2023 Annual Report
Ballston Spa Bancorp, Inc.

BSNB

Ballston Spa Bancorp, Inc.

OUR MISSION

At BSNB, we seek to be recognized as a high performing community bank by adding value to and building strong relationships with our shareholders, customers, employees, and community.

To achieve our goal, we are committed to the following objectives:

- To consistently exceed expectations and treat every customer as if we've known them our entire life;
- To give back and strengthen the communities where we work and live;
- To continually improve and enhance the value we deliver to our customers, staff, and community;
- To constantly surprise people with what a bank can be and the impact it can have on customers and the community;
- To a belief that actions and not just words define who we are as a company.

THE YEAR IN REVIEW

(Dollars in thousands, except per share data)	December 31,	2023		2022
FOR THE YEAR ENDED				
Net income	$	4,783	$	6,093
Basic earnings per share		6.44		8.20
Dividends declared per share		1.32		1.32
AT YEAR-END				
Total assets	$	823,533	$	755,783
Loans		708,869		627,646
Deposits		689,238		657,557
Shareholders' equity		59,831		52,730
Book value per share		80.56		71.00
Tangible book value per share		78.23		68.54
ASSET QUALITY RATIOS				
Nonperforming loans to total loans		0.18%		0.22%
Nonperforming assets to total assets		0.15		0.18
Allowance for loan losses to:				
Total loans		1.14		1.33
Nonperforming loans		642.49		609.17

REGULATORY CAPITAL RATIOS			Required Ratios	
	December 31, 2023 Actual	December 31, 2022 Actual	Minimum capital adequacy	Classified as well capitalized
Tier 1 leverage ratio	7.23%	7.93%	4.00%	5.00%
Tier 1 risk-based capital ratio	9.07	10.48	6.00	8.00
Common equity tier 1 capital	9.07	10.48	4.50	6.50
Total risk-based capital ratio	11.54	13.07	8.00	10.00

"...we are confident in our plan and ability to deliver enhanced value to shareholders, customers and community over the long-term."

Christopher R. Dowd
President and Chief Executive Officer

TO OUR SHAREHOLDERS,

We are pleased to report that the financial performance of Ballston Spa Bancorp, Inc., parent company of Ballston Spa National Bank, remained strong in 2023. The company achieved solid loan and deposit growth and accomplished key objectives designed to enhance the level of service and support we provide to our customers and community.

Financial Highlights

Net income for the Company totaled $4.8 million or $6.44 per share in 2023, down 21.50% from the $6.1 million or $8.20 per share reported in 2022. Results were negatively affected by a unique opportunity to reposition certain investment securities during the fourth quarter of 2023 to capitalize on the elevated interest rate environment. More specifically, the Company sold approximately $29.4 million of available-for-sale securities with an average yield of 2.62%, resulting in a pretax loss of $1.3 million in the current period. Proceeds from the sale were reinvested in available-for-sale securities with an average yield of approximately 5.38%. The yield pickup derived from this strategic transaction is expected to more than offset the current period loss without materially extending duration.

Company performance in 2023 was also impacted by solid growth in both loan and deposit portfolios. Commercial and residential lending portfolios contributed strong results with commercial and commercial real estate loan balances increasing $38.8 million or 12.52% over year-end 2022, and residential mortgage loan balances increasing by $36.1 million or 13.43% for the same period.

Asset growth in 2023 was funded in part by increased overnight borrowing and also a $31.7 million or 4.82% increase in total deposits to $689.2 million at December 31, 2023. While competition for deposits picked up significantly during the year, the Company was successful in retaining existing relationships and achieving solid overall growth in both commercial and retail deposit balances. A large influx of retail deposits during the third quarter of 2023 served to limit reliance on higher cost overnight funding and offset a decline in municipal deposit balances during the year.

Furthermore, I am especially pleased to report that growth in the Company's loan portfolios over recent years has not had a negative impact on credit quality indicators. In fact, problem loan levels remain at historic lows. Nonperforming loan balances represented just 0.18% of total loans as of December 31, 2023, down 0.04% from the 0.22% recorded at year-end 2022. Balance sheet strength is further evidenced by our Tier 1 capital ratio which stood at 10.39% as of December 31, 2023, a level well above regulatory minimums.

Given our solid financial foundation, we believe the Company is well positioned to pursue growth opportunities in the years ahead.

