market area, our profitability would be negatively affected. The greater resources and broader offering of deposit and loan products of some of our competitors may also limit our ability to increase our interest-earning assets. Competition also makes it more difficult and costly to attract and retain qualified employees. For more information about our market area and the competition we face, see “Item 1. Business — Market Area” and “— Competition.”

A lack of liquidity could adversely affect our financial condition and results of operations and result in regulatory limits being placed on the Company.

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans to ensure that we have adequate liquidity to fund our operations. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our most important source of funds is deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff. If customers move money out of deposits, we may lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income. Depending on the capitalization and regulatory treatment of depository institutions, including whether an institution is subject to a supervisory prompt corrective action directive, certain additional regulatory restrictions and prohibitions may apply, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Significant deposit withdrawals could materially reduce our liquidity, and, in such an event, we may be required to replace such deposits with higher-costing borrowings.

Other primary sources of funds consist of cash flows from operations and sales of investment securities. Additional liquidity is provided by our ability to borrow from the FHLB of New York or our ability to sell portions of our loan portfolio. We also may borrow funds from third-party lenders, such as other financial institutions. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Our access to funding sources could also be affected by a decrease in the ability to sell mortgage portfolios as a result of higher market interest rates negatively impacting originations, a downturn in our markets or by one or more adverse regulatory actions against us. A lack of liquidity could also attract increased regulatory scrutiny and potential restraints imposed on us by regulators.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

Our success depends on retaining certain key personnel.

Our performance largely depends on the talents and efforts of highly skilled individuals who comprise our senior management team. We rely on key personnel to manage and operate our business, including major revenue generating functions such as loan and deposit generation and our wealth management business. The loss of key staff may adversely affect our ability to maintain and manage these functions effectively, which could negatively affect our income. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which would reduce our net income. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees.

Changes in management's estimates and assumptions may have a material impact on our consolidated financial statements and our financial condition or operating results.

In preparing the periodic reports we are required to file under the Securities Exchange Act of 1934, including our consolidated financial statements, our management is and will be required under applicable rules and regulations to make estimates and assumptions as of specified dates. These estimates and assumptions are based on management's best estimates and experience at such times and are subject to substantial risk and uncertainty. Materially different results may occur as circumstances change and additional information becomes known. Areas requiring significant estimates and assumptions by management include our evaluation of the adequacy of our allowance for loan losses, the determination of our deferred income taxes, our fair value measurements and our determination of goodwill impairment.

Our risk management framework may not be effective in mitigating risk and reducing the potential for significant losses.

Our risk management framework is designed to minimize risk and loss to us. We seek to identify, measure, monitor, report and control our exposure to risk, including strategic, market, liquidity, compliance and operational risks. While we use broad and diversified risk monitoring and mitigation techniques, these techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Recent economic conditions and heightened legislative and regulatory scrutiny of the financial services industry, among other developments, have increased our level of risk. Accordingly, we could suffer losses if we fail to properly anticipate and manage these risks.

Risks Relating to Ownership of Our Common Stock

We may not pay any dividends on our common stock.

Rhinebeck Bancorp, Inc.'s board of directors has the authority to declare dividends on our common stock subject to statutory and regulatory requirements. We currently intend to retain all our future earnings, if any, for use in our business and do not expect to pay any cash dividends on our common stock in the foreseeable future. Any future determination to pay cash dividends will be made by our board of directors and will depend upon our financial condition, results of operations, capital requirements, restrictions under Federal Reserve Board regulations and policy, our business strategy and other factors that our board of directors deems relevant. See "Item1. Business — Waivers of Dividends by Rhinebeck Bancorp, MHC."

Our common stock is not heavily traded, and the stock price may fluctuate significantly.

Our common stock is traded on The NASDAQ Capital Market (ticker symbol "RBKB"), but the volume of shares traded is relatively low. Prices on stock that is not heavily traded, such as our common stock, can be more volatile than heavily traded stock. Factors such as our financial results, the introduction of new products and services by us or our competitors, publicity regarding the banking industry, and various other factors affecting the banking industry may have a significant impact on the market price of the shares the common stock. Management also cannot predict the extent to which an active public market for our common stock will develop or be sustained in the future. Accordingly, stockholders may not be able to sell their shares of our common stock at the volumes, prices, or times that they desire.

Persons who have purchased stock will own a minority of Rhinebeck Bancorp, Inc.'s common stock and will not be able to exercise voting control over most matters put to a vote of stockholders.

Rhinebeck Bancorp, MHC owns a majority of Rhinebeck Bancorp, Inc.'s common stock and, through its board of directors, are able to exercise voting control over most matters put to a vote of stockholders. Generally, the same directors and officers who manage Rhinebeck Bank also manage Rhinebeck Bancorp, Inc. and Rhinebeck Bancorp, MHC. Our board of directors and officers or Rhinebeck Bancorp, MHC may take action that the public stockholders believe to be contrary to their interests. The only matters that stockholders other than Rhinebeck Bancorp, MHC are able to exercise voting control currently include any proposal to implement stock-based benefit plans or a "second-step" conversion. In addition, Rhinebeck Bancorp, MHC may exercise its voting control to prevent a sale or merger transaction in which stockholders could receive a premium for their shares.

The Company's Articles of Incorporation and Bylaws and Maryland law may discourage a corporate takeover.

The Company's Articles of Incorporation and Bylaws contain certain provisions designed to enhance the ability of the Company's board of directors to deal with attempts to acquire control of the Company, including a classified board, the ability to classify and reclassify unissued shares of stock of any class or series of stock by setting, fixing, eliminating, or altering in any one or more respects the preferences, rights, voting powers, restrictions and qualifications of, dividends on, and redemption, conversion, exchange, and other rights of, such securities and a requirement for any stockholder who desires to nominate a director to abide by strict notice requirements.

Maryland law also contains anti-takeover provisions that apply to the Company. The Maryland Business Combination Act generally prohibits, subject to certain limited exceptions, corporations from being involved in any "business combination" (defined in the Act) with any "interested shareholder" for a period of five years following the most recent date on which the interested shareholder became an interested shareholder. The Maryland Control Share Acquisition Act applies to acquisitions of "control shares," which, subject to certain exceptions, are shares the acquisition of which entitle the holder, directly or indirectly, to exercise or direct the exercise of the voting power of shares of stock of a corporation in the election of directors within any of the following ranges of voting power: one-tenth or more, but less than one-third of all voting power; one-third or more, but less than a majority of all voting power or a majority or more of all voting power. Control shares have limited voting rights.

Although these provisions do not preclude a takeover, they may have the effect of discouraging, delaying or deferring a tender offer or takeover attempt that a stockholder might consider in his or her best interest, including those attempts that might result in a premium over the market price for the common stock. Such provisions will also render the removal of the Company's board of directors and of management more difficult and, therefore, may serve to perpetuate current management. These provisions could potentially adversely affect the market prices of the Company's securities.

We are an emerging growth company, and if we elect to comply only with the reduced reporting and disclosure requirements applicable to emerging growth companies, our common stock may be less attractive to investors.

We are an emerging growth company, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to "emerging growth companies," including, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Investors may find our common stock less attractive if we choose to rely on these exemptions.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

At December 31, 2022, we conducted business through our corporate office in Poughkeepsie and 14 other retail banking offices located in Rhinebeck, Fishkill, Goshen, Hopewell Junction, Hyde Park, Kingston, Middletown, Newburgh, Poughkeepsie (three branch offices), Red Hook, Wappingers Falls and Warwick, as well as two representative offices in Montgomery and Albany. A stand-alone ATM located in Tivoli, New York was removed in January 2022 and our branch office located in Monroe, New York was permanently closed as of December 30, 2022. We own seven and lease nine properties, and own three other buildings situated on land controlled under long-term leases. At December 31, 2022, the net book value of our land, buildings, furniture, fixtures and equipment was $18.7 million.

Item 3. Legal Proceedings

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. At December 31, 2022, we were not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The common stock of Rhinebeck Bancorp, Inc. is listed on The NASDAQ Capital Market under the symbol "RBKB". At February 28, 2023, Rhinebeck Bancorp, Inc. had 364 stockholders of record. Certain shares of the Company are held in "nominee" or "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

Rhinebeck Bancorp, Inc. currently does not anticipate paying a dividend to its stockholders. The payment and amount of any dividend payments will be subject to statutory and regulatory limitations, and will depend upon a number of factors, including the following: regulatory capital requirements; our financial condition and results of operations; our other uses of funds for the long-term value of stockholders; tax considerations; the Federal Reserve Board's current regulations restricting the waiver of dividends by mutual holding companies; and general economic conditions.

In September 2022, the Board approved a stock repurchase plan pursuant to which the Company was authorized to repurchase up to 247,506 shares of its common stock. No shares were repurchased under the stock repurchase plan during the three months ended December 31, 2022.

There were no sales of unregistered securities or repurchases of shares of common stock during the quarter ended December 31, 2022.

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis reflects information contained in our audited consolidated financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from the audited consolidated financial statements contained within this Form 10-K.

Overview

Net Interest Income. Our primary source of income is net interest income. Net interest income is the difference between interest income, which is the income we earn on our loans and investments, and interest expense, which is the interest we pay on our deposits and borrowings.

Provision for Loan Losses. The allowance for loan losses is a valuation allowance for probable incurred credit losses. The allowance for loan losses is increased through charges to the provision for loan losses. Loans are charged against the allowance when management believes that the collectability of the principal loan amount is not probable. Recoveries on loans previously charged-off, if any, are credited to the allowance for loan losses when realized.

Non-interest Income. Our primary sources of non-interest income are mortgage banking income, service charges on deposit accounts, investment advisory income and net gains in the cash surrender value of bank owned life insurance and other income.

Non-Interest Expenses. Our non-interest expenses consist of salaries and employee benefits, net occupancy and equipment, data processing, professional fees, marketing expenses, premium payments we make to the FDIC for insurance of our deposits and other general and administrative expenses.

Income Tax Expense. Our 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 the carrying amounts and the tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amounts expected to be realized.

Business Strategy

Based on an extensive review of the current opportunities in our primary market area as well as our resources and capabilities, we are pursuing the following business strategies:

- ***Maintain our indirect automobile loan portfolio.*** We originate automobile loans through a network of 95 automobile dealerships (63 in the Hudson Valley region and 32 in Albany, New York). In 2022, we exceeded our goals to grow this portfolio. Our indirect automobile loan portfolio totaled $457.2 million, or 46.2% of our total loan portfolio and 34.2% of total assets, at December 31, 2022 as compared to $382.1 million, or 44.8% of our total loan portfolio and 29.8% of total assets, at December 31, 2021. In addition, our direct automobile portfolio totaled $8.3 million at December 31, 2022. While we still plan to originate such loans, we plan to slow the growth of our indirect automobile loan portfolio by decreasing loan originations through increased pricing and limiting risk selections. Current management's risk appetite limits our total indirect automobile loan portfolio to 45% of total assets.

- ***Focus on commercial real estate, multi-family real estate and commercial business lending.*** We believe that commercial real estate, multi-family real estate and general commercial business lending offer opportunities to invest in our community, while helping to increase the overall yield earned on our loan portfolio and assisting in managing interest rate risk. We intend to continue to increase our originations of these types of loans in our primary market area and may consider hiring additional lenders as well as originating loans secured by properties located in areas that are contiguous to our current market area. We also occasionally participate in commercial real estate loans originated in areas in which we do not have a market presence. The purchase of loan pools may be considered in the event our organic loan production does not meet our expectations.

- ***Increase core deposits, including demand deposits.*** Deposits are our primary source of funds for lending and investment. We intend to focus on expanding our core deposits (which we define as all deposits except for certificates of deposit), particularly non-interest-bearing demand deposits, because they have no cost and are less sensitive to withdrawal when interest rates fluctuate. Core deposits represented 80.9% of our total deposits at December 31, 2022 compared to 85.8% at December 31, 2021. Going forward, we will focus on increasing our core deposits by increasing our commercial lending activities and enhancing our relationships with our retail customers. We are also working to continue to increase our market share in Orange County, New York, having opened four new branches in the county in 2021.

- ***Continue expense control.*** Management continues to focus on controlling our level of non-interest expense and identifying cost savings opportunities, such as reducing our staffing levels, renegotiating key third-party contracts and reducing other operating expenses. Our non-interest expense was $37.4 million and $35.5 million for the years ended December 31, 2022 and 2021, respectively.

- ***Manage credit risk to maintain a low level of non-performing assets.*** We believe that strong asset quality is a key to long-term financial success. Our strategy for credit risk management focuses on an experienced team of credit professionals, well-defined and implemented credit policies and procedures, conservative loan underwriting criteria and active credit monitoring. Our ratio of non-performing loans to total assets was 0.33% at December 31, 2022, which decreased from 0.52% at December 31, 2021.

- ***Grow the balance sheet.*** During 2021 we opened four new branches in Orange County: two in Warwick and Monroe, as the result of a purchase from ConnectOne Bank, and two in Newburgh and Middletown, as de novo locations. While our focus on developing Orange County remains a strategic priority for the Bank, we made the business decision to permanently close the Monroe branch at year-end 2022. The branch location and sheer number of financial institutions in the market made it difficult to gain any meaningful traction. We believe that the remaining offices, and the Bank overall, will continue to benefit from a large customer base that prefers doing business with a local institution and may be reluctant to do business with larger institutions. By providing our customers with quality service, coupled with a home-town ambience, we expect to continue our strong organic growth. Also, as the pandemic retreats, we expect that the pent- up demand of commercial activity will return to a more normal pace providing renewed growth opportunities for our loan portfolio.

Terms of Critical Accounting Policies

Our most significant accounting policies are described in Note 1 to the consolidated financial statements. Certain of these accounting policies require management to use significant judgment and estimates, which can have a material impact on the carrying value of certain assets and liabilities, and we consider these policies to be our critical accounting estimates. The judgment and assumptions made are based upon historical experience, future forecasts, or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from estimates, which could have a material effect on our financial condition and results of operations.

The following accounting policies materially affect our reported earnings and financial condition and require significant judgments and estimates.

Allowance for loan losses

The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses which is charged against income**.** Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the then-existing loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance in those future periods.

In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of our most critical. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for unanticipated changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans and discounted cash flow valuations of properties are critical in determining the amount of the allowance required for specific impaired loans. Assumptions for appraisals and discounted cash flow valuations are instrumental in determining the value of properties.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. Consideration is given to a variety of factors in establishing the allowance including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal and external loan reviews and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revision based on changes in economic and real estate market conditions.

The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan and using applicable historical loss experience plus qualitative factors including, but not limited to, delinquency trends, general economic conditions and geographic and industry concentrations.

The allowance represents management's best estimate, but worsening loan quality and economic conditions could result in an additional allowance. Likewise, external events could potentially improve loan quality and economic conditions, which may allow a reduction in the required allowance. In either instance, unanticipated and unforeseeable changes could have a significant impact on results of operations.

Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals and discounted cash flow valuations are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans. Actual loan losses may be significantly more than the allowance for loan losses we have established, which could have a material negative effect on our financial results. In addition, our banking regulators, as an integral part of their examination process, periodically review our allowance for loan losses. Our banking regulators may require us to recognize adjustments to the allowance based on judgments about information available to them at the time of its examination.

The Company is adopting Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments effective January 1, 2023. The new accounting rule requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to enhance their credit loss estimates.

The Company's CECL implementation efforts are continuing to focus on model validation, developing new disclosures, establishing formal policies and procedures and other governance and control documentation. Based on the Company's portfolio balances and forecasted economic conditions as of December 31, 2022, management believes the adoption of the CECL standard will result in an increase in the current reserves of approximately $800,000, or 10%, bringing the reserve to $8.7 million at January 1, 2023, as compared to the Company's current reserve levels of $7.9 million. This preliminary estimate is contingent upon continued testing and refinement of the model, methodologies and judgments utilized to determine the estimate. The actual impact of the adoption will be dependent upon the portfolio composition and credit quality at the adoption date, as well as economic conditions and forecasts at that time. At adoption, we expect to have a cumulative-effect adjustment to retained earnings, net of tax, for this change in the ACL, which would likely decrease our capital. We expect to continue to be well capitalized under the Basel III regulatory framework after the adoption of this standard.

Our methodology for estimating lifetime expected credit losses for our loan portfolios will include the following key components:

a. Segmentation of loans into pools that share common risk characteristics;
b. An economic forecast period based on the relation of losses with key economic variables for each portfolio segment;
c. Reversion period to historical loss experience using a straight-line method;
d. Inclusion of qualitative adjustments to consider factors that have not been accounted for;
e. Discounted cash flow method to measure credit impairment on each of our loan portfolio segments;
f. Credit losses for loans that do not share similar risk characteristics are estimated on an individual basis. The lifetime losses for individually measured loans are estimated based on one of several methods, including the estimated fair value of the underlying collateral, observable market value of similar debt or the present value of expected cash flows; and
g. The estimation methodology for credit losses on unfunded lending-related commitments is similar to the process for estimating credit losses for loans, although with the addition of a probability of draw estimate that is applied to each loan portfolio segment.

As noted above, we consider a number of variables in our evaluation of the adequacy of the allowance for loan losses. One of the most significant variables being portfolio growth, evaluated for the changing historical loss trends within the specific business segments. As of December 31, 2022, $1.2 million of our allowance for loan losses reflected the specific risk relative to portfolio growth trends. Based on our model, if all segments of the portfolio grew by an additional 5% on a year-over-year basis, our allowance for loan losses as of December 31, 2022, would have increased by $408,000 to $8.2 million, holding all other variables constant. Conversely, if all segment balances of our loan portfolio had fallen by 5% during the year ended December 31, 2022, our allowance for loan losses would have decreased by $377,000 to $7.5 million, holding all other variables constant.

Goodwill and Intangible Assets

The assets (including identifiable intangible assets) and liabilities acquired in a business combination are recorded at fair value at the date of acquisition. Goodwill is recognized as the excess of the acquisition cost over the fair values of the net assets acquired and is not subsequently amortized. Identifiable intangible assets include customer lists and core deposit intangibles and are being amortized on a straight-line basis over their estimated lives. Goodwill is not amortized, but it is tested at least annually for impairment in the fourth quarter, or more frequently if indicators of impairment are present.

