Risk Factors Comparison 2024-03-26 to 2023-03-23 Form: 10-K

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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~~ **region of** 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~~ **Weaknesses** 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~~ **credit** 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 **operations and** 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~~ **regulations** 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. **Lawmakers' failure to address the federal debt ceiling in a timely manner, downgrades of the U. S. credit rating and uncertain credit and financial market conditions may affect the stability of securities issued or guaranteed by the federal government, which may affect the valuation or liquidity of our investment securities portfolio and increase future borrowing costs. As a result of uncertain political, credit and financial market conditions, including the potential consequences of the federal government defaulting on its obligations for a period of time due to federal debt ceiling limitations or other unresolved political issues, investments in financial instruments issued or guaranteed by the federal government pose credit default and liquidity risks. Given that future deterioration in the U. S. credit and financial markets is a possibility, no assurance can be made that losses or significant deterioration in the fair value of our U. S. government issued or guaranteed investments will not occur. At December 31, 2023, we had approximately $ 23. 2 million and $ 128. 6 million in U. S. government agency securities and residential mortgage- backed securities issued or guaranteed by government- sponsored enterprises, respectively, and $ 24. 0 million in U. S. treasury securities. Downgrades to the U. S. credit rating could affect the stability of securities issued or guaranteed by the federal government and the valuation or liquidity of our portfolio of such investment securities, and could result in our counterparties requiring additional collateral for our borrowings.** Further, ~~a~~ **unless and until** U. S. ~~government debt default would~~ **political, credit and financial market conditions** have **been sufficiently resolved** ~~a material adverse impact on our~~ - **or stabilized** ~~business and financial performance~~ , **we may face** ~~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~~ **increases** ~~default rates among borrowers~~ in ~~light of increased economic uncertainty. Some of these impacts might occur~~ -- **our future borrowing costs** ~~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 **has been substantially reduced to 3** ~~while currently declining, was still at 6~~ . ~~5~~ **4** % as of December 31, ~~2022~~ **2023** . **The** ~~As a result, the~~ Federal Reserve ~~has continued to increase~~ **increased** 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~~ **increased** , the value of our investment securities, particularly those with longer maturities, ~~would decrease~~ **decreased** . 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 **RatesChanges** ~~RatesThe 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. 33If interest rates rise, and the interest rates on our deposits ~~increased~~ **increase** 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. **On** ~~During the year ended~~ December 31, ~~2022~~ **2023** , we ~~incurred~~ **recorded** other comprehensive losses, net of tax, of $ ~~25~~ **26** . ~~5~~ **1** million related to net changes in unrealized holding losses in ~~the~~ **our** available- for- sale investment securities portfolio. Any substantial ~~,~~ **or** 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~~ **impact** 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 ActivitiesOur automobile lending exposes us to increased credit risks. At December 31, ~~2022~~ **2023** , $ ~~457~~ **394** . 2 million, or ~~46~~ **39** . ~~2~~ **1** % of our total loan portfolio and ~~34~~ **30** . ~~2~~ **0** % of our total assets, consisted of indirect automobile loans, which ~~represents~~ **represented** loans originated through automobile dealers for the purchase of new or used automobiles. At that date, $ ~~8~~ **7** . ~~3~~ **0** million, or ~~0~~ **6** . ~~8~~ **9** % 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. " 34Our 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~~ **2023** , our commercial real estate (which includes multi- family real estate loans and commercial construction loans) and commercial business loans totaled $ ~~458~~ **517** . ~~5~~ **0** million, or ~~46~~ **51** . 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. **In addition, changes in consumer preferences about where they work, live, shop and eat can also impact commercial real estate, which could result in declines in occupancy and declines in property values.** 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~~ **credit** losses may not be sufficient to cover actual loan losses. We maintain an allowance for ~~loan~~ **credit** losses, which is established through a provision for ~~loan~~ **credit** losses that represents management' s best estimate of ~~probable incurred~~ **the lifetime expected** losses **on** ~~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~~ **credit** 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~~ **credit** losses may not be sufficient to cover losses inherent in our loan portfolio, and adjustments may be necessary. ~~A problem~~ **The Company adopted the current expected credit loss model (" CECL "), effective January 1, 2023, which replaced the previous " incurred loss " model for measuring credit losses** with ~~one~~ **an " expected life of loan loss " model referred to as the CECL model. The CECL methodology substantially changed how the Company calculates its allowance** ~~or~~ **for** ~~more~~ **credit losses, and the ongoing impact of the adoption is dependent on various factors, including credit quality, macroeconomic forecasts and conditions, composition of our** loans ~~could require us to significantly increase our provision~~ **and securities portfolios, and other management judgements. There can be no assurance that the Company' s allowance** for ~~loan~~ **credit losses will be adequate to cover actual** losses. In addition, federal and state regulators periodically review our allowance for ~~loan~~ **credit** losses and may require us to increase our provision for ~~loan~~ **credit** 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~~ **2023** , $ ~~112~~ **304** . ~~4~~ **8** million, or ~~11~~ **30** . ~~3~~ **2** % of our total loan portfolio and ~~39~~ **71** . ~~8~~ **2** % 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. 35We 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 **so** ~~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. **Risks Related to Our Funding Our inability to generate core deposits may cause us to rely more heavily on wholesale funding strategies for funding and liquidity needs, which could have an adverse effect on our net interest margin and profitability. We must maintain sufficient funds to respond to the needs of depositors and borrowers. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also receive funds from loan repayments, investment maturities and income on other interest- earning assets. While we emphasize generating transaction accounts, we cannot guarantee if and when this will occur. Further, the considerable competition for deposits in our market area also has made, and may continue to make, it difficult for us to obtain reasonably priced deposits. Moreover, deposit balances can decrease if customers perceive alternative investments as providing a better risk / return tradeoff. If we are not able to increase our lower- cost transactional deposits at a level necessary to fund our asset growth or deposit outflows, we may be forced seek other sources of funds, including other certificates of deposit, FHLB advances, brokered deposits and lines of credit to meet the borrowing and deposit withdrawal requirements of our customers, which may be more expensive and have an adverse effect on our net interest margin and profitability. In this regard, total deposits decreased $ 99. 4 million, or 8. 8 %, to $ 1. 031 billion at December 31, 2023 from $ 1. 130 billion at December 31, 2022. The decrease in deposits has led the Bank to increase Federal Home Loan Bank advances in recent periods to fund loan growth and to maintain on- balance sheet liquidity. This has resulted in an increase from $ 57. 7 million in FHLB advances at December 31, 2022 to $ 128. 1 million at December 31, 2023 and a corresponding increase in borrowing expense to $ 5. 1 million for the year ended December 31, 2023 as compared to $ 1. 1 million for the year ended December 31, 2022.** Risk Related to our Business StrategyOur **long- term** 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~~ **decreased** $ ~~54~~ **22** . 8 million, or ~~4~~ **1** . ~~3~~ **7** %, from $ 1. ~~28~~ **336** billion at December 31, ~~2021~~