Building for the Future

Recognizing our solid financial performance and foundation, management has undertaken strategies and initiatives during the year designed to enhance our service and support. For example:

- Earlier this year, we announced that Richard P. Sleasman was named the new board chair for Ballston Spa Bancorp, Inc. Mr. Sleasman joined the board of directors in 2016 and is the president and managing director of CBRE Upstate NY. With more than 35 years of experience in commercial real estate brokerage and property management services, his leadership experience, business insight and knowledge of the capital region make him an ideal person to fill this role;

- In related news, Dr. Dawn Abbuhl was named the new vice chair of Ballston Spa Bancorp, Inc. Dr. Abbuhl is the president of Repeat Business Systems, providing office hardware, software and IT systems in New York, Vermont and Massachusetts. Dr. Abbuhl is also a New York state licensed psychologist. She joined the board in 2018 and her entrepreneurial success and commitment to service and community have contributed to the ongoing success of the Company;

- The Company introduced a new Homebuyer Assistance Program designed to help greater numbers of families achieve the dream of homeownership in our communities. BSNB's grant provides a lender credit of $5,000 that income-eligible borrowers may use towards non-recurring closing costs or to supplement a down payment;

- Despite the challenges of the current labor environment, we were successful in recruiting experienced professionals for key positions within the Company, including new leaders for the customer support operations team and the information technology team. We continue to focus on the development and retention of highly qualified staffing resources and were pleased to be recognized once again as one of the best places to work in the greater capital region by the Albany Business Review.

Community Support

Over the course of 2023, BSNB also built upon its record of strong community support. The Company and BSNB Charitable Foundation continued to fund scholarships at area high schools as well as provide meaningful and targeted support to dozens of organizations focused on health and human services, education, youth, veterans, community development and other worthy causes.

In May, we turned our attention to BSNB's Annual Community Support Day. BSNB locations across the capital region closed early, allowing nearly 130 employees to collectively volunteer their time supporting Adopt-A-Highway, Ballston Spa Village Cemetery, Saratoga County History Center at Brookside Museum, LifeWorks Community Action, Rebuilding Together Saratoga County, and Veterans & Community Housing Coalition, Inc.

Volunteer efforts extended beyond our annual event and made a difference in our communities throughout the year. Through the Volunteers in Action program, employees collected food and monetary donations for area food pantries, participated in the Toys for Tots campaign, raised funds for Breast Cancer, Juvenile Diabetes and the Saratoga County Children's Committee as well as lending their expertise on various boards and committees.

Moving Forward

We anticipate the elevated interest rate environment and heightened competition for deposits will continue to negatively impact our funding costs and interest margins in the near term thereby limiting income growth potential. That said, given the strength of our balance sheet and staff, we are focused on the pursuit of additional growth opportunities and strategies to further enhance operating efficiencies, products, services and delivery channels. Despite the headwinds, we are confident in our plan and ability to deliver enhanced value to shareholders, customers and community over the long-term.

On behalf of our Board of Directors and staff, we thank you for your support.

Christopher R. Dowd
President and Chief Executive Officer

At or for the years ended December 31, (In thousands, except per share amounts)	2023	2022	2021	2020	2019
EARNINGS					
Interest income	$ 34,247	$ 25,611	$ 22,908	$ 23,089	$ 22,438
Interest expense	10,852	2,708	1,918	2,968	4,072
Net interest income	23,395	22,903	20,990	20,121	18,366
Provision for loan losses	480	360	756	1,167	725
Non-interest income	1,910	2,672	4,471	4,282	3,215
Non-interest expense	19,208	18,014	18,037	17,252	16,146
Income before tax expense	5,617	7,201	6,668	5,984	4,710
Tax expense	834	1,108	1,514	995	805
Net income	4,783	6,093	5,154	4,989	3,905
PER SHARE DATA					
Basic earnings	$ 6.44	$ 8.20	$ 6.94	$ 6.72	$ 5.26
Cash dividends declared	1.32	1.32	1.32	1.32	1.32
Book value at year-end	80.56	71.00	67.16	60.88	54.90
Tangible book value at year-end	78.23	68.54	64.53	58.20	52.62
Closing market price	52.00	60.00	48.00	45.00	57.00
AVERAGE BALANCES					
Total assets	$ 797,408	$ 763,813	$ 726,750	$ 646,346	$ 553,477
Earning assets	771,652	740,680	704,313	623,646	531,667
Loans	666,914	570,249	524,022	497,512	451,979
Securities available for sale	74,467	77,448	70,623	70,660	72,132
Deposits	677,711	680,470	643,532	564,722	448,747
Borrowings	53,435	22,982	25,862	29,211	60,533
Shareholders' equity	55,959	51,015	47,616	43,159	38,682

American Banker's Top 200 Community Bank

#149 in the Nation

American Banker, a leading industry publication, included Ballston Spa Bancorp, Inc. on their list of Top 200 Community Banks for 2023. BSNB was ranked #149 nationally and was one of only seven New York State banks included on the list.