The determination of fair values is based on valuations using management's assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors. In evaluating whether it is more likely than not that the fair value is less than its carrying amount, management assessed seven qualitative factors including, but not limited to, macroeconomic conditions, industry and market considerations, overall financial performance and other relevant company-specific events.

Changes in these factors, as well as downturns in economic or business conditions, could have a significant adverse impact on the carrying value of goodwill and could result in impairment losses affecting our financial statements. A prolonged economic downturn or deterioration in the economic outlook may lead management to conclude that an interim quantitative impairment test of our goodwill is required prior to the annual impairment test. Based on our impairment tests, no impairment was recorded in 2022 or 2021.

Income Taxes

We are subject to the income tax laws of the United States, New York State, and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. See Note 9 to the Consolidated Financial Statements for a further description of our provision and related income tax assets and liabilities.

In establishing a provision for income tax expense, we must make judgments and interpretations about the application of these inherently complex tax laws. We must also make estimates about when in the future certain items will affect taxable income. Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit.

If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. We consider the determination of this valuation allowance to be a critical accounting policy because of the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change.

A valuation allowance for deferred tax assets may be required if the amount of taxes recoverable through loss carryback declines, or if we project lower levels of future taxable income. Such a valuation allowance would be established through a charge to income tax expense which would adversely affect our operating results.

Although management believes that the judgments and estimates used are reasonable, actual results could differ and we may be exposed to losses or gains that could be material. An unfavorable tax settlement would result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement would result in a reduction in our effective income tax rate in the period of resolution.

Selected Financial Data

The following selected consolidated financial data sets forth certain financial highlights of the Company and should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K for 2022 and 2021.

	At December 31, 2022	At December 31, 2021
	(In thousands)	
Selected Financial Condition Data:		
Total assets	$ 1,335,977	$ 1,281,166
Cash and cash equivalents	31,384	72,091
Securities available-for-sale	223,659	280,283
Loans receivable, net	994,368	854,967
Bank owned life insurance	29,794	29,131
Goodwill and other intangibles	2,569	2,668
Total liabilities	1,227,845	1,155,197
Deposits	1,129,933	1,101,999
Federal Home Loan Bank advances	57,723	18,041
Subordinated debt	5,155	5,155
Total stockholders' equity	$ 108,132	$ 125,969

	For the Year Ended December 31, 2022	For the Year Ended December 31, 2021
	(In thousands, except per share data)	
Selected Operating Data:		
Interest and dividend income	$ 48,592	$ 43,700
Interest expense	6,756	4,287
Net interest income	41,836	39,413
Provision for (credit to) loan losses	1,414	(3,667)
Net interest income after provision for (credit to) loan losses	40,422	43,080
Non-interest income	5,896	7,423
Non-interest expense	37,422	35,512
Income before income tax expense	8,896	14,991
Income tax expense	1,899	3,433
Net income	$ 6,997	$ 11,558
Earnings per share (diluted)	$ 0.64	$ 1.06

	At or For the Year Ended December 31,	
	2022	2021
Performance Ratios:		
Return on average assets[1]	0.54 %	0.95 %
Return on average equity[2]	6.06 %	9.49 %
Interest rate spread[3]	3.22 %	3.28 %
Net interest margin[4]	3.45 %	3.45 %
Efficiency ratio[5]	78.40 %	75.82 %
Average interest-earning assets to average interest-bearing liabilities	142.18 %	144.89 %
Total loans to total assets	74.14 %	66.62 %
Equity to assets[6]	8.91 %	10.02 %
Capital Ratios[7]:		
Tier 1 capital (to adjusted total assets)	9.75 %	9.65 %
Tier I capital (to risk-weighted assets)	11.55 %	12.76 %
Total capital (to risk-weighted assets)	12.25 %	13.54 %
Common equity Tier 1 capital (to risk-weighted assets)	11.55 %	12.76 %
Asset Quality Ratios:		
Allowance for loan losses as a percent of total loans	0.80 %	0.89 %
Allowance for loan losses as a percent of non-performing loans	179.54 %	113.01 %
Net charge-offs to average outstanding loans	(0.11)%	(0.05)%
Non-performing loans as a percent of total loans	0.45 %	0.78 %
Non-performing assets as a percent of total assets	0.33 %	0.52 %
Other Data:		
Book value per common share	$ 9.58	$ 11.15
Tangible book value per common share[8]	$ 9.35	$ 10.92
Number of offices	17	18
Number of full-time equivalent employees	190	192

(1) Represents net income divided by average total assets.
(2) Represents net income divided by average equity.
(3) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost on average interest-bearing liabilities.
(4) Represents net interest income as a percent of average interest-earning assets.
(5) Represents non-interest expense divided by the sum of net interest income and non-interest income.
(6) Represents average equity divided by average total assets.
(7) Capital ratios are for Rhinebeck Bank only. Rhinebeck Bancorp, Inc. is not subject to the minimum consolidated capital requirements as a small bank holding company with assets less than $3.0 billion.
(8) Represents a non-GAAP financial measure, see table below for a reconciliation of the non-GAAP financial measures.

NON-GAAP FINANCIAL INFORMATION

This Report contains financial information determined by methods other than in accordance with GAAP. Such non-GAAP financial information includes the following measure: "tangible book value per common share." Management uses this non-GAAP measure because we believe that it may provide useful supplemental information for evaluating our operations and performance, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes this non-GAAP measure may also provide users of our financial information with a meaningful measure for assessing our financial results, as well as a comparison to financial results for prior periods. This non-GAAP measure should be viewed in addition to, and not as an alternative to or substitute for, measures determined in accordance with GAAP and are not necessarily comparable to other similarly titled measures used by other companies. To the extent applicable, reconciliations of these non-GAAP measures to the most directly comparable measures as reported in accordance with GAAP are included below.

	December 31,	
(In thousands, except per share amounts)	2022	2021
Book value per common share reconciliation		
Total shareholders' equity (book value) (GAAP)	$ 108,132	$ 125,969
Total shares outstanding	11,285	11,296
Book value per common share	$ 9.58	$ 11.15
Total common equity		
Total shareholders' equity (book value) (GAAP)	$ 108,132	$ 125,969
Goodwill	(2,235)	(2,235)
Intangible assets, net	(334)	(433)
Tangible common equity (non-GAAP)	$ 105,563	$ 123,301
Tangible book value per common share		
Tangible common equity (non-GAAP)	$ 105,563	$ 123,301
Total shares outstanding	11,285	11,296
Tangible book value per common share (non-GAAP)	$ 9.35	$ 10.92

Comparison of Financial Condition at December 31, 2022 and December 31, 2021

Total Assets. Total assets were $1.34 billion at December 31, 2022, representing an increase of $54.8 million, or 4.3%, compared to $1.28 billion at December 31, 2021. The increase was primarily related to an increase in net loans receivable of $139.4 million, or 16.3%, and an increase in deferred tax assets of $6.8 million, or 202.2%, partially offset by a decrease in available for sale securities of $56.6 million, or 20.2% and a decrease in cash and cash equivalents of $40.7 million, or 56.5%.

Cash and Cash Equivalents. Cash and cash equivalents decreased $40.7 million, or 56.5%, to $31.4 million at December 31, 2022 from $72.1 million at December 31, 2021, primarily due to a decrease in deposits held at the Federal Reserve Bank of New York, as excess cash was used to fund loan growth.

Investment Securities Available for Sale. Investment securities available for sale decreased $56.6 million, or 20.2%, to $223.7 million at December 31, 2022 from $280.3 million at December 31, 2021. The decrease was primarily due to $39.4 million of paydowns and maturities and $14.8 million of sales and calls, the proceeds of which were used to fund loan growth. A decrease of $32.2 million in unrealized market losses, due to the impact of an increasing interest rate environment on market valuations, also contributed to the decrease. The decrease was partially offset by $30.2 million in purchases, primarily in new U.S. government agency securities.

Net Loans. Net loans receivable were $994.4 million at December 31, 2022, an increase of $139.4 million, or 16.3%, as compared to $855.0 million at December 31, 2021. The increase was primarily due to increases of $75.1 million, or 19.7%, in indirect automobile loans and $58.9 million, or 18.9%, in commercial real estate loans, while commercial and industrial loans decreased $16.3 million, or 15.7%. The decrease in commercial and industrial loans was due to a decrease in PPP loans of $28.9 million, primarily as a result of SBA loan forgiveness. Excluding PPP loans, commercial and industrial loans increased $12.6 million, or 16.8%.

During the year, the allowance for loan losses increased $384,000, or 5.1%, reflecting an increase in our loan portfolio. Non-accrual loans and non-performing assets decreased $2.3 million, or 33.9%, to $4.4 million at December 31, 2022 from $6.7 million at December 31, 2021. The Company had no other real estate owned at the end of either period.

Deferred Tax Assets. Deferred tax assets increased $6.8 million, or 202.2%, to $10.1 million at December 31, 2022, primarily due to an increase in the unrealized loss on available for sale securities, driven by the impacts of an increasing interest rate environment on market valuations. The unrealized loss on available for sale securities was $35.7 million at December 31, 2022 as compared to $3.5 million at December 31, 2021.

Total Liabilities. Total liabilities increased $72.6 million, or 6.3%, in 2022 primarily due to an increase in FHLB advances of $39.7 million, or 220.0%, an increase in deposits of $27.9 million, or 2.5%, and an increase in accrued expenses and other liabilities of $4.4 million, or 21.2%.

Deposits. Deposits increased $27.9 million, or 2.5%, to $1.13 billion at December 31, 2022. Interest bearing accounts grew 7.5%, or $59.2 million, to $846.4 million. The increase resulted from an increase in certificates of deposit of $59.5 million, or 37.9% and an increase in money market accounts of $7.7 million, or 2.7%. This was partially offset by decreases in savings accounts of $5.6 million, or 3.1% and NOW accounts of $2.3 million, or 1.5%. Included within certificates of deposit were $34.0 million in brokered certificates of deposit, which were utilized as their costs were more favorable than FHLB borrowings. Non-interest bearing balances decreased 9.9%, or $31.3 million, finishing the year at $283.6 million. Mortgagors' escrow accounts increased $602,000, or 6.6%, to $9.7 million at December 31, 2022. The increase in deposits was primarily driven by the branch acquisitions and organic growth in customer relationships.

Borrowed Funds. Advances from the FHLB increased $39.7 million, or 220.0%, from $18.0 million at December 31, 2021 to $57.7 million at December 31, 2022 as loan growth significantly outpaced deposit growth.

Stockholders' Equity. Stockholders' equity decreased $17.8 million to $108.1 million at December 31, 2022, primarily due to an increase in accumulated other comprehensive loss of $25.6 million partially offset by $7.0 million in net income. At December 31, 2022, the Company's book value per share was $9.58 and the Company's ratio of stockholders' equity-to-total assets was 8.09%. At December 31, 2021, the Company's book value per share was $11.15 and the Company's ratio of stockholders' equity-to-total assets was 9.83%. Unearned common stock held by the Bank's employee stock ownership plan was $3.5 million and $3.7 million at December 31, 2022 and 2021, respectively.

Comparison of Operating Results for the Years Ended December 31, 2022 and December 31, 2021

Net Income. Net income for the year ended December 31, 2022 was $7.0 million ($0.65 per basic and $0.64 per diluted share), compared with $11.6 million ($1.07 per basic and $1.06 per diluted share) for the year ended December 31, 2021, a decrease of $4.6 million, or 39.5%. Interest and dividend income increased $4.9 million, or 11.2%, interest expense increased $2.5 million, or 57.6%, and the provision for loan losses increased $5.1 million, or 138.6%. Non-interest income decreased $1.5 million, or 20.6%, while non-interest expenses increased $1.9 million, or 5.4%, as compared to 2021. Taxes decreased $1.5 million or 44.7% on lower net income. The overall decrease in net income came largely from the provision for loan losses of $1.4 million in 2022 as compared to a credit to the provision of $3.7 million in 2021.

Net Interest Income. Net interest income increased $2.4 million, or 6.1%, to $41.8 million for the year ended December 31, 2022, as compared to $39.4 million for the year ended December 31, 2021. The increase was primarily driven by higher yields on higher interest-earning asset balances, which were partially offset by higher costs on interest-bearing liabilities. The net interest margin was 3.45% at both December 31, 2022 and 2021. The ratio of average interest-earning assets to average interest-bearing liabilities decreased 1.9% to 142.18%. The yield on interest earning assets increased 19 basis points to 4.01% in 2022 from 3.82%, primarily due to the rising interest rate environment in 2022. Deposit and borrowing costs increased 25 basis points to 0.79% in 2022 from 0.54% in 2021 driven by increases in general market rates and competitive forces.

Interest Income. Interest income increased $4.9 million, or 11.2%, to $48.6 million for fiscal year 2022 from $43.7 million for fiscal year 2021. The increase resulted primarily from increased yields and higher average earning asset balances. The average yield on interest-bearing depository accounts increased to 1.11% for fiscal year 2022 from 0.13% for fiscal year 2021. The average yield on loans remained unchanged at 4.80% for the fiscal year 2022 and fiscal year 2021. The average yields on investment securities increased to 1.49% for the fiscal year 2022 from 1.12% for 2021. Average interest earning assets increased $68.5 million from $1.14 billion at December 31, 2021 to $1.21 billion at December 31, 2022. The increase in average interest earning assets during 2022 compared to 2021 included increases of $63.4 million in average loan balances and $58.9 million in available for sale securities partially offset by a decrease of $53.8 million in average interest bearing depository accounts.

Interest Expense. Interest expense increased $2.5 million, or 57.6%, to $6.8 million for fiscal year 2022 from $4.3 million for fiscal year 2021. This was primarily due to a 25 basis point increase in the overall cost of interest bearing liabilities to 0.79% for fiscal 2022 from 0.54% for fiscal 2021, supplemented by an increase in average interest bearing liability balances of $63.2 million, or 8.0%, year over year. The average balance of the total interest-bearing deposits increased by $61.0 million, while the cost increased 21 basis points. The average balance of other interest-bearing liabilities increased $2.2 million, while the cost increased 94 basis points.

Provision for Loan Losses. The Company establishes provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types and amount of loans in the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and prevailing economic conditions, among other qualitative factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur.

The Company recorded a provision for loan losses of $1.4 million for the year ended December 31, 2022, an increase of $5.1 million, or 138.6%, as compared to the year ended December 31, 2021. The credit to the provision in 2021 was primarily attributable to a decline in loan balances, exclusive of PPP loans, a reduction in specific allocations to the allowance for loan losses and a general improvement in economic conditions as our customers showed signs of recovering from the pandemic. An increase in indirect automobile loan balances, an increase in specific allocations to the allowance for loan losses and declining economic conditions, primarily due to high inflation, were the primary factors leading to the increase in the provision in 2022.

Net charge-offs for the year ended December 31, 2022 totaled $1.0 million, compared to $407,000 for the year ended December 31, 2021. The increase was primarily due to a $449,000 charge-off of one commercial loan in the fourth quarter and $230,000 in increased charge-offs in our indirect automobile portfolio. The percentage of overdue account balances to total loans increased to 2.29% as of December 31, 2022 from 1.58% as of December 31, 2021 while our non-performing assets decreased $2.3 million, or 33.9%, to $4.4 million.

Although we believe that we use the best information available to establish the allowance for loan losses, future additions to the allowance may be necessary, based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. In addition, the FDIC and NYSDFS, as an integral part of their examination process, will periodically review our allowance for loan losses. These agencies may require us to recognize adjustments to the allowance, based on their judgments about information available to them at the time of their examination.

With the adoption of CECL beginning on January 1, 2023, provision expense may become more volatile due to changes in CECL model assumptions of credit quality, macroeconomic factors and conditions, and loan composition, which drive the allowance for credit losses balance. Based upon a fourth quarter parallel run, the Company expects the adoption to result in an approximate 10% increase to its current reserve of $7.9 million.

Non-Interest Income. For the year ended December 31, 2022, total non-interest income decreased $1.5 million, or 20.6%, from the prior year. The reduction between periods was mostly due to the decrease in the gain on the sale of mortgage loans of $1.7 million, or 66.5%. The decrease was primarily due to decreased activity as there were fewer loan originations in the increasing interest rate environment as well as a strategic decision that was made to hold most of our new production in our portfolio instead of selling these loans. The 2021 one-time gain from the collection of a life insurance claim of $195,000 and a net realized loss in 2022 from the sale of securities of $170,000 also contributed to the decrease in total non-interest income. The decrease was partially offset by an increase in service charges on deposit accounts of $245,000, an improvement in investment advisory income of $103,000, a $69,000 increase in the cash value of life insurance, and a net improvement of $199,000 in other income items.

Non-Interest Expense. For the year ended December 31, 2022, non-interest expense totaled $37.4 million, an increase of $1.9 million, or 5.4%, over 2021. The increase was primarily due to an increase in salaries and benefits of $1.5 million, or 7.4%, due to branch expansion, new hires, annual merit increases, production incentives and employee benefit increases, as well as the competitive pressures of the current job market. For the year ended December 31, 2022, occupancy expenses increased $459,000, or 11.1%, primarily as a result of the additional rent, depreciation and other expenses related to branch expansion. The one-time closure and lease cancellation costs for our Monroe branch in December 2022 also contributed to the increase in occupancy expenses. Our addition of four branches in 2021 was also primarily responsible for increased data processing costs of $138,000 and increased FDIC insurance costs of $60,000 during 2022. These increases were partially offset by decreased professional fees of $99,000 and a decrease in other non-interest expenses of $118,000 in 2022. The decrease in other non-interest expense was primarily due to a reserve put in place in 2021 for potential consumer compliance issues in the Bank’s indirect automobile portfolio. These issues were resolved in 2022 and no further material negative impact to earnings is expected.