2022 to $ 1. ~~33~~ **313** billion at December 31, ~~2022~~ **2023**, primarily due to **decreases in cash and available for sale securities, partially offset by an** ~~increases~~ - **increase** in loans. ~~Over~~ **We expect** the **balance sheet to decrease** next ~~several years~~ - **year** ~~, we~~ **due to the rebalancing of our portfolio and then stabilize in 2025. We then** expect to ~~experience~~ **resume** moderate growth in our total assets and deposits **going forward**, ~~and~~ **accompanied by relative increases in** 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.~~ 36Risks Related to Laws and RegulationsChanges 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~~ **credit** 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. " 37Climate 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 TechnologyRegulations 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~~ **which** are increasingly subject to change ~~which~~ **and that** 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. **38While our Board of Directors takes an active role in cybersecurity risk tolerance, we rely to a large degree on management and outside consultants in overseeing cybersecurity risk management.** ~~38Our~~ -- **Our Board of Directors takes an active role in our cybersecurity risk management and all members receive cybersecurity training annually. The Board reviews the annual risk assessments and approves information technology policies, which include cybersecurity. Furthermore, our Audit Committee is responsible for reviewing all audit findings related to information technology general controls, internal and external vulnerability, and penetration testing. The Board receives an annual information security report from our virtual Chief Information Security Officer and Chief Executive Officer as it relates to cybersecurity and related issues. We also engage outside consultants to support our cybersecurity efforts. However, our directors do not have significant experience in cybersecurity risk management outside of the Company and therefore, its ability to fulfill its oversight function remains dependent on the input it receives from management and outside consultants. 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 OperationsOur 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~~ **36** . 4 million and $ ~~35~~ **37** . ~~5~~ **4** million for the years ended December 31, **2023 and** 2022 ~~and 2021~~ , respectively. Although we **have decreased** ~~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 **83. 28 % and** 78. **4** ~~40 % and 75. 82~~ % for the years ended December 31, **2023 and** 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. **At** ~~During the year ended~~ December 31, ~~2022~~ **2023** , **our** ~~we incurred~~ other comprehensive losses, net of tax, of $ ~~25~~ **26** . ~~5~~ **1** million **was** 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 **related to credit losses** on **at least** 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~~ **39Strong** 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. " ~~39A~~ **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 **and** ~~. Additional liquidity is provided by our ability to borrow~~ **borrowings** from the FHLB of New York **and the Federal Reserve** ~~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 **liquidity is** ~~access to funding sources could~~ also ~~be~~ affected by a decrease in the ability to sell mortgage portfolios as a result of **our decision to retain more mortgage loans in the portfolio,** 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. 40The value of our goodwill may decline in the future. As of December 31, 2023, we had $ 2. 2 million of goodwill. A significant decline in our expected future cash flows, a significant adverse change in the business climate or slower growth rates, any or all of which could be materially impacted by many of the risk factors discussed herein, may necessitate our taking charges in the future related to the impairment of our goodwill. Future regulatory actions could also have a material impact on assessments of goodwill for impairment. If we were to conclude that a future write- down of our goodwill is necessary, we would record the appropriate charge, which could have a material adverse effect on our** 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~~ **Allowance** for

~~loan~~ **credit** losses, the determination of our deferred income taxes, our fair value measurements and our determination of goodwill impairment. ~~40Our~~ -- **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 StockWe may not pay any dividends on our common stock. **The Company** ~~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~~ **41Our** 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 **the Company** ~~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 **the Company** ~~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 **the Company** ~~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. ~~41~~ **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. 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. 42**