UNAUDITED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts) December 31,	2023	2022
ASSETS		
Cash and due from banks	$ 6,379	$ 5,827
Short-term investments	17,356	16,061
Securities available for sale, at fair value	64,625	81,970
FHLB of NY & FRB stock, at cost	6,795	5,472
Loans	708,869	627,646
Allowance for loan losses	(8,076)	(8,346)
Net loans	700,793	619,300
Premises and equipment, net	10,026	10,181
Accrued interest receivable	2,767	2,372
Goodwill	1,595	1,595
Bank owned life insurance	5,326	5,185
Other assets	7,871	7,820
Total assets	$ 823,533	$ 755,783
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand Deposits	$ 149,292	$ 147,399
Savings	101,522	113,633
NOW and money markets	343,026	355,693
Time Deposits	95,398	40,832
Total Deposits	689,238	657,557
FHLB borrowings, short-term	25,050	22,000
FHLB borrowings, long-term	30,000	-
Junior subordinated debentures	7,750	12,905
Other liabilities	11,664	10,591
Total liabilities	763,702	703,053
Shareholders' Equity:		
Common stock $12.50 par value. Authorized 10,000,000 shares; issued 768,000 shares at December 31, 2023 and 2022	9,600	9,600
Preferred stock $12.50 par value. Authorized 2,000,000 shares; none issued at December 31, 2023 and 2022	-	-
Additional paid-in-capital	42	42
Treasury stock, at cost (25,337 shares at December 31, 2023 and 2022)	(991)	(991)
Retained earnings	52,325	48,018
Accumulated other comprehensive loss	(1,145)	(3,939)
Total shareholders' equity	59,831	52,730
Total liabilities and shareholders' equity	$ 823,533	$ 755,783

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share and per share amounts) Years ended December 31,		2023		2022
INTEREST AND FEE INCOME				
Loans, including fees	$	29,651	$	22,482
Securities available for sale		2,776		1,843
FHLB of NY & FRB stock		515		282
Short-term investments		1,305		1,004
Total interest and fee income		34,247		25,611
INTEREST EXPENSE				
Deposits		8,189		1,688
FHLB borrowings, short-term		1,195		316
FHLB borrowings, long-term		820		-
Junior subordinated debentures		648		704
Total interest expense		10,852		2,708
Net interest income		23,395		22,903
Provision for loan losses		480		360
Net interest income after provision for loan losses		22,915		22,543
NON-INTEREST INCOME				
Service charges on deposit accounts		612		676
Trust and investment services income		1,239		1,103
Net loss on sale and call of securities		(1,358)		(1,132)
Net gain on sale of fixed assets		19		-
Debit card interchange income		845		819
Earnings on bank owned life insurance		141		139
Other		412		1,067
Total non-interest income		1,910		2,672
NON-INTEREST EXPENSE				
Compensation and benefits		11,639		10,706
Occupancy and equipment		1,904		1,801
FDIC and OCC assessment		676		519
Advertising and public relations		441		373
Legal and professional fees		836		918
Data processing		1,042		1,047
Debit card processing		453		443
Other		2,217		2,207
Total non-interest expense		19,208		18,014
INCOME BEFORE INCOME TAX EXPENSE		5,617		7,201
Income tax expense		834		1,108
NET INCOME	$	4,783	$	6,093
Basic earnings per share	$	6.44	$	8.20
Weighted average common shares outstanding		742,663		742,663

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands) Years ended December 31,	2023	2022
NET INCOME	**$ 4,783**	$ 6,093
Other comprehensive income (loss), net of tax:		
Unrealized holding losses on other-than-temporary impaired securities arising during period, net of tax	**(4)**	(42)
Unrealized holding gain (loss) on securities arising during period, net of tax	**2,129**	(3,380)
Unrealized holding (loss) gain on cash flow hedges, net of tax	**(30)**	478
Changes in funded status of pension plan, net of tax	**699**	687
Total other comprehensive income (loss), net of tax	**2,794**	(2,257)
TOTAL COMPREHENSIVE INCOME	**$ 7,577**	$ 3,836