Income Taxes. Income tax provision decreased by $1.5 million, or 44.7%, to $1.9 million for the year ended December 31, 2022 as compared to $3.4 million in 2021, primarily due to the decline in pre-tax income. Our effective tax rate for the year ended December 31, 2022 was 21.35% compared to 22.90% in 2021. The statutory tax rate is impacted by the benefits derived mainly from tax-exempt bond income and income received on the bank owned life insurance to arrive at the effective tax rate.

Average Balance Sheets for the Years Ended December 31, 2022 and 2021

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments have been made, as the effects would be immaterial. All average balances are daily average balances. The yields set forth below include the effect of deferred fees and discounts and premiums that are amortized or accreted to interest income. Loan balances include loans held for sale. Deferred loan fees included in interest income totaled $1.2 million and $2.7 million for the years ended December 31, 2022 and 2021, respectively.

	For the Year Ended December 31,					
	2022			2021		
	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost
	(Dollars in thousands)					
Assets:						
Interest bearing depository accounts	$ 29,368	$ 325	1.11 %	$ 83,169	$ 105	0.13 %
Loans(1)	924,581	44,419	4.80 %	861,207	41,363	4.80 %
Available for sale securities	257,740	3,848	1.49 %	198,795	2,232	1.12 %
Total interest-earning assets	1,211,689	48,592	4.01 %	1,143,171	43,700	3.82 %
Non-interest-earning assets	84,310			72,091		
Total assets	$ 1,295,999			$ 1,215,262		
Liabilities and equity:						
NOW accounts	$ 160,172	$ 228	0.14 %	$ 148,851	$ 241	0.16 %
Money market accounts	315,231	3,395	1.08 %	244,412	1,395	0.57 %
Savings accounts	188,188	443	0.24 %	174,369	283	0.16 %
Certificates of deposit	143,449	1,435	1.00 %	178,360	1,577	0.88 %
Total interest-bearing deposits	807,040	5,501	0.68 %	745,992	3,496	0.47 %
Escrow accounts	9,931	110	1.11 %	9,045	105	1.16 %
FHLB and FRB advances	30,074	948	3.15 %	28,792	573	1.99 %
Subordinated debt	5,155	197	3.82 %	5,155	113	2.19 %
Other interest-bearing liabilities	45,160	1,255	2.78 %	42,992	791	1.84 %
Total interest-bearing liabilities	852,200	6,756	0.79 %	788,984	4,287	0.54 %
Non-interest-bearing deposits	304,488			284,279		
Other non-interest-bearing liabilities	23,865			20,250		
Total liabilities	1,180,553			1,093,513		
Total stockholders' equity	115,446			121,749		
Total liabilities and stockholders' equity	$ 1,295,999			$ 1,215,262		
Net interest income		$ 41,836			$ 39,413	
Interest rate spread			3.22 %			3.28 %
Net interest margin(2)			3.45 %			3.45 %
Average interest-earning assets to average interest-bearing liabilities			142.18 %			144.89 %

(1) Non-accruing loans are included in the outstanding loan balance.
(2) Represents the difference between interest earned and interest paid, divided by average total interest earning assets.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume. The Company does not have any excludable out-of-period items or adjustments.

	Year Ended December 31, 2022 Compared to Year Ended December 31, 2021		
	Increase (Decrease) Due to		
	Volume	Rate	Net
	(In thousands)		
Interest income:			
Interest bearing depository accounts	$ (108)	$ 328	$ 220
Loans receivable	3,045	11	3,056
Available for sale securities	764	852	1,616
Total interest-earning assets	3,701	1,191	4,892
Interest expense:			
Deposits	202	1,804	2,006
Escrow accounts	9	(5)	4
Federal Home Loan Bank advances	27	348	375
Subordinated debt	—	84	84
Total interest-bearing liabilities	238	2,231	2,469
Net increase in net interest income	$ 3,463	$ (1,040)	$ 2,423

As the table above shows, net interest income for the year ended December 31, 2022 has been affected most significantly by the increase in volume of loans and securities, partially offset by the increase in interest-bearing liability balances and rates on interest-bearing liabilities. Net interest rate spread decreased 6 basis points to 3.22% for the year ended December 31, 2022 as compared to 3.28% for the year ended December 31, 2021. Net interest margin was stable at 3.45% at both December 31, 2022 and 2021.

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage our exposure to changes in market interest rates. Accordingly, the Board of Directors maintains a management-level Asset/Liability Management Committee (the "ALCO"), which takes initial responsibility for reviewing the asset/liability management process and related procedures, establishing and monitoring reporting systems and ascertaining that established asset/liability strategies are being maintained. On at least a quarterly basis, the ALCO reviews and reports asset/liability management outcomes with the Board of Directors. This committee also implements any changes in strategies and reviews the performance of any specific asset/liability management actions that have been implemented.

We try to manage our interest rate risk to minimize the exposure of our earnings and capital to changes in market interest rates. We have implemented the following strategies to manage our interest rate risk: originating loans with adjustable interest rates, holding more residential mortgage loans, promoting core deposit products and managing the interest rates and maturities of funding sources, as favorably as possible. By following these strategies, we believe that we can be better positioned to react to changes in market interest rates.

Net Economic Value Simulation. We analyze our sensitivity to changes in interest rates through a net economic value of equity ("EVE") model. EVE represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities adjusted for the value of off-balance sheet contracts. The EVE ratio represents the dollar amount of our EVE divided by the present value of our total assets for a given interest rate scenario. EVE attempts to quantify our economic value using a discounted cash flow methodology while the EVE ratio reflects that value as a form of capital ratio. We estimate what our EVE would be at a specific date. We then calculate what the EVE would be at the same date throughout a series of interest rate scenarios representing immediate and permanent, parallel shifts in the yield curve. We currently calculate EVE under the assumptions that interest rates increase 100, 200, 300 and 400 basis points from current market rates and that interest rates decrease 100 and 200 basis points from current market rates.

The following table presents the estimated changes in our EVE that would result from changes in market interest rates at December 31, 2022. All estimated changes presented in the table are within the policy limits approved by our Board of Directors.

	Net Economic Value			Net Economic Value as a Percentage of Assets	
Basis Point Change in Interest Rates	**Dollar Amount**	**Dollar Change**	**Percent Change**	**EVE Ratio**	**Percent Change**
	(Dollars in thousands)				
400	$ 158,218	$ (30,594)	(16.2)%	13.27 %	(9.0)%
300	165,896	(22,916)	(12.1)%	13.64 %	(6.5)%
200	172,773	(16,039)	(8.5)%	13.93 %	(4.5)%
100	181,239	(7,573)	(4.0)%	14.31 %	(1.9)%
0	188,812	—	— %	14.58 %	— %
(100)	188,594	(218)	(0.1)%	14.25 %	(2.3)%
(200)	180,056	(8,756)	(4.6)%	13.30 %	(8.8)%

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The above table assumes that the composition of our interest-sensitive assets and liabilities existing at the date indicated remains constant uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our EVE and will differ from actual results.

Liquidity Management

We maintain liquid assets at levels we consider adequate to meet both our short-term and long-term liquidity needs. We adjust our liquidity levels to fund deposit outflows, repay our borrowings and to fund loan commitments. We also adjust liquidity as appropriate to meet asset and liability management objectives.

Our primary sources of liquidity are deposits, loan sales, amortization and prepayment of loans and mortgage-backed securities, maturities of investment securities and other short-term investments, and earnings and funds provided from operations, as well as access to FHLB advances and other borrowings. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan sales and prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by our competition. We set the interest rates on our deposits to maintain a desired level of total deposits.

As reported in the Consolidated Statements of Cash Flows, our cash flows are classified for financial reporting purposes as operating, investing, or financing cash flows. Net cash provided by operating activities was $14.8 million and $7.7 million for the years ended December 31, 2022 and 2021, respectively. These amounts differ from our net income because of a variety of cash receipts and disbursements that did not affect net income for the respective periods. Net cash used for investing activities was $123.6 million and $135.7 million in fiscal years 2022 and 2021, respectively, principally reflecting our investment security and loan activities in the respective periods. Cash outlays for the purchase of securities decreased from $244.6 million for the year ended December 31, 2021 to $30.2 million for the year ended December 31, 2022. We used cash to finance a net increase in loans of $144.5 million in 2022, compared to cash provided by a net decrease in loans of $23.7 million in 2021, as prepayments and maturities exceeded originations in 2021. We also received $32.8 million in cash from the acquisition of two branches and related deposits in 2021. Deposit and borrowing cash flows have traditionally comprised most of our financing activities which, together with other funding cash flows, resulted in net cash provided of $68.1 million in fiscal year 2022, and $106.7 million in fiscal year 2021.

At December 31, 2022, we had the following main sources of availability of liquid funds and borrowings:

(In thousands)	Total
Available liquid funds:	
Cash and cash equivalents	$ 31,384
Unencumbered securities	207,294
Amount available from the Paycheck Protection Plan Loan Facility	537
Availability of borrowings:	
Zions Bank line of credit	10,000
Pacific Coast Bankers Bank line of credit	50,000
Other secured FHLB credit facility	142,729
Total available sources of funds	$ 441,944

The following table summarizes our main contractual obligations and other commitments to make future payments as of December 31, 2022. The amount of the obligations presented in the table reflect principal amounts only and exclude the amount of interest we are obligated to pay. Also excluded from the table are a number of obligations to be settled in cash. These excluded items are reflected in our consolidated balance sheet and include deposits with no stated maturity, trade payables, and accrued interest payable.

	December 31, 2022			
(In thousands)	Total	One Year or Less	After One but within Five Years	After 5 Years
Payments Due:				
Federal Home Loan Bank advances	$ 57,723	$ 51,273	$ 6,450	$ —
Operating lease agreements	8,054	761	2,899	4,394
Subordinated debt	5,155	—	—	5,155
Time deposits with stated maturity dates	216,382	151,591	64,791	—
Total contractual obligations	$ 287,314	$ 203,625	$ 74,140	$ 9,549

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. For information about our loan commitments, letters of credit and unused lines of credit, see Note 12 to the Consolidated Financial Statements. For fiscal year 2022, we did not engage in any off-balance-sheet transactions other than loan origination commitments and standby letters of credit in the normal course of our lending activities.

Impact of Inflation and Changing Prices

The financial statements and related notes of Rhinebeck Bancorp, Inc. have been prepared in accordance with United States GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For information regarding market risk, see "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operation — Management of Market Risk."

Item 8. Financial Statements and Supplementary Data

The Financial Statements are included beginning on page F-1 of this annual report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal year (the "Evaluation Date"). Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective.

(b) Management's Annual Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of our internal control over financial reporting based on criteria established in "Internal Control — Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management, including our Principal Executive Officer and Principal Financial Officer, concluded that our internal control over financial reporting was effective and met the criteria of the "Internal Control — Integrated Framework (2013)" as of December 31, 2022.

(c) Attestation Report of the Registered Public Accounting Firm.

Not applicable because the Company is an emerging growth company.

(d) Changes in Internal Controls.

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of fiscal 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not Applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors, executive officers and corporate governance of the Company is presented under the headings "Other Information Relating to Directors and Executive Officers — Delinquent Section 16(a) Reports Compliance," "Proposal 1 — Election of Directors," "Corporate Governance — Code of Ethics for Senior Officers" and "— Committees of the Board of Directors — Audit Committee" in the Company's definitive Proxy Statement for the 2022 Annual Meeting of Stockholders (the "Proxy Statement") and is incorporated herein by reference.

A copy of the Code of Ethics for Senior Officers is available to shareholders of the "Investor Relations" portion of the Bank's website of www.rhinebeckbank.com.

Item 11. Executive Compensation

Information regarding executive compensation is presented under the headings "Executive Compensation" and "Director Compensation" in the Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management is presented under the heading "Stock Ownership" in the Proxy Statement and is incorporated herein by reference.

The following table sets forth information regarding outstanding options and shares under the 2020 Equity Compensation Plan at December 31, 2022:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining for Future Issuance under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	437,930	$ 6.62	151,256
Equity Compensation Plans Not Approved by Security Holders	-	-	-
Total	437,930	$ 6.62	151,256

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions, and director independence is presented under the heading "Corporate Governance — Director Independence" and "Other Information Relating to Directors and Executive Officers — Transactions with Certain Related Persons" in the Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services is presented under the heading "Proposal 2 — Ratification of the Appointment of Independent Registered Public Accountants" in the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements
The following documents are filed as part of this annual report on Form 10-K.
(A) Reports of Independent Registered Public Accounting Firms
(B) Consolidated Statements of Financial Condition — at December 31, 2022 and 2021
(C) Consolidated Statements of Income - Years ended December 31, 2022 and 2021
(D) Consolidated Statements of Comprehensive Income — Years ended December 31, 2022 and 2021
(E) Consolidated Statements of Changes in Stockholders' Equity — Years ended December 31, 2022 and 2021
(F) Consolidated Statements of Cash Flows — Years ended December 31, 2022 and 2021
(G) Notes to the Consolidated Financial Statements
(a)(2) Financial Statement Schedules
None.
(a)(3) Exhibits
3.1 Articles of Incorporation of Rhinebeck Bancorp, Inc. (Incorporated by reference to the Registration Statement on Form S-1 of Rhinebeck Bancorp, Inc. (File no. 333-227266), originally filed with the Securities and Exchange Commission on September 10, 2018.)
3.2 Amended and Restated Bylaws of Rhinebeck Bancorp, Inc. (Incorporated by reference to the Rhinebeck Bancorp, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 27, 2019)
4.1 Form of Common Stock Certificate of Rhinebeck Bancorp, Inc. (Incorporated by reference to the Registration Statement on Form S-1 of Rhinebeck Bancorp, Inc. (File no. 333-227266), originally filed with the Securities and Exchange Commission on September 10, 2018.)
4.2 Indenture, dated as of March 30, 2005, by and between Rhinebeck Bancorp, MHC, as Issuer, and Wilmington Trust Company, as Trustee (Incorporated by reference to Rhinebeck Bancorp, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 23, 2019)
4.3 First Supplemental Indenture, dated as of January 16, 2019, by and among Wilmington Trust Company, as Trustee, Rhinebeck Bancorp, Inc. and Rhinebeck Bancorp, MHC (Incorporated by reference to Rhinebeck Bancorp, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 23, 2019)
4.4 Description of Rhinebeck Bancorp, Inc.'s Securities (Incorporated by reference to Exhibit 4.4 to Rhinebeck Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2021, filed with the Securities and Exchange Commission on March 26, 2020)
10.1 Employment Agreement between Rhinebeck Bank and Michael J. Quinn (Incorporated by reference to the Registration Statement on Form S-1 of Rhinebeck Bancorp, Inc. (File no. 333-227266), originally filed with the Securities and Exchange Commission on September 10, 2018)
10.2 Employment Agreement between Rhinebeck Bank and Jamie J. Bloom (Incorporated by reference to the Registration Statement on Form S-1 of Rhinebeck Bancorp, Inc. (File no. 333-227266), originally filed with the Securities and Exchange Commission on September 10, 2018)
10.3 Supplemental Executive Retirement Agreement between Rhinebeck Bank and Michael J. Quinn dated January 1, 2008 (Incorporated by reference to the Registration Statement on Form S-1 of Rhinebeck Bancorp, Inc. (File no. 333-227266), originally filed with the Securities and Exchange Commission on September 10, 2018)
10.4 Rhinebeck Bank Split Dollar Life Insurance Plan (Incorporated by reference to the Registration Statement on Form S-1 of Rhinebeck Bancorp, Inc. (File no. 333-227266), originally filed with the Securities and Exchange Commission on September 10, 2018)
10.5 Rhinebeck Bank Executive Short-Term Incentive and Retention Plan (Incorporated by reference to the Registration Statement on Form S-1 of Rhinebeck Bancorp, Inc. (File no. 333-227266), originally filed with the Securities and Exchange Commission on September 10, 2018)
10.6 Rhinebeck Bank Executive Long-Term Incentive and Retention Plan (Incorporated by reference to the Registration Statement on Form S-1 of Rhinebeck Bancorp, Inc. (File no. 333-227266), originally filed with the Securities and Exchange Commission on September 10, 2018)

10.7	New Director Fee Continuation Agreement between Rhinebeck Bank and Frederick Battenfeld dated January 1, 2008 (Incorporated by reference to the Registration Statement on Form S-1 of Rhinebeck Bancorp, Inc. (File no. 333-227266), originally filed with the Securities and Exchange Commission on September 10, 2018)
10.8	New Director Fee Continuation Agreement between Rhinebeck Bank and William C. Irwin dated January 1, 2008 (Incorporated by reference to the Registration Statement on Form S-1 of Rhinebeck Bancorp, Inc. (File no. 333-227266), originally filed with the Securities and Exchange Commission on September 10, 2018)
10.9	New Director Fee Continuation Agreement between Rhinebeck Bank and Louis Tumolo, Jr. dated January 1, 2008 (Incorporated by reference to the Registration Statement on Form S-1 of Rhinebeck Bancorp, Inc. (File no. 333-227266), originally filed with the Securities and Exchange Commission on September 10, 2018)
10.10	Employment Agreement between Rhinebeck Bank and Michael J. McDermott (Incorporated by reference to Rhinebeck Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on March 29, 2019)
10.11	Rhinebeck Bancorp, Inc. 2020 Equity Incentive Plan (Incorporated by reference to Appendix A to the Proxy Statement for the 2020 Annual Meeting of Stockholders, filed with the Securities and Exchange Commission on April 21, 2020)
10.12	Form of Restricted Stock Award Agreement (Incorporated by reference to the Registration Statement on Form S-8 (File no. 333-239811), filed with the Securities and Exchange Commission on July 10, 2020)
10.13	Form of Incentive Stock Option Award Agreement (Incorporated by reference to the Registration Statement on Form S-8 (File no. 333-239811), filed with the Securities and Exchange Commission on July 10, 2020)
10.14	Form of Non-Qualified Stock Option Award Agreement (Incorporated by reference to the Registration Statement on Form S-8 (File no. 333-239811), filed with the Securities and Exchange Commission on July 10, 2020)
21	Subsidiaries of Registrant (Incorporated by reference to Rhinebeck Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on March 29, 2019)
23.1	Consent of Wolf & Company, P.C.
31.1	Certification required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Annual Report on Form 10-K of Rhinebeck Bancorp, Inc. for the year ended December 31, 2022, formatted in inline XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

Item 16. Form 10-K Summary

None.

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Rhinebeck Bancorp, Inc. and Subsidiary

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December 31, 2022 and 2021

WOLF
& COMPANY, P.C.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors
Rhinebeck Bancorp, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Rhinebeck Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2019.

/s/ Wolf & Company, P.C.
Boston, Massachusetts
March 23, 2023

Rhinebeck Bancorp, Inc. and Subsidiary

Consolidated Statements of Financial Condition
(In thousands, except share and per share data)

	December 31, 2022	December 31, 2021
Assets		
Cash and due from banks	$ 13,294	$ 11,044
Federal funds sold	14,569	52,644
Interest bearing depository accounts	3,521	8,403
Total cash and cash equivalents	31,384	72,091
Available for sale securities (at fair value)	223,659	280,283
Loans receivable (net of allowance for loan losses of $7,943 and $7,559, respectively)	994,368	854,967
Federal Home Loan Bank stock	3,258	1,322
Accrued interest receivable	4,255	3,366
Cash surrender value of life insurance	29,794	29,131
Deferred tax assets (net of valuation allowance of $450 and $454, respectively)	10,131	3,352
Premises and equipment, net	18,722	19,183
Goodwill	2,235	2,235
Intangible assets, net	334	433
Other assets	17,837	14,803
Total assets	$ 1,335,977	$ 1,281,166
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Non-interest bearing	$ 283,563	$ 314,814
Interest bearing	846,370	787,185
Total deposits	1,129,933	1,101,999
Mortgagors' escrow accounts	9,732	9,130
Advances from the Federal Home Loan Bank	57,723	18,041
Subordinated debt	5,155	5,155
Accrued expenses and other liabilities	25,302	20,872
Total liabilities	1,227,845	1,155,197
Stockholders' Equity		
Preferred stock (par value $0.01 per share; 5,000,000 authorized, no shares issued)	—	—
Common stock (par value $0.01; authorized 25,000,000; issued and outstanding 11,284,565 and 11,296,103 at December 31, 2022 and 2021, respectively)	113	113
Additional paid-in capital	47,075	46,573
Unearned common stock held by the employee stock ownership plan	(3,491)	(3,709)
Retained earnings	96,624	89,627
Accumulated other comprehensive loss:		
Net unrealized loss on available for sale securities, net of taxes	(28,192)	(2,734)
Defined benefit pension plan, net of taxes	(3,997)	(3,901)
Total accumulated other comprehensive loss	(32,189)	(6,635)
Total stockholders' equity	108,132	125,969
Total liabilities and stockholders' equity	$ 1,335,977	$ 1,281,166

See accompanying notes to consolidated financial statements

Rhinebeck Bancorp, Inc. and Subsidiary

Consolidated Statements of Income
(In thousands, except share and per share data)

	Years Ended December 31, 2022	2021
Interest and Dividend Income		
Interest and fees on loans	$ 44,419	$ 41,363
Interest and dividends on securities	3,848	2,232
Other income	325	105
Total interest and dividend income	48,592	43,700
Interest Expense		
Interest expense on deposits	5,611	3,601
Interest expense on borrowings	1,145	686
Total interest expense	6,756	4,287
Net interest income	41,836	39,413
Provision for (credit to) loan losses	1,414	(3,667)
Net interest income after provision for (credit to) loan losses	40,422	43,080
Non-interest Income		
Service charges on deposit accounts	2,829	2,584
Net realized loss on sales and calls of securities	(170)	(4)
Net gain on sales of loans	864	2,582
Increase in cash surrender value of life insurance	640	571
Net gain from sale of other real estate owned	—	9
(Loss) gain on disposal of premises and equipment	(38)	17
Gain on life insurance	—	195
Investment advisory income	1,233	1,130
Other	538	339
Total non-interest income	5,896	7,423
Non-interest Expense		
Salaries and employee benefits	21,599	20,110
Occupancy	4,583	4,124
Data processing	1,882	1,744
Professional fees	1,743	1,842
Marketing	693	708
FDIC deposit insurance and other insurance	829	769
Other real estate owned expense	—	7
Amortization of intangible assets	99	96
Other	5,994	6,112
Total non-interest expense	37,422	35,512
Income before income taxes	8,896	14,991
Provision for income taxes	1,899	3,433
Net income	$ 6,997	$ 11,558
Earnings per common share:		
Basic	$ 0.65	$ 1.07
Diluted	$ 0.64	$ 1.06
Weighted average shares outstanding, basic	10,839,335	10,769,191
Weighted average shares outstanding, diluted	11,004,597	10,954,366

See accompanying notes to consolidated financial statements

Rhinebeck Bancorp, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
(Dollars in thousands)

	Years Ended December 31,	
	2022	**2021**
Net Income	$ 6,997	$ 11,558
Other Comprehensive Loss [1]:		
Unrealized holding losses arising during the period	(32,395)	(4,722)
Reclassification adjustment for losses included in net realized loss on sales and calls of securities on the consolidated statements of income	170	4
Net unrealized losses on available for sale securities	(32,225)	(4,718)
Tax effect	6,767	991
Unrealized losses on available for sale securities, net of tax	(25,458)	(3,727)
Defined benefit pension plan:		
Actuarial (losses) gains arising during the period	(389)	759
Reclassification adjustment for amortization of net actuarial loss	267	358
Total	(122)	1,117
Tax effect	26	(234)
Defined benefit pension plan (losses) gains, net of tax	(96)	883
Other comprehensive loss:	(25,554)	(2,844)
Total Comprehensive (Loss) Income	$ (18,557)	$ 8,714

(1) For additional details related to other comprehensive loss see Note 16, "Accumulated Other Comprehensive Loss."

See accompanying notes to consolidated financial statements

Rhinebeck Bancorp, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity
(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Unearned Common Stock Held by the ESOP	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2020	$ 113	$ 46,036	$ (3,928)	$ 78,069	$ (3,791)	$ 116,499
Net income	—	—	—	11,558	—	11,558
Other comprehensive income	—	—	—	—	(2,844)	(2,844)
ESOP shares committed to be allocated	—	8	219	—	—	227
Share-based compensation expense	—	618	—	—	—	618
Exercise of options	—	36	—	—	—	36
Share redemption for tax withholding on restricted stock vesting	—	(125)	—	—	—	(125)
Balance at December 31, 2021	$ 113	$ 46,573	$ (3,709)	$ 89,627	$ (6,635)	$ 125,969
Net income	—	—	—	6,997	—	6,997
Other comprehensive loss	—	—	—	—	(25,554)	(25,554)
ESOP shares committed to be allocated	—	(2)	218	—	—	216
Share-based compensation expense	—	615	—	—	—	615
Share redemption for tax withholding on restricted stock vesting	—	(111)	—	—	—	(111)
Balance at December 31, 2022	$ 113	$ 47,075	$ (3,491)	$ 96,624	$ (32,189)	$ 108,132

See accompanying notes to consolidated financial statements

Rhinebeck Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows
(Dollars in thousands, except share and per share data)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Cash Flows from Operating Activities		
Net income	$ 6,997	$ 11,558
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion of premiums and discounts on investments, net	230	329
Net realized loss on sales and calls of securities	170	4
Net realized gain on sale of other real estate owned	—	(9)
Provision for (credit to) loan losses	1,414	(3,667)
Loans originated for sale	(20,090)	(74,106)
Proceeds from sale of loans	24,656	75,456
Net gain on sale of loans	(864)	(2,582)
Amortization of intangible assets	99	96
Depreciation and amortization	1,555	1,560
Loss (gain) from disposal of premises and equipment	38	(17)
Deferred income tax expense	14	1,107
Increase in cash surrender value of insurance	(640)	(571)
Net (increase) decrease in accrued interest receivable	(889)	453
Expense of earned ESOP shares	216	227
Share-based compensation expense	615	618
Increase in other assets	(3,034)	(5,968)
Increase in accrued expenses and other liabilities	4,308	3,164
Net cash provided by operating activities	14,795	7,652
Cash Flows from Investing Activities		
Proceeds from sales and calls of securities	14,816	4,000
Proceeds from maturities and principal repayments of securities	39,407	58,232
Purchases of securities	(30,224)	(244,632)
Net (purchases) redemptions of FHLB Stock	(1,936)	1,465
Net (increase) decrease in loans	(144,517)	23,745
Purchases of bank owned life insurance	(23)	(10,024)
Purchases of bank premises and equipment	(1,132)	(1,774)
Net proceeds from life insurance	—	341
Net cash received from acquisition (Note 2)	—	32,767
Proceeds from sale of other real estate owned	—	148
Net cash used in investing activities	(123,609)	(135,732)
Cash Flows from Financing Activities		
Net (decrease) increase in demand deposits, NOW, money market and savings accounts	(31,549)	182,516
Net increase (decrease) in time deposits	59,483	(43,744)
Increase in mortgagors' escrow accounts	602	636
Net increase (decrease) in short-term debt	34,505	(15,865)
Net increase (decrease) in long-term debt	5,177	(16,768)
Stock repurchase for tax withholding on restricted stock vesting	(111)	(125)
Proceeds from exercise of stock options	—	36
Net cash provided by financing activities	68,107	106,686
Net decrease in cash and cash equivalents	(40,707)	(21,394)
Cash and Cash Equivalents		
Beginning balance	72,091	93,485
Ending balance	$ 31,384	$ 72,091
Supplemental Disclosures of Cash Flow Information		
Cash paid (received) for:		
Interest	$ 6,070	$ 4,608
Income taxes	$ 1,898	$ (40)
Noncash Investing Activities		
Fair value of assets acquired	$ —	$ 1,277
Fair value of liabilities assumed	$ —	$ 34,044

See accompanying notes to consolidated financial statements

1. Nature of Business and Significant Accounting Policies

The consolidated financial statements include accounts of Rhinebeck Bancorp, Inc. (the "Company"), a stock holding company, and its wholly-owned subsidiary, Rhinebeck Bank (the "Bank"), a New York chartered stock savings bank and its wholly-owned subsidiaries. The primary purpose of the Company is to act as a holding company for the Bank. The Bank provides a full range of banking and financial services to consumer and commercial customers through its fourteen branches and two representative offices located in Dutchess, Ulster, Orange, and Albany counties. Financial services including investment advisory and financial product sales are offered through a division of the Bank doing business as Rhinebeck Asset Management ("RAM").

A description of the Company's significant accounting policies are presented below.

Basis of Financial Statements Presentation

The consolidated financial statements have been prepared in accordance with GAAP and general practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities, as of the date of the consolidated statements of financial condition and reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the evaluation of goodwill for impairment and the valuation of deferred tax assets.

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date these financial statements were issued.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

On March 12, 2021, the Bank completed a branch purchase and assumption transaction with ConnectOne Bank. Management concluded that the acquisition represented a business combination, which is accounted for using the acquisition method, with the results of operations included in the Company's consolidated financial statements as of the acquisition date. For additional information, see Note 2.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located in the New York State counties of Dutchess, Ulster, Orange, and Albany. Although the Company has a diversified loan portfolio, the ability of its customers' to repay their loans is substantially dependent on the economic conditions in the market areas in which the Company operates.

Cash and Cash Equivalents

Cash and due from banks and federal funds sold are recognized as cash equivalents in the consolidated statements of financial condition and cash flows. Federal funds sold generally mature in one day. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investment in Debt Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and are recorded at amortized cost. “Trading” securities, if any, are carried at fair value, with unrealized gains and losses recognized in earnings. Securities not classified as held to maturity or trading are classified as “available for sale” and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive loss, net of taxes. Purchase discounts are recognized in interest income using the interest method over the contractual terms of the security. Purchase premiums are recognized in interest income using the interest method to the instrument’s earliest call date. Realized gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company evaluates securities for other-than temporary impairment on a regular basis. The evaluation considers several factors including the amount of the unrealized loss, the period of time the security has been in a loss position and the credit standing of the issuer. When the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its cost basis, the credit loss determined due to a permanent impairment will be recognized in earnings. The credit loss component recognized is identified as the amount of future principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow estimates discounted at the applicable original yield of the security.

Investment in FHLB Stock

The Company is required to maintain an investment in capital stock of the FHLB, as collateral, in an amount equal to a certain percentage of its outstanding debt. FHLB stock is considered restricted stock and is carried at cost.

Loans Receivable

Loans that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for unearned income, including any allowance for loan losses and any unamortized deferred fees or costs.

Interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and amortized using the interest method over the respective term of the loan.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due. Consumer automobile and installment loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not collected, for loans that are placed on non-accrual status or charged off, is reversed against interest income. The interest on these loans is not recognized until the loan returns to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management determines all or part of the loan balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the size and composition of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance calculation methodology involves segregation of the total loan portfolio. The Company's loans receivable portfolio is comprised of the following segments: commercial real estate, residential real estate, commercial and industrial and consumer. The segments of the Company's loans receivable portfolio are further disaggregated into classes based on identified risks within those segments. This allows management to better monitor risk and performance.

Commercial real estate loans are separated into the three classes: construction, non-residential and multi-family. Non-residential and multi-family loans include long-term loans financing commercial properties and include both owner and non-owner occupied properties. The underlying cash flows generated by the properties may be negatively impacted by increased vacancy rates due to a downturn in the economy. Construction loans, which include land loans, are comprised mostly of non-owner occupied projects, whereby the property is generally under development and tends to have more risk than the owner occupied loans. The Company originates loans for the construction of residential homes, residential developments and land development projects. Repayment of these loans is mostly dependent upon either the ongoing cash flows of the borrowing entity or the resale or lease of the subject property.

Residential real estate loans are secured by the borrower's residential real estate generally in a first lien position. Residential mortgages have varying loan interest rates depending on the financial condition of the borrower, the loan to value ratio and the term of the loan. The overall health of the economy, reflected in part by unemployment rates and housing prices, will have an effect on the credit quality of this segment.

The commercial and industrial loan segment consists of loans made for purposes of financing the activities of commercial customers. The assets financed through commercial and industrial loans are used within the business for its ongoing operations. Repayment of commercial and industrial loans predominately comes from the cash flows of the business or the ongoing operations of assets. A weakened economy and resultant decreased consumer spending could have a negative impact on this line of business.

Consumer loans are classified into the following three classes: indirect automobile loans, home equity loans and other consumer loans. Indirect automobile loans are secured by the borrowers' automobiles and are primarily originated through the Company's relationships with the automobile dealers in the Company's service area. Home equity loans are secured by the borrowers' residential real estate in a first or second lien position. Other direct consumer loans may be unsecured. The overall health of the economy, reflected in part by unemployment rates and housing prices, will have an impact on the credit quality of this segment.

The Company has established credit policies applicable to each type of lending activity in which it engages. The Company evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 80% of the market value of the collateral at the date of the credit extension, depending on the borrower's creditworthiness and the type of collateral. The Company's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial and industrial and commercial real estate loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, automobiles, equipment, eligible accounts receivable and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower, past experience with the borrower, the nature of the collateral, competitive offerings and/or the term of the loan.

The market value of collateral is monitored on an ongoing basis and additional collateral may be obtained when warranted. While collateral provides some assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrower's ability to generate continuing sufficient cash flows. The Company's policy for real estate collateral requires that, generally, the amount of the loan may not exceed 90% of the original appraised value of the property. Private mortgage insurance is usually required for that portion of the loan in excess of 80% of the appraised value of the property.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated at least quarterly or when credit deficiencies arise, such as when loan payments are delinquent. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

The allowance consists of specific and general components. The specific component relates to loans that are considered impaired. For such impaired loans, an allowance is established when the discounted cash flows (or observable market price or collateral value if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans, segregated generally by loan type and is based on historical loss experience with adjustments for qualitative factors which are made after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss data.

These qualitative risk factors include:

1. Changes in lending policies and procedures, including changes in underwriting standards and collections, charge offs, and recovery practices.

2. Changes in international, national, regional, and local conditions.

3. Changes in the nature and volume of the portfolio and terms of loans.

4. Changes in the experience, depth, and ability of lending management.

5. Changes in the volume and severity of past due loans and other similar conditions.

6. Changes in the quality of the organization's loan review system.

7. Changes in the value of underlying collateral for collateral dependent loans.

8. The existence and effect of any concentrations of credit and changes in the levels of such concentrations.

9. The effect of other external factors (i.e. competition, legal and regulatory requirements) on the level of estimated credit losses.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. 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 are not necessarily classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration 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. Impairment is measured on a loan by loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable net market price, or the fair value of the collateral if the loan is collateral dependent. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For loans secured by real estate, estimated fair values 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 size of the loan, age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. If liquidation is expected, appraised values are discounted for expected sales costs to arrive at the estimated recognizable value of the collateral, which is considered to be the estimated fair value.

For 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 or 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.

The evaluation of the need and amount of the allowance for impaired loans and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a TDR. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Company's allowance for loan losses.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, negative trends, or specific conditions may result in a payment default in the near future.

Regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Derivative Financial Instruments

Derivative financial instruments are recognized as assets and liabilities on the consolidated statements of financial condition and measured at fair value.

Loan Level Interest Rate Swaps — The Company enters into interest rate swaps with commercial loan customers to synthetically convert the customer's loan from a variable rate to a fixed rate. These swaps are matched in offsetting terms to swaps that the Company enters into with an outside third party. The swaps are reported at fair value in other assets and other liabilities. The Company's swaps qualify as derivatives, but are not designated as hedging instruments, thus any net gain or loss resulting from changes in the fair value is recognized in other non-interest income.

Loans Held for Sale

Loans held for sale are those mortgage loans the Company has the intent to sell in the foreseeable future and are carried at the lower of aggregate cost or market value, with valuation changes recorded in non-interest income. Gains and losses on sales of loans are recognized at the trade dates and are determined by the difference between the sales proceeds and the carrying value of the loans.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company — put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) 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 (3) the transferor does not maintain effective control over the transferred assets through either (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

During the normal course of business, the Company may transfer a portion of a financial asset, for example, a participation loan or the government guaranteed portion of a loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

Servicing

Servicing assets are recognized as separate assets developed through the sale of residential mortgages. Servicing rights are initially recorded at fair value with the income statement effect recorded in gain or loss on sales of loans. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to and over the period of the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant risk characteristics, such as interest rates and terms. Impairment is recognized through a valuation allowance and charged to non-interest income, to the extent that fair value is less than the capitalized amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income.

Revenue Recognition

The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. The main types of revenue contracts included in non-interest income within the consolidated statements of operations are as follows:

- Fees for services to customers include service charges on deposits which are included as liabilities in the consolidated statements of financial condition and consist of transaction-based fees: stop payment fees, Automated Clearing House (ACH) fees, account maintenance fees, wire fees, official check fees and overdraft services fees for various retail and business checking customers. These fees are charged as earned on the day of the transaction or within the month of the service. Service charges on deposits are withdrawn directly from the customer's account balance. ATM and debit card fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Sales of checks to depositors earn fees as a contractual discount to the retail price of the sale from a third-party provider. These fees earned are remitted by the third-party to the Company quarterly.

- The Company earns interchange fee income from credit/debit cardholder transactions conducted through MasterCard payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized monthly, concurrently with the transaction processing services provided to the cardholder within the month.

- The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed; at such time, the OREO asset is derecognized and the gain or loss on the sale is recorded. Rental income received from leased OREO property is recognized during the month it is earned.

- Retail brokerage and advisory fee income is accrued monthly to properly record the revenues in the month they are earned. Advisory fees are collected in advance on a quarterly basis. These advisory fees are recorded in the first month of the quarter for which the service is being performed. Investments into mutual funds and annuities generate fees that are recorded as revenue at the time of the initial sale. In subsequent years the mutual funds and variable annuities generate recurring fees (referred to as 12B-1 fees) that are paid in advance on the anniversary of the original transaction. Fees that are transaction based are recognized at the point in time that the transaction is executed (i.e., trade date). Life insurance products are sold on a commission basis that generates a fee that is recorded as revenue within the month of the approved transaction.

Other income includes rental income, mortgage origination and service fees and late fees on serviced mortgages. All items are recorded as revenue within the month that the service is provided.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in operations. Costs relating to the development and improvement of the property are capitalized, subject to the resulting limit of fair value of the collateral. Gains or losses are included in operations upon disposal. The Company had no other real estate owned on December 31, 2022 or 2021.

Premises and Equipment

Premises and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is charged to operations using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the improvements' estimated economic lives or the related lease terms. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized. Rent expense is charged to operations over the expected lease term using the straight-line method.

Bank-Owned Life Insurance

The Company purchased bank owned life insurance ("BOLI") on a chosen group of employees and directors. The Company is the owner and sole beneficiary of the policies. Earnings from BOLI are recognized as part of non-interest income. BOLI is carried at cash surrender value. Death benefit proceeds received in excess of the policies cash surrender values are recognized in income upon receipt. The Company does not intend to surrender these policies and, accordingly, no deferred taxes have been provided.

Goodwill and Amortizable Intangible Assets

The excess of the purchase price of an acquisition over the net fair value of the identifiable tangible and intangible assets and liabilities is assigned to goodwill. Goodwill is not amortizable, but is subject to at least an annual assessment, or more frequently in the presence of certain circumstances, for impairment.

Other intangible assets are stated at cost, less accumulated amortization and consist of purchased customer accounts and core deposit intangibles. Purchased customer accounts primarily consist of records and files that contain information about investment holdings. Core deposit intangibles represent the estimated fair value of acquired customer deposit relationships. These assets are amortized on a straight-line basis over the related estimated lives of 13 years. In the presence of certain circumstances, intangible assets may be assessed for impairment as well. Impairment exists when carrying value exceeds its fair value. In such circumstances a charge for the relevant impairment is recognized and the net book value is reduced to the appropriate value.

Employee Benefit Plans

The Bank maintains the Rhinebeck Bank 401(k) Plan (the "401(k) Plan") for substantially all of its employees, a defined benefit pension plan (frozen as of June 30, 2012), as well as Supplemental Executive Retirement Plans (the "SERPs"), all of which are tax qualified under the Internal Revenue Code.

Employee 401(k) plan expense is the amount of matching contributions. Pension expense is the net of service and interest cost, return on plan assets and amortization of gains and losses not immediately recognized. SERP expense is the net of interest cost and service cost, which allocates the benefits over years of service.

We account for benefits under the defined plan in accordance with Accounting Standards Codification ("ASC") Topic 715 "Pension and Other Postretirement Benefits." The guidance requires an employer to: (1) recognize in its statement of financial position the over funded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (2) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (3) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period.

The Bank created an employee stock ownership plan (the "ESOP") for the benefit of employees who meet certain eligibility requirements. Compensation expense for the ESOP is recorded at an amount equal to the shares allocated by the ESOP multiplied by the average fair market value of the shares during the period. The Company recognizes compensation expense ratably over the year based upon the Company's estimate of the number of shares expected to be allocated by the ESOP. Unearned compensation applicable to the ESOP is reflected as a reduction of stockholders' equity in the consolidated statements of financial condition. The difference between the average fair market value and the cost of the shares allocated by the ESOP is recorded as an adjustment to additional paid-in capital.

The Company maintains an equity incentive plan to provide for issuance or granting of shares of common stock for stock options or restricted stock. The Company has recorded stock-based employee compensation cost using the fair value method as allowed under generally accepted accounting principles. Management estimated the fair values of all option grants using the Black-Scholes option-pricing model. Management estimated the expected life of the options using the simplified method as allowed under generally accepted accounting principles. The risk-free rate was determined utilizing the treasury yield for the expected life of the option contract.

Income Taxes

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that all or some portion of the deferred tax assets will not be realized.

When tax returns are filed, it is highly expected that most positions taken would be sustained upon examination by the taxing authorities, while others may be subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company has no liabilities for uncertain tax positions at December 31, 2022 and 2021.

Interest and penalties associated with unrecognized tax benefits, if any, would be classified in other non-interest expense in the consolidated statements of income.

Earnings Per Share ("EPS")

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed in a manner similar to that of basic earnings per share except that the weighted-average number of common shares outstanding is increased to include the number of incremental common shares that would have been outstanding under the treasury stock method if all potentially dilutive common shares (such as stock options) issued became vested during the period. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for either the basic or diluted earnings per share calculations. See Note 17 for the calculation of EPS.

Comprehensive Income

GAAP requires that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and the net actuarial gain (loss) of the defined benefit pension plan, are reported as a separate component of the stockholders' equity section of the consolidated statements of financial condition, such items, along with net income, are components of comprehensive income.

Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

Fair value measurements focus on exit prices in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

The Company's fair value measurements are classified into a fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three categories within the hierarchy are as follows:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active; and model-based valuation techniques for which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year's presentation.

Emerging Growth Company Status

As an emerging growth company, the Company may delay adoption of new or revised financial accounting standards until such date that the standards are required to be adopted by non-public companies. The Company is taking advantage of the benefits of the extended transition periods allowed under the Jumpstart Our Business Startups Act.

Accordingly, the Company's financial statements may not be comparable to those of public companies that adopt new or revised financial accounting standards as of an earlier date. The effective dates of the following recent accounting standards reflect those that relate to non-public companies.

COVID-19

Significant progress has been made to combat the outbreak of COVID-19; however, the global pandemic has adversely impacted a broad range of industries in which the Company's customers operate and could still impair their ability to fulfill their financial obligations to the Company. The Company's business is dependent upon the willingness and ability of its employees and customers to conduct banking and other financial transactions. If there is a resurgence in the virus or variant strains of the virus increase, the Company could experience further adverse effects on its business, financial condition, results of operations and cash flows. It is not possible to know the full extent of the impact of COVID-19 and the effects it will have on the Company's future operations.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13 on *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU requires credit losses on most financial assets be measured at amortized cost and certain other instruments to be measured using an expected credit loss model. Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. The measurement of expected credit losses is based upon relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. On October 16, 2019, the FASB approved a delay for conversion to the CECL methodology to January 2023 for smaller reporting companies, other public business entities, private companies and non-profits.

The Company is adopting Topic 326, as of January 1, 2023. The Company has executed its project plan to facilitate the implementation of CECL, which included enhancements to internal controls, loan pool segmentation, loan loss estimation methodology, data gathering resources, data analytics and necessary disclosures. Based on the Company's portfolio balances and forecasted economic conditions as of December 31, 2022, management believes the adoption of the CECL standard will result in an increase in the current reserves of approximately $800, or 10%, bringing the reserve to $8,700 at January 1, 2023, as compared to the Company's current reserve levels of $7,900 (unaudited). The future impact of CECL on the Company's allowance for credit losses and provision expense subsequent to the initial adoption will depend on changes in the loan portfolio, economic conditions and refinements to key assumptions including forecasting and qualitative factors. The Company measured its allowance under its current incurred loan loss model as of December 31, 2022.

In December 2019, the FASB issued Accounting Standards Update 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. The FASB's amendments primarily impact ASC 740, Income Taxes, and may impact both interim and annual reporting periods. The Company adopted ASU 2019-12 on January 1, 2022. This update did not have a material impact on the Company's financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* This ASU applies to contracts and other transactions that reference LIBOR or other rate references expected to be discontinued because of reference rate reform. The ASU permits an entity to make necessary modifications to eligible contracts or transactions without requiring contract remeasurement or reassessment of a previous accounting determination. ASU 2020-04 must be applied prospectively and was effective immediately upon issuance and remains effective through December 31, 2022. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848*, which defers the sunset date of ASC 848 until December 31, 2024. The adoption of ASU 2020-04 and ASU 2022-06 did not have a material impact on the Company's future consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (ASC 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures*. The guidance amends ASC 326 to eliminate the accounting guidance for TDRs by creditors, while enhancing disclosure requirements for certain loan refinancing and restructuring activities by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying TDR recognition and measurement guidance, creditors will determine whether a modification results in a new loan or continuation of existing loan. These amendments are intended to enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Additionally, the amendments to ASC 326 require that an entity disclose current-period gross write-offs by year of origination within the vintage disclosures, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. The effective dates for the amendments in this Update are the same as the effective dates in Update 2016-13. The amendments in this Update should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. The Company will implement the Update with the adoption of ASU 2016-13.

(In thousands, except share and per share data)

2. Acquisition

On October 26, 2020, the Bank entered into a branch purchase and assumption agreement with ConnectOne Bank, the wholly-owned subsidiary of ConnectOne Bancorp, Inc., to acquire two branches located in Orange County, New York, as well as certain deposits and other assets and liabilities. The transaction closed on March 12, 2021 with the transfer of $33,863 of deposits. Management concluded that the acquisition represented a business combination, which is accounted for using the acquisition method, with the results of operations included in the Company's consolidated financial statements as of the acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in the March 12, 2021 transaction with ConnectOne, and reflects all adjustments made to the fair value of the opening balance sheet through December 31, 2022:

Fair value of consideration transferred, assets acquired and liabilities assumed	**March 12, 2021**
Total cash received on acquisition	$ 32,767
Assets acquired	
Fixed assets	113
Reimbursed expenses	9
Core deposit intangible(1)	330
Total assets acquired	452
Liabilities assumed	
Deposits	33,863
Mark-to-market adjustment	181
Total liabilities assumed	34,044
Net liabilities acquired	(33,592)
Goodwill recognized	$ 825

(1) The core deposit intangible was determined to have an estimated life of approximately 13 years.

The Company incurred $71 in expenses related to the acquisition during the year ended December 31, 2021. Acquisition expenses, including professional fees, are included in the other non-interest expense line item in the condensed consolidated statement of income.

(In thousands, except share and per share data)

3. Available for Sale Securities

The amortized cost, gross unrealized gains and losses and fair values of available for sale securities are as follows:

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 40,172	$ —	$ (2,315)	$ 37,857
U.S. government agency mortgage-backed securities–residential	173,926	—	(29,392)	144,534
U.S. government agency securities	24,785	—	(2,336)	22,449
Municipal securities(1)	5,117	—	(331)	4,786
Corporate bonds	14,700	—	(1,483)	13,217
Other	644	172	—	816
Total	$ 259,344	$ 172	$ (35,857)	$ 223,659

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 60,273	$ 2	$ (450)	$ 59,825
U.S. government agency mortgage-backed securities–residential	179,493	344	(3,346)	176,491
U.S. government agency securities	24,800	53	(131)	24,722
Municipal securities(1)	6,858	33	(40)	6,851
Corporate bonds	11,700	117	(65)	11,752
Other	620	22	—	642
Total	$ 283,744	$ 571	$ (4,032)	$ 280,283

(1) The issuers of municipal securities are all within New York State.

The following tables present the fair value and unrealized losses of the Company's available for sale securities with gross unrealized losses aggregated by the length of time the individual securities have been in a continuous unrealized loss position:

	December 31, 2022					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ —	$ —	$ 37,857	$ (2,315)	$ 37,857	$ (2,315)
U.S. government agency mortgage-backed securities-residential	23,384	(2,711)	121,151	(26,681)	144,535	(29,392)
U.S. government agency securities	9,160	(869)	13,289	(1,467)	22,449	(2,336)
Municipal securities	1,529	(4)	3,127	(327)	4,656	(331)
Corporate bonds	6,873	(627)	5,844	(856)	12,717	(1,483)
Total	$ 40,946	$ (4,211)	$ 181,268	$ (31,646)	$ 222,214	$ (35,857)

(In thousands, except share and per share data)

	December 31, 2021					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ 49,007	$ (268)	$ 5,797	$ (182)	$ 54,804	$ (450)
U.S. government agency mortgage-backed securities-residential	139,019	(3,035)	11,002	(311)	150,021	(3,346)
U.S. government agency securities	14,625	(131)	—	—	14,625	(131)
Municipal securities	2,469	(40)	—	—	2,469	(40)
Corporate bonds	5,885	(65)	—	—	5,885	(65)
Total	$ 211,005	$ (3,539)	$ 16,799	$ (493)	$ 227,804	$ (4,032)

At December 31, 2022 and 2021, the Company had 242 and 160 individual available-for-sale securities with unrealized losses totaling $35,857 and $4,032, respectively, with an aggregate depreciation of 13.89% and 1.77%, respectively, from the Company's amortized cost.

Management believes that none of the unrealized losses on available for sale securities are other-than-temporary because substantially all of the unrealized losses in the Company's investment portfolio relate to market interest rate changes on debt and mortgage-backed securities issued either directly by the government or from government sponsored enterprises. Management believes that the reasons for the decline in fair value are due to the rising interest rates at the reporting date. As of December 31, 2022, unrealized losses were primarily attributable to changes in interest rates as it relates to when the investment securities were purchased, and not due to the credit quality of the investment securities. Because the Company does not intend to sell the securities and it is not likely that the Company will be required to sell the securities before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired either at December 31, 2022 or 2021.

The amortized cost and fair value of available for sale debt securities at December 31, 2022 and 2021, by contractual maturities, are presented below. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or repaid without any penalties. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary:

	December 31, 2022		December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity:				
Within 1 year	$ 16,923	$ 16,512	$ 12,729	$ 12,726
After 1 but within 5 years	46,162	42,225	67,912	67,463
After 5 but within 10 years	21,689	19,572	22,595	22,567
After 10 years	—	—	395	394
Total Maturities	84,774	78,309	103,631	103,150
Mortgage-backed securities	173,926	144,534	179,493	176,491
Other	644	816	620	642
Total	$ 259,344	$ 223,659	$ 283,744	$ 280,283

At December 31, 2022 and 2021, available for sale securities with a carrying value of $15,407 and $8,316, respectively, were pledged to secure Federal Home Loan Bank of New York borrowings. In addition, $958 and $1,054 of available for sale securities, respectively, were pledged to secure borrowings at the Federal Reserve Bank of New York ("FRBNY"). Proceeds from the sale of available for sale securities aggregated $14,816 and $4,000 for the years ended December 31, 2022 and 2021, respectively. There were no gross gains during the periods ended December 31, 2022 and December 31, 2021. During the periods ended December 31, 2022 and 2021, there were gross losses of $170 and $4, respectively, realized on the sales and calls of securities.

(In thousands, except share and per share data)

4. Loans and Allowance for loan losses

A summary of the Company's loan portfolio is as follows:

	December 31, 2022	December 31, 2021
Commercial real estate loans:		
Construction	$ 20,329	$ 10,095
Non-residential	282,422	245,568
Multi-family	67,777	55,926
Residential real estate loans	53,720	35,646
Commercial and industrial loans[1]	87,982	104,323
Consumer loans:		
Indirect automobile	457,223	382,088
Home equity	11,507	11,857
Other consumer	9,479	7,955
Total gross loans	990,439	853,458
Net deferred loan costs	11,872	9,068
Allowance for loan losses	(7,943)	(7,559)
Total net loans	$ 994,368	$ 854,967

[1] Includes $537 and $29,464 in SBA PPP loans at December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, the unpaid principal balances of loans held for sale, included in the residential real estate category above, were $247 and $3,950, respectively.

(In thousands, except share and per share data)

The following tables present the classes of the loan portfolio summarized by the pass category and the criticized categories of special mention and substandard within the internal risk system:

	December 31, 2022			
	Pass	Special Mention	Substandard	Total
Commercial real estate:				
Construction	$ 20,329	$ —	$ —	$ 20,329
Non-residential	271,491	7,904	3,027	282,422
Multifamily	67,777	—	—	67,777
Residential real estate	52,265	—	1,455	53,720
Commercial and industrial	83,680	3,825	477	87,982
Consumer:				
Indirect automobile	456,112	—	1,111	457,223
Home equity	11,290	—	217	11,507
Other consumer	9,428	—	51	9,479
Total	$ 972,372	$ 11,729	$ 6,338	$ 990,439

	December 31, 2021			
	Pass	Special Mention	Substandard	Total
Commercial real estate:				
Construction	$ 10,095	$ —	$ —	$ 10,095
Non-residential	232,253	10,341	2,974	245,568
Multifamily	55,926	—	—	55,926
Residential real estate	33,416	—	2,230	35,646
Commercial and industrial	98,171	5,377	775	104,323
Consumer:				
Indirect automobile	381,354	—	734	382,088
Home equity	11,587	—	270	11,857
Other consumer	7,908	—	47	7,955
Total	$ 830,710	$ 15,718	$ 7,030	$ 853,458

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The past due status of all classes of loans is determined based on contractual due dates for loan payments.

The Company has transferred a portion of its originated commercial real estate loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying statements of financial condition. The Company and participating lenders share ratably in any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments to participating lenders and disburses required escrow funds to relevant parties. At December 31, 2022 and 2021, the Company was servicing loans for participants aggregating $7,516 and $3,962, respectively.

The Company services certain loans that it has sold without recourse to third parties. The aggregate balances of loans serviced for others were $301,235 and $314,953 as of December 31, 2022 and 2021, respectively.

The balance of capitalized servicing rights, included in other assets at December 31, 2022 and 2021, were $2,409 and $2,633, respectively. Fair value exceeds carrying value. No impairment charges related to servicing rights were recognized during the years ended December 31, 2022 or 2021.

(In thousands, except share and per share data)

The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and non-accrual loans:

	December 31, 2022					
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Loans Receivable	Non-accrual
Commercial real estate:						
Construction	$ 20,329	$ —	$ —	$ —	$ 20,329	$ —
Non-residential	275,860	4,701	479	1,382	282,422	1,382
Multifamily	67,413	364	—	—	67,777	—
Residential real estate	51,476	1,417	246	581	53,720	1,794
Commercial and industrial	87,742	57	—	183	87,982	183
Consumer:						
Indirect automobile	444,418	10,714	1,389	702	457,223	797
Home equity	11,279	51	58	119	11,507	217
Other consumer	9,208	149	71	51	9,479	51
Total	$ 967,725	$ 17,453	$ 2,243	$ 3,018	$ 990,439	$ 4,424

	December 31, 2021					
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Loans Receivable	Non-accrual
Commercial real estate:						
Construction	$ 10,095	$ —	$ —	$ —	$ 10,095	$ —
Non-residential	242,205	115	527	2,721	245,568	2,721
Multifamily	55,926	—	—	—	55,926	—
Residential real estate	34,363	57	242	984	35,646	2,230
Commercial and industrial	103,517	246	—	560	104,323	687
Consumer:						
Indirect automobile	374,729	5,977	715	667	382,088	734
Home equity	11,429	149	106	173	11,857	270
Other consumer	7,702	153	53	47	7,955	47
Total	$ 839,966	$ 6,697	$ 1,643	$ 5,152	$ 853,458	$ 6,689

There were no loans greater than 90 days past due and still accruing as of December 31, 2022 or 2021.

(In thousands, except share and per share data)

The following tables summarize information in regard to impaired loans by loan portfolio class:

	December 31, 2022			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial real estate:				
Non-residential	$ 1,382	$ 2,472	$ —	$ 1,967
Residential real estate	1,794	2,445	—	1,890
Commercial and industrial	183	242	—	309
Consumer:				
Indirect automobile	371	439	—	336
Home equity	217	219	—	146
Other consumer	49	53	—	38
Total	$ 3,996	$ 5,870	$ —	$ 4,686
With an allowance recorded:				
Commercial and industrial	$ —	$ —	$ —	$ 114
Consumer:				
Indirect automobile	426	435	107	293
Other consumer	2	2	2	11
Total	$ 428	$ 437	$ 109	$ 418
Total:				
Commercial real estate:				
Non-residential	$ 1,382	$ 2,472	$ —	$ 1,967
Residential real estate	1,794	2,445	—	1,890
Commercial and industrial	183	242	—	423
Consumer:				
Indirect automobile	797	874	107	629
Home equity	217	219	—	146
Other consumer	51	55	2	49
Total	$ 4,424	$ 6,307	$ 109	$ 5,104

(In thousands, except share and per share data)

	December 31, 2021			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial real estate:				
Non-residential	$ 2,721	$ 3,797	$ —	$ 2,290
Residential real estate	2,230	2,786	—	2,459
Commercial and industrial	687	921	—	674
Consumer:				
Indirect automobile	345	408	—	219
Home equity	270	276	—	338
Other consumer	47	48	—	50
Total	$ 6,300	$ 8,236	$ —	$ 6,030
With an allowance recorded:				
Commercial real estate:				
Commercial and industrial	$ —	$ —	$ —	$ 148
Consumer:				
Indirect automobile	389	395	68	286
Total	$ 389	$ 395	$ 68	$ 434
Total:				
Commercial real estate:				
Non-residential	$ 2,721	$ 3,797	$ —	$ 2,290
Residential real estate	2,230	2,786	—	2,459
Commercial and industrial	687	921	—	822
Consumer:				
Indirect automobile	734	803	68	505
Home equity	270	276	—	338
Other consumer	47	48	—	50
Total	$ 6,689	$ 8,631	$ 68	$ 6,464

The Company does not generally recognize interest income on a loan in an impaired status. At December 31, 2022 and 2021, the same three loans totaling $1,339 and $1,440, respectively, which were included in impaired loans, were identified as TDRs. The initial modifications of these loans took place prior to 2021 and included two residential mortgages and one home equity loan that included both rate and term modifications. In 2022 and 2021, there were no new TDRs. Interest income on impaired loans was immaterial during each of the periods presented. At December 31, 2022 and 2021, all loans were performing in accordance with their restructured terms. At December 31, 2022 and 2021, the Company had no commitments to advance additional funds to borrowers under TDR loans.

Residential mortgage and consumer loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $625 and $935 at December 31, 2022 and 2021, respectively.

(In thousands, except share and per share data)

The following tables summarize the segments of the loan portfolio and the allowance for loan losses, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment and the activity in the allowance for loan losses for the periods then ended:

	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Indirect	Consumer	Totals
	Year ended December 31, 2022					
Allowance for loan losses:						
Beginning balance	$ 3,317	$ 54	$ 725	$ 3,416	$ 47	$ 7,559
(Credit to) provision for loan losses	(286)	(63)	493	1,205	65	1,414
Loans charged-off	—	(44)	(456)	(2,660)	(107)	(3,267)
Recoveries	—	156	119	1,907	55	2,237
Ending balance	$ 3,031	$ 103	$ 881	$ 3,868	$ 60	$ 7,943
Ending balance:						
Loans deemed impaired	$ —	$ —	$ —	$ 107	$ 2	$ 109
Loans not deemed impaired	$ 3,031	$ 103	$ 881	$ 3,761	$ 58	$ 7,834
Loan receivables:						
Ending balance	$ 370,528	$ 53,720	$ 87,982	$ 457,223	$ 20,986	$ 990,439
Ending balance:						
Loans deemed impaired	$ 1,382	$ 1,794	$ 183	$ 797	$ 268	$ 4,424
Loans not deemed impaired	$ 369,146	$ 51,926	$ 87,799	$ 456,426	$ 20,718	$ 986,015

	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Indirect	Consumer	Totals
	December 31, 2021					
Allowance for loan losses:						
Beginning balance	$ 5,354	$ 117	$ 1,050	$ 4,974	$ 138	$ 11,633
(Credit to) provision for loan losses	(2,037)	(69)	(414)	(1,035)	(112)	(3,667)
Loans charged-off	—	—	(12)	(2,048)	(24)	(2,084)
Recoveries	—	6	101	1,525	45	1,677
Ending balance	$ 3,317	$ 54	$ 725	$ 3,416	$ 47	$ 7,559
Ending balance:						
Loans deemed impaired	$ —	$ —	$ —	$ 68	$ —	$ 68
Loans not deemed impaired	$ 3,317	$ 54	$ 725	$ 3,348	$ 47	$ 7,491
Loan receivables:						
Ending balance	$ 311,589	$ 35,646	$ 104,323	$ 382,088	$ 19,812	$ 853,458
Ending balance:						
Loans deemed impaired	$ 2,721	$ 2,230	$ 687	$ 734	$ 317	$ 6,689
Loans not deemed impaired	$ 308,868	$ 33,416	$ 103,636	$ 381,354	$ 19,495	$ 846,769

In the normal course of business, the Company grants loans to officers, directors and other related parties. Balances and activity of such loans during the years presented were not material.

(In thousands, except share and per share data)

5. Goodwill and Intangible Assets

The changes in the carrying value of goodwill are as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Beginning balance	$ 2,235	$ 1,410
Acquisition activity	—	825
Ending balance	$ 2,235	$ 2,235

The Company evaluated goodwill and determined that no write-down was required for the years ended December 31, 2022 or 2021.

The changes in the carrying value of the customer list and core deposit intangibles are as follows:

	Years Ended December 31, 2022	Years Ended December 31, 2021
Beginning balance	$ 433	$ 199
Acquisition activity	—	330
Amortization	(99)	(96)
Ending balance	$ 334	$ 433
Accumulated amortization and impairment	$ 943	$ 844

Core deposit intangibles represent the estimated fair value of acquired customer deposit relationships on the date of acquisition and are amortized over their estimated useful lives. Purchased customer accounts primarily consist of records and files that contain information about investment holdings. The values assigned to customer lists and core deposit intangibles is based upon the application of the income approach. The intangibles are expected to have useful lives of approximately 13 years. The Company recognized $99 and $96 of amortization expense related to its intangible assets for the years ended December 31, 2022 and 2021, respectively.

At December 31, 2022, based upon a review of the intangibles, the Company determined that the fair value of the amortizable intangible assets exceeded their carrying values.

As of December 31, 2022, the future amortization expense for amortizable intangible assets for the respective years is as follows:

2023	$ 88
2024	79
2025	60
2026	29
2027	21
Thereafter	57
Total	$ 334

(In thousands, except share and per share data)

6. Premises and Equipment

Premises and equipment are summarized as follows:

	December 31, 2022	December 31, 2021
Land	$ 3,732	$ 3,732
Buildings and improvements	27,617	27,151
Furniture, fixtures and equipment	14,666	14,107
Construction in process	230	161
Total	46,245	45,151
Less accumulated depreciation	(27,523)	(25,968)
Net	$ 18,722	$ 19,183

Depreciation expense totaled $1,555 and $1,560 for the years ended December 31, 2022 and 2021, respectively.

7. Deposits

Deposits balances are summarized as follows:

	December 31, 2022	December 31, 2021
Non-interest bearing demand deposits	$ 283,563	$ 314,814
Interest bearing accounts:		
NOW	156,285	158,615
Savings	176,916	182,564
Money market	296,787	289,107
Time certificates of deposit	216,382	156,899
Total interest bearing accounts	846,370	787,185
Total deposits	$ 1,129,933	$ 1,101,999

Time deposits included brokered deposits of $34,041 at December 31, 2022. We had no brokered deposits in 2021. Included in time certificates of deposit at December 31, 2022 and 2021 were reciprocal deposits totaling $10,023 and $21,083, respectively, with original maturities of one to three years. Time certificates of deposit in denominations of $250 or greater were $38,897 and $23,704 as of December 31, 2022 and 2021, respectively.

Contractual maturities of time certificates of deposit at December 31, 2022 are summarized below:

	December 31, 2022
Within 1 year	$ 151,591
1 – 2 years	56,863
2 – 3 years	5,109
3 – 4 years	1,957
4 – 5 years	862
Total	$ 216,382

(In thousands, except share and per share data)

8. Debt and FHLB Stock

FHLB Borrowings and Stock

The Company is a member of the FHLB. At December 31, 2022 and 2021, the Company had access to a preapproved secured line of credit with the FHLB of $667,905 and $640,500, respectively. Borrowings under this line require collateralization through the pledge of specific loans and securities. At December 31, 2022 and 2021, the Company had pledged assets of $195,455 and $170,385, respectively. The Company had no outstanding overnight line of credit balances with the FHLB at either December 31, 2022 or 2021. These borrowings would mature the following business day. At December 31, 2022, the Company had structured borrowings in the amount of $57,723. The outstanding principal amounts and the related terms and rates at December 31, 2022 were as follows:

Term	Principal	Maturity	Rate	Due in one year	Long term
Fixed short-term	$ 5,000	January 3, 2023	3.83 %	$ 5,000	—
Fixed short-term	5,000	January 20, 2023	4.32 %	5,000	—
Fixed short-term	5,000	February 3, 2023	4.02 %	5,000	—
Fixed short-term	5,000	February 21, 2023	4.53 %	5,000	—
3 year amortizing	1,273	February 28, 2023	1.32 %	1,273	—
Fixed short-term	5,000	March 3, 2023	4.20 %	5,000	—
Fixed short-term	5,000	March 20, 2023	4.67 %	5,000	—
Fixed short-term	10,000	April 3, 2023	4.72 %	10,000	—
Fixed short-term	10,000	May 15, 2023	4.87 %	10,000	—
Fixed medium-term	722	October 31, 2025	4.87 %	—	722
Fixed medium-term	5,000	November 3, 2025	4.87 %	—	5,000
Fixed medium-term	728	December 5, 2025	4.34 %	—	728
Total	$ 57,723	Weighted Average Rate	4.44 %	$ 51,273	$ 6,450

The Company is required to maintain an investment in capital stock of the FHLB, as collateral, in an amount equal to a certain percentage of its outstanding debt. FHLB stock is considered restricted stock and is carried at cost. The Company evaluates for impairment based on the ultimate recovery ability of the cost. No impairment was recognized at either December 31, 2022 or 2021.

Subordinated Debt

In addition to the Bank, the Company has one other wholly-owned subsidiary, RSB Capital Trust I (the "Trust"). In 2005, the Trust issued $5,000 of pooled trust preferred securities in a private placement and issued 155 shares of common stock at $1 par value per share, now owned by the Company. The Trust, which has no independent assets or operations, was formed in 2005 for the sole purpose of issuing trust preferred securities and investing the proceeds thereof in an equivalent amount of junior subordinated debentures. The proceeds from the issuance of the trust preferred securities were down-streamed to the Bank and are currently considered Tier 1 capital for purposes of determining the Bank's capital ratios. The duration of the Trust is 30 years.

The subordinated debt securities of $5,155 are unsecured obligations of the Company and are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. The Company has entered into a guarantee, which together with its obligations under the subordinated debt securities and the declaration of trust governing the Trust, including its obligations to pay costs, expenses, debts and liabilities, other than trust securities, provides a full and unconditional guarantee of amounts on the capital securities. The subordinated debentures, which bear interest at 3-month LIBOR plus 2.00% (6.69% at December 31, 2022 and 2.16% at December 31, 2021) mature on May 23, 2035. After June 30, 2023, the three month LIBOR rate will be replaced by the three month CME term Secured Overnight Financing Rate ("SOFR") as adjusted by 0.26%, the relevant spread adjustment.

Other Borrowings

The Company has an unsecured, uncommitted $10,000 line of credit with Zions Bank. There were no advances outstanding under this line of credit at December 31, 2022 or 2021.

On October 1, 2021, the Company entered into an agreement with Pacific Community Bankers Bank, for a $50,000 line of credit. There were no advances outstanding under this line of credit at December 31, 2022 or 2021.

(In thousands, except share and per share data)

9. Income Taxes

The components of the provision for income taxes are as follows:

	Years Ended December 31, 2022	Years Ended December 31, 2021
Current expense:		
Federal	$ 1,621	$ 2,042
State	264	284
Total current expense	1,885	2,326
Deferred expense:		
Federal	14	1,107
State	4	1,306
Change in valuation allowance	(4)	(1,306)
Total deferred expense	14	1,107
Total provision for income taxes	$ 1,899	$ 3,433

The following is a reconciliation between the expected federal statutory income tax rate of 21% (2022 and 2021) and the Company's actual income tax expense and rate:

	Years ended December 31, 2022		2021	
Provision at statutory rate	$ 1,868	21.00 %	$ 3,148	21.00 %
Tax exempt income	(145)	(1.63)%	(125)	(0.83)%
State income taxes, net of federal income tax benefit	209	2.35 %	192	1.28 %
Other, net	(33)	(0.37)%	218	1.45 %
Effective income tax and rate	$ 1,899	21.35 %	$ 3,433	22.90 %

Provision for income taxes directly reflects the expected tax associated with the pre-tax income generated for the given year and certain regulatory requirements. The effective tax rate was 21.35% and 22.90% for the years ended December 31, 2022 and 2021, respectively. The statutory tax rate is impacted by the benefits derived mainly from tax-exempt bond income and income received on the bank owned life insurance to arrive at the effective tax rate.

(In thousands, except share and per share data)

The tax effects of temporary differences that give rise to significant components of the deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021 are presented below:

	December 31,	
	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 2,145	$ 2,041
Deferred expenses	28	39
Deferred compensation	1,493	1,538
Unrecognized pension liability	1,063	1,037
Postretirement liability	975	920
Unrealized loss on securities	7,494	727
Other	576	431
Gross deferred tax assets	13,774	6,733
Deferred tax liabilities:		
Prepaid expenses	(467)	(262)
Prepaid pension	(1,304)	(1,275)
Deferred loan fees	(209)	(154)
Depreciation and amortization	(563)	(525)
Mortgage servicing rights	(650)	(711)
Gross deferred tax liabilities	(3,193)	(2,927)
Net deferred tax asset	10,581	3,806
Deferred tax valuation allowance	(450)	(454)
Deferred tax assets, net of allowance	$ 10,131	$ 3,352

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the relative federal or state tax law to the taxable income determined. The Company determines deferred income taxes using the liability (or balance sheet method). Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases at the currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. Deferred income tax expense or benefit results from changes in deferred tax assets ("DTAs") and liabilities between periods. DTAs are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

New York State ("NYS") tax law provides for a permanent deduction of income from "qualified" loans for community banks. Accordingly, the Company has generally incurred NYS taxable losses and incurred minimal NYS income tax liability. As the Company has not established a history of strong NYS taxable income, the Company has established a full valuation allowance against the NYS deferred tax asset.

Retained earnings at December 31, 2022 and 2021 include a contingency reserve for loan losses of $1,534, which represents the tax reserve balance existing at December 31, 1987 and is maintained in accordance with provisions of the Internal Revenue Code applicable to mutual savings banks. Amounts transferred to the reserve have been claimed as deductions from taxable income and, if the reserve is used for purposes other than to absorb losses on loans, a federal income tax liability could be incurred. It is not anticipated that the Company will incur a federal income tax liability relating to this reserve balance and accordingly, deferred income taxes of $414 at December 31, 2022 and $414 at December 31, 2021 have not been recognized.

(In thousands, except share and per share data)

The Company's income tax returns are subject to review and examination by federal and state taxing authorities. The Company is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2019 through 2022. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2019 are open.

10. Employee Benefits

Employee Stock Ownership Plan

On January 1, 2019, the Bank established an ESOP to provide eligible employees the opportunity to own Company stock. The plan is a tax-qualified retirement plan for the benefit of Bank employees. On January 16, 2019, the Company granted a loan to the ESOP for the purchase of 436,425 shares of the Company's common stock at a price of $10.00 per share. The loan obtained by the ESOP from the Company to purchase the common stock is payable annually over 20 years at a rate per annum equal to the Prime Rate, reset annually on January 1st (3.25% at January 1, 2022 and 7.50% at January 1, 2023). Loan payments are principally funded by cash contributions from the Bank. The loan is secured by the shares purchased, which are held in a suspense account for allocation among participants as the loan is repaid. The balance of the ESOP loan was $3,741 and $3,917 at December 31, 2022 and 2021, respectively. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax limits. The number of shares committed to be released annually is 21,821 through 2039.

Shares held by the ESOP include the following:

	Year ended December 31,	
	2022	2021
Allocated	65,463	43,642
Committed to be allocated	21,821	21,821
Unallocated	349,141	370,962
Paid out to participants	(4,376)	(1,252)
Total shares	432,049	435,173

The fair value of unallocated shares was $3,181 and $3,954 at December 31, 2022 and 2021, respectively.

Total compensation expense recognized in connection with the ESOP for the years ended December 31, 2022 and 2021 was $216 and $227, respectively.

Share-Based Compensation Plan

On May 26, 2020, stockholders of the Company approved the 2020 Equity Incentive Plan (the "EIP"). The EIP authorizes the issuance or delivery to participants of up to 763,743 shares of Rhinebeck Bancorp common stock pursuant to grants of incentive and non-qualified stock options, restricted stock awards and restricted stock units. Of this number, the maximum number of shares of Rhinebeck Bancorp common stock that may be issued under the EIP pursuant to the exercise of stock options is 545,531 shares, and the maximum number of shares of Rhinebeck Bancorp common stock that may be issued as restricted stock awards or restricted stock units is 218,212 shares. These amounts represented 4.90% and 1.96%, respectively, of the number of shares of common stock issued in the stock offering of Rhinebeck Bancorp, including the shares issued to Rhinebeck Bancorp, MHC.

(In thousands, except share and per share data)

Pursuant to terms of the EIP, on August 25, 2020, the Board of Directors granted restricted stock and stock options to employees and directors. All of the awards granted to date vest annually over a three-year period from the date of the grant and the term of each option is ten years. As of December 31, 2022, there were 102,146 stock options and 49,110 restricted stock awards that remain available for future grants.

The fair value of each option granted under the EIP is estimated on the date of grant using the Black-Scholes Option-Pricing Model. The expected volatility is based on the historical volatility of a peer group of comparable SEC-reporting bank holding companies. The dividend yield assumption is based on the Company's expectation that it will not pay dividends. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the date of grant. The Company has elected to recognize forfeitures as they occur.

The Company followed SEC safe-harbor guidelines when determining the expected term of the options granted. The weighted average assumptions used and fair value for options granted under the 2020 EIP as of the grant date were as follows:

Expected term (years)	6
Expected dividend yield	0 %
Weighted-average expected volatility	25.45 %
Weighted-average risk-free interest rate	0.29 %
Weighted-average fair value of options granted	$ 1.67

A summary of options under the 2020 EIP as of December 31, 2022 is presented below:

	Number of Shares	Weighted - Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)
Options outstanding at beginning of year	439,596	$ 6.62	8.63
Options granted	-	-	-
Options exercised	-	-	-
Options expired	(1,666)	6.57	-
Options outstanding at December 31, 2022	437,930	$ 6.62	7.66
Options exercisable at December 31, 2022	290,126	$ 6.62	7.66

The aggregate intrinsic value of the options outstanding, which fluctuates based on changes in the fair market value of the Company's stock, at December 31, 2022, was $1,092. The aggregate intrinsic value represents the total pre-tax intrinsic value (i.e., the difference between the Company's closing stock price on the last trading day of period and the weighted-average exercise price, multiplied by the number of shares) that would have been received by the option holders had all option holders exercised their options on December 31, 2022. The aggregate intrinsic value of the options exercisable at December 31, 2022 was $724.

As of December 31, 2022, there was $162 of unrecognized compensation cost related to the nonvested stock options granted under the 2020 EIP. The cost is expected to be recognized over a remaining period of 0.66 years.

(In thousands, except share and per share data)

The following table summarizes the Company's restricted stock activity for the year ended December 31, 2022:

	Number of Shares	Weighted-Average Grant Date Fair Value per Share
Non-vested restricted stock at beginning of year	112,520	$ 6.57
Granted	-	-
Vested	(56,254)	6.57
Forfeited	-	-
Non-vested restricted stock at December 31, 2022	56,266	$ 6.57

As of December 31, 2022, there was $240 of unrecognized compensation cost related to the nonvested restricted stock awards granted under the 2020 EIP. The cost is expected to be recognized over a remaining period of 0.65 years.

The aggregate fair value of the vested options and restricted stock awards as of December 31, 2022 was $246 and $539, respectively.

For the years ended December 31, 2022 and 2021, share-based compensation expense under the plan was $615 and $618, respectively.

Pension Plan

The Bank maintains a noncontributory defined benefit pension plan covering substantially all of its employees 21 years of age or older who have completed at least one year of service. On April 24, 2012, the Board of Directors of Rhinebeck Bank voted to freeze the Bank's defined benefit plan as of June 30, 2012.

The following table sets forth the plan's funded status and amounts recognized in the Company's consolidated statements of financial condition:

	December 31, 2022	December 31, 2021
Projected and accumulated benefit obligation	$ (17,138)	$ (23,055)
Plan assets at fair value	16,906	22,839
Funded status included in accrued expenses and other liabilities	$ (232)	$ (216)

(In thousands, except share and per share data)

The following table details the plan's funded status:

	2022	2021
Change in benefit projected obligation:		
Projected benefit obligation at beginning of year	$ 23,055	$ 23,964
Service cost	-	-
Interest cost	634	589
Actuarial gain	(5,874)	(842)
Benefits paid	(677)	(656)
Projected benefit obligation at end of year	17,138	23,055
Change in plan assets:		
Fair value of plan assets at beginning of year	22,839	22,634
Actual return on plan assets	(5,256)	861
Contributions	-	-
Benefits paid	(677)	(656)
Fair value of plan assets at end of year	16,906	22,839
Funded status	$ (232)	$ (216)

In 2022, the net actuarial gain in the projected benefit obligation resulted primarily from a change in the discount rate. The loss on plan assets during the fiscal year ending December 31, 2022 of $5,256 was due to unfavorable investment performance.

The weighted-average assumptions used by the Company to determine the pension benefit obligation consisted of the following:

	Years ended December 31,	
	2022	2021
Discount rate	5.15 %	2.80 %
Rate of compensation increase	N/A	N/A

Amounts recognized in accumulated other comprehensive loss consisted of the following:

	Years ended December 31,	
	2022	2021
Net actuarial loss	$ 5,060	$ 4,938

The net periodic pension (benefit) cost and amounts recognized in other comprehensive income are as follows:

	Years ended December 31,	
	2022	2021
Interest cost	$ 634	$ 589
Expected return on plan assets	(1,007)	(944)
Amortization of unrecognized loss	267	359
Net periodic (benefit) cost	$ (106)	$ 4

(In thousands, except share and per share data)

Weighted-average assumptions used by the Company to determine the net periodic pension cost consisted of the following:

	Years ended December 31, 2022	2021
Discount rate	2.80 %	2.50 %
Expected long-term return on plan assets	4.75 %	4.50 %
Rate of compensation increase	N/A	N/A

The expected long-term rate of return on plan assets has been determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the plan. Plan assets are invested in pooled separate accounts consisting of underlying investments in nine diversified investment funds.

As of December 31, 2022, the investment funds included seven equity funds and two bond funds. As of December 31, 2021, the investment funds included seven equity funds and three bond funds. Each fund has its own investment objectives, investment strategies and risks, as detailed in the Plan's investment policy statement. The Company determines the appropriate strategic asset allocation versus plan liabilities, as governed by the investment policy statement.

The assets of the plan are invested under the supervision of the Company's investment committee in accordance with the investment policy statement. The investment options of the plan are chosen in a manner consistent with generally accepted standards of fiduciary responsibility. The investment performance of the Company's individual investment managers, with the assistance of the Company's investment consultant, is monitored on a quarterly basis and is reviewed at least annually relative to the objectives and guidelines as stated in the Company's investment policy statement.

The fair value of the Company's pension plan assets, by fair value hierarchy, are as follows:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment in separate accounts				
Fixed income	$ 11,600	$ —	$ —	$ 11,600
Equity	5,306	—	—	5,306
Total assets at fair value	$ 16,906	$ —	$ —	$ 16,906

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment in separate accounts				
Fixed income	$ 15,689	$ —	$ —	$ 15,689
Equity	7,150	—	—	7,150
Total assets at fair value	$ 22,839	$ —	$ —	$ 22,839

The pooled separate accounts are valued at the net asset per unit based on either the observable net asset value of the underlying investment or the net asset value of the underlying pool of securities. Net asset value is based on the value of the underlying assets owned by the fund, minus its liabilities and then divided by the number of shares outstanding.

(In thousands, except share and per share data)

Benefit payments are as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Benefits paid	$ 677	$ 656

As of December 31, 2022, the following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year Ending	Pension Benefits
2023	$ 850
2024	920
2025	960
2026	980
2027	1,020
2028 – 2032	5,830

The Company made no contributions to the plan in either 2022 or 2021.

Defined Contribution Plan

The Company sponsors a 401(k) defined contribution plan. Participants are permitted, in accordance with the provisions of Section 401(k) of the Internal Revenue Code, to contribute up to 25% of their earnings (as defined) into the plan with the Company matching up to 6%, subject to Internal Revenue Service limitations. The Company's contributions charged to operations amounted to $1,152 and $1,074 for the years ended December 31, 2022 and 2021, respectively.

Bank Owned Life Insurance

The Company has an investment in and is the beneficiary of life insurance policies on the lives of certain officers and directors. The purpose of these life insurance policies is to provide income through the appreciation in cash surrender value of the policies, which is expected to offset the cost of the deferred compensation plans. These policies had aggregate cash surrender values of $29,794 and $29,131 at December 31, 2022 and 2021, respectively. Net earnings on these policies aggregated $640 and $571 for the years ended December 31, 2022 and 2021, respectively, which are included in non-interest income in the consolidated statements of income.

Deferred Compensation Arrangements

Trustees' Plan

The Company's 1991 Plan (the "Trustees' Plan") covers directors who elect to defer fees earned. Under the terms of the Trustees' Plan, each participant may elect to defer all or part of their annual director's fees. Upon resignation, retirement, or death, the participants' total deferred compensation, including earnings thereon, will be paid out. At December 31, 2022 and 2021, $2,761 and $2,877, respectively, are included in accrued expenses and other liabilities, which represents cumulative amounts deferred and earnings thereon. Total expense related to the Trustees' Plan years ended December 31, 2022 and 2021 were $232 and $143, respectively, which are included in non-interest expense in the consolidated statements of income.

Executive Long-Term Incentive and Retention Plan

The Company maintains an Executive Long-Term Incentive and Retention Plan (the "Executive Plan"). Participation in the Executive Plan is limited to officers of the Company designated as participants by the Board of Directors and who filed a properly completed and executed participation agreement in accordance with the terms of the Executive Plan. Under the Executive Plan, the Board of Directors may grant annual incentive awards equal to a percentage of a participant's base salary at the rate in effect on the last day of the Plan year, as determined by the Board of Directors based on the attainment of criteria established annually by the Board of Directors. Incentive awards under the Executive Plan are credited to the participant's incentive benefit account as of the last day of the Executive Plan year to which the award relates and earn interest at a rate determined annually by the Board of Directors. Participants vest in their benefit accounts in accordance with the vesting schedule approved by the Board of Directors, which ranges from one to five years of service. At December 31, 2022 and 2021, $1,649 and $1,545, respectively, is included in accrued expenses and other liabilities, which represents the cumulative amounts deferred and earnings thereon. The Company recognized expenses of $745 and $589 for the years ended December 31, 2022 and 2021, respectively, related to this plan and which are included in salaries and employee benefits expense in the consolidated statements of income.

Group Term Replacement Plan

Under the terms of the "Group Term Replacement Plan", the Company provides postretirement life insurance benefits to certain officers. The liability related to these postretirement benefits is being accrued over the individual participants' service period and aggregated $1,580 and $1,423, respectively, at December 31, 2022 and 2021. The Company recognized expenses of $157 and $36 for the years ended December 31, 2022 and 2021, respectively, related to this plan which are included in salaries and employee benefits expense in the consolidated statements of income.

Other Director and Officer Postretirement Benefits

The Company has individual fee continuation agreements with certain directors and a supplemental retirement agreement with an executive officer which provide for fixed postretirement benefits to be paid to the directors and the officer, or their beneficiaries, for periods ranging from 15 to 20 years. In addition, the Company has agreements with certain directors which provide for certain postretirement life insurance benefits. The liability related to these postretirement benefits is being accrued over the individual participants' service period and aggregated $2,031 and $1,986, respectively, at December 31, 2022 and 2021. The Company recognized expenses of $88 and $75 for the years ended December 31, 2022 and 2021, respectively, related to these benefits which are included in other non-interest expenses in the consolidated statements of income.

(In thousands, except share and per share data)

11. Leases

As of December 31, 2022, the Company leases real estate for seven branch offices and two administrative offices under various lease agreements. All of our leases are classified as operating leases.

The calculated amount of the ROU assets and lease liabilities are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's leases have maturities which range from 2024 to 2041, some of which include lessee options to extend the lease term. If the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. The weighted average remaining life of the lease terms for these leases was 11.6 and 12.0 years as of December 31, 2022 and 2021, respectively. As most of our leases do not provide an implicit rate, the Company used its incremental borrowing rate, the rate of interest to borrow on a collateralized basis for a similar term, at the lease commencement date. The Company utilized a weighted average discount rate of 2.58% and 2.51% in determining the lease liability as of December 31, 2022 and 2021, respectively.

For the years ended December 31, 2022 and 2021, total operating lease costs were $898 and $731, respectively, and were included in occupancy and other expense. Deferred rent liability was $105 at December 31, 2022 and $145 at December 31, 2021. The right-of-use asset, included in other assets, was $6,896 and $7,839 as of December 31, 2022 and 2021, respectively. The corresponding lease liability, included in accrued expenses and other liabilities was $6,896 and $7,839 as of December 31, 2022 and 2021, respectively.

Future minimum payments for operating leases with initial terms of one year or more as of December 31, 2022 were as follows:

Years ending December 31:	
2023	$ 761
2024	764
2025	739
2026	720
2027	676
Thereafter	4,394
Total future minimum lease payments	8,054
Amounts representing interest	(1,158)
Present Value of Net Future Minimum Lease Payments	$ 6,896

(In thousands, except share and per share data)

12. Commitments and Contingencies

Legal Matters

The Company is involved in various legal proceedings which have arisen in the normal course of business. Management believes that resolution of these matters will not have a material effect on the Company's financial condition or results of operations.

Employment Agreements

The Company has entered into employment agreements with certain officers. The agreements provide for base salaries and incentive compensation based on performance criteria outlined in the agreements. The agreements also provide for insurance, various other benefits and addresses other contractual issues, such as a change of control.

Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include standby letters of credit and commitments to extend credit, which include new loan commitments and undisbursed portions of construction loans and other lines of credit. These financial instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of financial condition. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults and the value of any existing collateral become worthless. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Financial instruments whose contract amounts represent off-balance sheet credit risk are as follows:

	Years ended December 31,	
	2022	2021
Commitments to extend credit summarized as follows:		
Future loan commitments	$ 3,815	$ 6,830
Undisbursed construction loans	30,274	15,191
Undisbursed home equity lines of credit	9,561	11,048
Undisbursed commercial and other line of credit	77,719	78,941
Standby letters of credit	4,571	3,068
Total	$ 125,940	$ 115,078

Commitments to extend 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. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include residential and commercial property, deposits and securities.

(In thousands, except share and per share data)

13. Derivatives

Interest Rate Swaps

The Company enters into interest rate swaps that allow commercial loan customers to effectively convert a variable-rate loan agreement to a fixed-rate loan agreement. Under these agreements, the Company simultaneously enters into a variable-rate loan and interest rate swap agreements with a customer. The Company then enters into a corresponding and offsetting swap agreement with a third party to hedge its exposure created by the customer agreements. The interest rate swaps with both the customers and third parties are not designated as hedges under FASB ASC Topic 815, Derivatives and Hedging, and are marked to market through earnings. The fair values of the swaps are recorded as both an asset and a liability, in other assets and other liabilities, respectively, in equal amounts for these transactions. The accrued interest receivable and payable of $56 and $12 related to our swaps is recorded in other assets and other liabilities as of December 31, 2022 and 2021, respectively.

Summary information regarding these derivatives is presented below:

	December 31, 2022	December 31, 2021
Notational amount	$ 26,541	$ 26,842
Fair value	$ 3,578	$ 644
Weighted average pay rates	3.69%	3.69 %
Weighted average receive rates	6.30%	2.26 %
Weighted average maturity (in years)	8.79	9.78
Number of Contracts	7	7

Not included in the table above are five contracted forward rate swaps with a notional value of $30,211 and a fair value of $970 with effective dates at various points in 2023 and 2024. These forward swaps have a fixed weighted average pay rate of 4.95% and the related weighted average adjustable receive rates will be determined at the time the forward swaps become effective.

(In thousands, except share and per share data)

14. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items, as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the tables below) of total, common equity Tier 1 and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2022 and 2021, that the Bank met all capital adequacy requirements to which they are subject.

The most recent notification from the FDIC categorized the Bank as "well capitalized" under the regulatory framework. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, common equity Tier 1, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since then, which management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios were:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	December 31, 2022					
Rhinebeck Bank						
Total capital (to risk-weighted assets)	$ 139,257	12.25 %	$ 90,980	8.00 %	$ 113,725	10.00 %
Tier 1 capital (to risk-weighted assets)	131,314	11.55 %	68,235	6.00 %	90,980	8.00 %
Common equity tier one capital (to risk weighted assets)	131,314	11.55 %	51,176	4.50 %	73,921	6.50 %
Tier 1 capital (to average assets)	131,314	9.75 %	53,868	4.00 %	67,335	5.00 %
	December 31, 2021					
Rhinebeck Bank						
Total capital (to risk-weighted assets)	$ 130,217	13.54 %	$ 76,917	8.00 %	$ 96,146	10.00 %
Tier 1 capital (to risk-weighted assets)	122,658	12.76 %	57,687	6.00 %	76,917	8.00 %
Common equity tier one capital (to risk weighted assets)	122,658	12.76 %	43,266	4.50 %	62,495	6.50 %
Tier 1 capital (to average assets)	122,658	9.65 %	50,865	4.00 %	63,582	5.00 %

15. Fair Value

As described in Note 1, the Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. A description of the valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial and non-financial instruments not recorded at fair value, is set forth below.

Cash and Cash Equivalents

The carrying amount is a reasonable estimate of fair value.

Available for Sale Securities

Where quoted prices are available in an active market for identical securities, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include marketable equity securities and U.S. Treasury obligations. If quoted prices are not available, then fair values are estimated by using pricing models (i.e., matrix pricing) or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. Examples of such instruments include government agency bonds, mortgage-backed securities and municipal bonds. Level 3 securities include securities for which significant unobservable inputs are utilized. Available for sale securities are recorded at fair value on a recurring basis.

FHLB Stock

The carrying value of FHLB stock approximates fair value based on the redemption provisions of the FHLB.

Loans

Loans receivable are carried at cost. For variable rate loans which reprice frequently carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the portfolios. The fair value of fixed rate loans is estimated by discounting the future cash flows using the year end rates, estimated using local market data, at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the portfolios. The Company does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral-dependent impaired loans are recorded to reflect partial write-downs based on the observable market price or current appraised value of collateral.

Other Real Estate Owned

Other real estate owned represents real estate acquired through foreclosure and is carried at the lower of cost or fair value less estimated selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management’s estimation of the value of the collateral. These assets are included as Level 3 fair values, based upon the lowest level of input that is utilized in the fair value measurements.

Mortgage Servicing Rights

The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated future net servicing income. Mortgage servicing rights are carried at the lower of amortized cost or estimated fair value and are included in other assets on the consolidated statements of financial condition.

Deposits

Deposit liabilities are carried at cost. The fair value of NOW, savings and money market deposits is the amount payable on demand at the reporting date. The fair value of time certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities estimated using local market data to a schedule of aggregated expected maturities on such deposits.

Mortgagors' escrow account

The carrying amount is a reasonable estimate of fair value.

Advances from the FHLB

The fair value of the advances is estimated using a discounted cash flow calculation that applies current FHLB interest rates for advances of similar maturity to a schedule of maturities of such advances.

Subordinated Debt

Based on the floating rate characteristic of these instruments, the carrying value is considered to approximate fair value.

Off-Balance-Sheet Instruments

Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings. Such amounts are not significant.

Loan Level Interest Rate Swaps

The fair value is based on settlement values adjusted for credit risks associated with the counterparties and the Company and observable market interest rate curves.

(In thousands, except share and per share data)

The following tables detail the assets that are carried at fair value on a recurring basis as of the periods shown and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	December 31, 2022			
Assets:				
U.S. Treasury securities	$ 37,857	$ 37,857	$ —	$ —
U.S. government agency mortgage-backed securities-residential	144,534	—	144,534	—
U.S. government agency securities	22,449	—	22,449	—
Municipal securities	4,786	—	4,656	130
Corporate Bonds	13,217	—	13,217	—
Other	816	—	816	—
Total available for sale securities	223,659	37,857	185,672	130
Loan level interest rate swaps	4,548	—	4,548	—
Total assets	$ 228,207	$ 37,857	$ 190,220	$ 130
Liabilities:				
Loan level interest rate swaps	$ 4,548	$ —	$ 4,548	$ —
Total liabilities	$ 4,548	$ —	$ 4,548	$ —
	December 31, 2021			
Assets:				
U.S. Treasury securities	$ 59,825	$ 59,825	$ —	$ —
U.S. government agency mortgage-backed securities – residential	176,491	—	176,491	—
U.S. government agency securities	24,722	—	24,722	—
Municipal securities	6,851	—	6,706	145
Corporate Bonds	11,752	—	11,752	—
Other	642	—	642	—
Total available for sale securities	280,283	59,825	220,313	145
Loan level interest rate swaps	644	—	644	—
Total assets	$ 280,927	$ 59,825	$ 220,957	$ 145
Liabilities:				
Loan level interest rate swaps	$ 644	$ —	$ 644	$ —
Total liabilities	$ 644	$ —	$ 644	$ —

(In thousands, except share and per share data)

The following tables detail the assets carried at fair value and measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	December 31, 2022			
Impaired loans, with specific reserves	$ 319	$ —	$ —	$ 319
Total	$ 319	$ —	$ —	$ 319
	December 31, 2021			
Impaired loans, with specific reserves	$ 321	$ —	$ —	$ 321
Total	$ 321	$ —	$ —	$ 321

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent loans, fair value is commonly 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. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result 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. The fair value of impaired loans is based on the fair value of the collateral. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans evaluated under the discounted cash flow method are excluded from the table above. The discounted cash flow method as prescribed by ASC 310 is not a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate. There were no changes in valuation techniques used during the year ended December 31, 2022.

Appraisals for collateral-dependent impaired loans 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 the Company. Once received, the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value is compared with independent data sources such as recent market data or industry-wide statistics.

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans had recorded investments of $428 and $389 with valuation allowances of $109 and $68, resulting fair values of $319 and $321 at December 31, 2022 and 2021, respectively. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

(In thousands, except share and per share data)

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	Quantitative Information About Level 3 Fair Value Measurements			
	Fair Value Estimate	**Valuation Techniques**	**Unobservable Input**	**Range (Weighted Average)**
	December 31, 2022			
Impaired loans	$ 319	Appraisal of collateral (1)	Liquidation expenses (3)	0% to 6%
			Appraisal adjustments (2)	0% to 20%
	December 31, 2021			
Impaired loans	$ 321	Appraisal of collateral (1)	Liquidation expenses (3)	0% to 6%
			Appraisal adjustments (2)	0% to 20%

(1) Fair value is generally through independent appraisals of the underlying collateral that generally include various level 3 inputs which are not identifiable.
(2) Appraisals may be adjusted 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 appraised value.
(3) Estimated costs to sell.

The Company discloses fair value information about financial instruments, whether or not recognized in the statements of financial condition, for which it is practicable to estimate that value. Certain financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The estimated fair value amounts for 2022 and 2021 have been measured as of their respective reporting dates and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than amounts reported at each year-end.

The fair value estimates presented and discussed are based on pertinent information available to management as of the dates specified. The estimated fair value amounts are based on the exit price notion set forth by ASU 2016-01. Although management is not aware of any factors that would significantly affect the estimated fair values, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since the balance sheet dates. Therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The information presented should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

(In thousands, except share and per share data)

As of the following dates, the carrying value and fair values of the Company's financial instruments were:

	December 31, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and cash equivalents (Level 1)	$ 31,384	$ 31,384	$ 72,091	$ 72,091
Available for sale securities (Level 1)	37,857	37,857	59,825	59,825
Available for sale securities (Level 2)	185,672	185,672	220,313	220,313
Available for sale securities (Level 3)	130	130	145	145
Loan level interest rate swaps (Level 2)	4,548	4,548	644	644
FHLB stock (Level 2)	3,258	3,258	1,322	1,322
Loans, net (Level 3)	994,368	953,432	854,967	855,542
Mortgage servicing rights (Level 3)	2,409	5,211	2,633	4,892
Financial Liabilities:				
Deposits (Level 2)	1,129,933	1,001,455	1,101,999	1,083,541
Mortgagors' escrow accounts (Level 2)	9,732	9,723	9,130	9,137
FHLB advances (Level 2)	57,723	57,739	18,041	18,151
Subordinated debt (Level 2)	5,155	5,155	5,155	5,155
Loan level interest rate swaps (Level 2)	4,548	4,548	644	644

(In thousands, except share and per share data)

16. Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss for the years ended December 31, 2022 and 2021, is as follows:

	Accumulated Other Comprehensive Loss[1]		
	Defined Benefit Pension Plan	Unrealized (losses) gains on available for sale securities	Total
Balance at December 31, 2021	$ (3,901)	$ (2,734)	$ (6,635)
Other comprehensive loss before reclassifications	(307)	(25,592)	(25,899)
Amounts reclassified from accumulated other comprehensive loss	211	134	345
Period change	(96)	(25,458)	(25,554)
Balance at December 31, 2022	$ (3,997)	$ (28,192)	$ (32,189)
Balance at December 31, 2020	$ (4,784)	$ 993	$ (3,791)
Other comprehensive gain (loss) before reclassifications	600	(3,730)	(3,130)
Amounts reclassified from accumulated other comprehensive loss	283	3	286
Period change	883	(3,727)	(2,844)
Balance at December 31, 2021	$ (3,901)	$ (2,734)	$ (6,635)

(1) All amounts are net of tax. Related income tax expense or benefit is calculated using an income tax rate of 21.0%.

Details about accumulated other comprehensive loss components are as follows:

	Amount Reclassified from Accumulated Other Comprehensive Income for the Year Ended December 31,		Affected Line Item in the Consolidated Statement of Income
	2022	2021	
Securities available for sale[1]:			
Net securities losses reclassified into earnings	$ (170)	$ (4)	Net realized loss on sales and calls of securities
Related income tax expense	36	1	Provision for income taxes
Net effect on accumulated other comprehensive loss for the period	(134)	(3)	
Defined benefit pension plan[2]:			
Amortization of net loss and prior service costs	(267)	(358)	Other non-interest expense
Related income tax expense	56	75	Provision for income taxes
Net effect on accumulated other comprehensive loss for the period	(211)	(283)	
Total reclassifications for the period	$ (345)	$ (286)	

(1) For additional details related to unrealized gains and losses on securities and related amounts reclassified from accumulated other comprehensive loss see Note 3, “Available for Sale Securities.”

(2) Included in the computation of net periodic pension cost. See Note 10, “Employee Benefits” for additional details.

(In thousands, except share and per share data)

17. Earnings Per Share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed in a manner similar to that of basic earnings per share except that the weighted-average number of common shares outstanding is increased to include the number of incremental shares (computed using the treasury method) that would have been outstanding if all potentially dilutive common stock equivalents (such as options) were issued during the period. Unearned ESOP shares are not deemed outstanding for earnings per share calculations.

	Year Ended December 31,	
	2022	2021
Net income applicable to common stock	$ 6,997	$ 11,558
Average number of common shares outstanding	11,199,387	11,151,064
Less: Average unearned ESOP shares	360,052	381,873
Average number of common shares outstanding used to calculate basic earnings per common share	10,839,335	10,769,191
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	49,650	73,235
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	115,612	111,940
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	11,004,597	10,954,366
Earnings per Common share:		
Basic	$ 0.65	$ 1.07
Diluted	$ 0.64	$ 1.06

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RHINEBECK BANCORP, INC.

March 23, 2023

By:/s/ Michael J. Quinn
Michael J. Quinn
President and Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Michael J. Quinn Michael J. Quinn	President, Chief Executive Officer and Director (Principal Executive Officer)	March 23, 2023
/s/ Michael J. McDermott Michael J. McDermott	Chief Financial Officer (Principal Financial and Accounting Officer)	March 23, 2023
/s/ William C. Irwin William C. Irwin	Chairman of the Board	March 23, 2023
/s/ Frederick Battenfeld Frederick Battenfeld	Director	March 23, 2023
/s/ Donald E. Beeler Jr. Donald E. Beeler Jr.	Director	March 23, 2023
/s/ Christopher W. Chestney Christopher W. Chestney	Director	March 23, 2023
/s/ Freddimir Garcia Freddimir Garcia	Director	March 23, 2023
/s/ Steven Howell Steven Howell	Director	March 23, 2023
/s/ Shannon Martin LaFrance Shannon Martin LaFrance	Director	March 23, 2023
/s/ Suzanne Rhulen-Loughlin Suzanne Rhulen-Loughlin	Director	March 23, 2023

BOARD OF DIRECTORS

William C. Irwin
Chairman of the Board

Frederick L. Battenfeld

Donald E. Beeler, Jr.

Christopher W. Chestney

Freddimir Garcia

Steven E. Howell

Shannon Martin LaFrance

Suzanne Rhulen-Loughlin

Michael J. Quinn

Louis Tumolo, Jr. DVM
(Rhinebeck Bank Board only)

EXECUTIVE OFFICERS

Michael J. Quinn
President & Chief Executive Officer

Jamie J. Bloom
Chief Operating Officer

James T. McCardle III
Chief Credit Officer

Michael J. McDermott
Chief Financial Officer

Philip J. Bronzi
Chief Lending Officer

Timmian C. Massie
Chief Marketing / Public Affairs Officer

Karen E. Morgan-D'Amelio
Chief Risk Officer & General Counsel/
Corporate Secretary

Francis X. Dwyer
President of Rhinebeck Asset Management

MANAGEMENT TEAM

Stephanie Baran
VP, Residential Mortgage Sales Manager

Jeanine Borko
SVP, Human Resources

Megan Bourgoin
VP, Compliance Officer/Assistant Secretary

David Curry
VP, Commercial Lender, Hudson Valley West

Michelle Cussick-Kelsoe
VP, Information Technology Project Manager

Catherine Kantrowitz
VP, Residential Mortgage Loan Operations Manager

Richard Kolosky
SVP, Commercial Team Leader, Hudson Valley East

Patrick Laffin
SVP, Deposit and Loan Operations

Phillip Lekanides
VP, Controller

Michael Liguori
VP, Commercial Lender, Hudson Valley East

Vincent LoBosco
SVP, Consumer Lending

Mark Malone
SVP, Retail Banking

Tonya McCaughey
VP, Area Retail Leader

Dylan Murphy
VP, Credit Administration Manager

Sharon Nameth
VP, Collections Manager

Brooke O'Connell
VP, Area Retail Leader

Cassandra Paupst
VP, Commercial Credit Analysis

Alissa Provanzana
SVP, Financial Advisor

John Rose
SVP, Indirect Lending

Dawn Scherer
SVP, Information Technology

Lisa Schumm
VP, Financial Reporting

Roy Shemitz
SVP, Commercial Team Leader, Hudson Valley West

Yvette Temple
VP, Retail Operations Leader & CSC Manager

Kenneth Zwicklbauer
SVP, Commercial Lender, Capital Market

SHAREHOLDER INFORMATION

Annual Meeting
The annual meeting, scheduled for Tuesday, May 23, 2023 at 11:00 a.m., Eastern time, will be conducted exclusively online via a live webcast at https://www.cstproxy.com/rhinebeckbancorp/2023.

To participate in the virtual meeting as a registered shareholder, you will need the 12-digit control number included on your proxy card.

Telephone access (listen-only):
Within the U.S. and Canada: 1-800-450-7155 (toll-free)
Outside of the U.S. and Canada: +1 857-999-9155 (standard rates apply)
Conference ID: 6909824#

Stock Listing
The common stock is traded on the NASDAQ Capital Market under the ticker symbol RBKB.

Auditor
Wolf & Company, P.C.
255 State Street
Boston, MA 02109

Legal Counsel
Luse Gorman, PC
5335 Wisconsin Ave., NW, Suite 780
Washington, DC 20015

Transfer Agent
Continental Stock Transfer & Trust Co.
1 State Street, 30th Floor
New York, NY 10004

Shareholder Inquiries
Michael J. Quinn - President & CEO - Rhinebeck Bank
(845) 790-1501 MQuinn@RhinebeckBank.com

Branches

Arlington
708 Dutchess Turnpike
Poughkeepsie, NY 12603

Beacon Area
1476 Route 9D
Wappingers Falls, NY 12590

East Fishkill
2523 Route 52
Hopewell Junction, NY 12533

Fishkill
1022 Main Street
Fishkill, NY 12524

Goshen
252 Main Street
Goshen, NY 10924

Hyde Park
1075 Violet Avenue
Hyde Park, NY 12538

Kingston
27 Main Street
Kingston, NY 12401

Mid Hudson Center
3432 North Road
Poughkeepsie, NY 12601

Middletown
357 East Main Street
Middletown, NY 10941

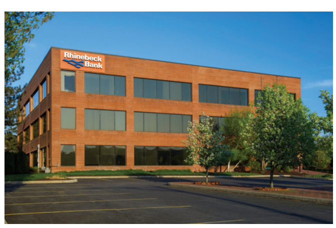
Newburgh
456 Broadway
Newburgh, NY 12550

Red Hook
7350 South Broadway
Red Hook, NY 12571

Rhinebeck
6414 Montgomery Street
Rhinebeck, NY 12572

South Road
1898 South Road
Poughkeepsie, NY 12601

Warwick
62 Main Street, Suite 1
Warwick, NY 10990



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