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2023 and 2022 (In thousands, except per share amounts)	Common stock	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income	Total share-holders' equity
Balance at January 1, 2022	$ 9,600	$ 42	$ (991)	$ 42,905	$ (1,682)	$ 49,874
Comprehensive income:						
Net income				6,093		6,093
Other comprehensive loss, net of tax:					(2,257)	(2,257)
Cash dividends declared ($1.32 per share)				(980)		(980)
Balance at December 31, 2022	$ 9,600	$ 42	$ (991)	$ 48,018	$ (3,939)	$ 52,730
Cumulative effect of change in accounting principle - Topic 326				504		504
Balance January 1, 2023 as adjusted for change in accounting principle	9,600	42	(991)	48,522	(3,939)	53,234
Comprehensive income:						
Net income				**4,783**		**4,783**
Other comprehensive income, net of tax:					**2,794**	**2,794**
Cash dividends declared ($1.32 per share)				**(980)**		**(980)**
Balance at December 31, 2023	**$ 9,600**	**$ 42**	**$ (991)**	**$ 52,325**	**$ (1,145)**	**$ 59,831**

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) Years ended December 31,		2023		2022
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$	**4,783**	$	6,093
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		**582**		578
Provision for loan losses		**480**		360
Net premium (accretion) amortization on securities		**(544)**		115
Deferred tax benefit		**(154)**		(134)
Net loss on sale and call of securities		**1,358**		1,132
Earnings on bank-owned life insurance		**(141)**		(139)
Net increase in accrued interest receivable		**(395)**		(647)
Net decrease (increase) in other assets		**114**		(179)
Net increase in other liabilities		**801**		178
Net cash provided by operating activities		**6,884**		7,357
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturities, calls and paydowns of securities available for sale		**24,440**		16,982
Proceeds from sale of securites available for sale		**44,225**		27,613
Purchases of securities available for sale		**(49,258)**		(61,567)
Net purchases of FHLB stock		**(1,323)**		(266)
Net loans made to customers		**(81,290)**		(94,720)
Proceeds from bank-owned life insurance		**-**		326
Purchases of premises and equipment		**(427)**		(1,634)
Net cash used in investing activities		**(63,633)**		(113,266)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in deposits		**31,681**		(26,988)
Net increase in short-term FHLB borrowings		**3,050**		12,000
Issuance of long-term FHLB borrowings		**30,000**		-
Redemption of Trust Preferred Security		**(5,155)**		-
Dividends paid		**(980)**		(980)
Net cash provided by financing activities		**58,596**		(15,968)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**1,847**		(121,877)
Cash and cash equivalents at beginning of year		**21,888**		143,765
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	**23,735**	$	21,888

See accompanying notes to unaudited consolidated financial statements.

BALLSTON SPA BANCORP, INC. AND SUBSIDIARIES

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Ballston Spa Bancorp, Inc. (the Parent Company) and its subsidiaries (collectively referred to as the Company) conform to accounting principles generally accepted in the United States of America and reporting practices followed by the banking industry. A summary of the more significant policies is described below.

Organization

The Company is a bank-based financial services company. The Parent Company's banking subsidiary, Ballston Spa National Bank (the Bank), is a community-based commercial bank and provides a wide range of banking, financing, fiduciary, brokerage and other financial services to corporate, municipal, and individual customers through its thirteen branch offices.

The Company has established Ballston Statutory Trust I (the Trust), which was organized for the purposes of (i) issuing and selling 30-year guaranteed preferred beneficial interests in the Company's junior subordinated debentures in the aggregate amount of $5 million bearing interest at the 3-month LIBOR plus 310 basis points; (ii) using the proceeds from the sale of the capital securities to acquire the junior subordinated debentures issued by the Company and (iii) engaging in only those other activities necessary, advisable, or incidental thereto. The junior subordinated debentures are the sole assets of the Trust and, accordingly, payments under the Company obligated junior debentures are the sole revenue of the Trust. All of the common securities of the Trust are owned by the Company. The Company has used the net proceeds from the sale of the capital securities for general business purposes. The Company is not considered the primary beneficiary of the Trust, therefore, the Trust is not consolidated for financial statement purposes and the subordinated debentures are shown as a liability. The subordinated debentures may be included in Tier 1 capital under current regulatory definitions. In April of 2023, Management made the decision to dissolve Ballston Statutory Trust I effective June 2023.

The Company established a Nevada-based captive insurance subsidiary, Ballston Spa Risk Management, Inc. in 2016. Ballston Spa Risk Management, Inc. is a wholly owned subsidiary which insures against certain risks for which insurance may not be currently available or economically feasible in today's insurance marketplace. Ballston Spa Risk Management, Inc. pools resources with several other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among the participants.

Basis of Presentation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated. The Company utilizes the accrual method of accounting for financial reporting purposes. Amounts in the prior year's consolidated financial statements have been reclassified whenever necessary to conform with the current year's presentation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Securities

All securities are classified as securities available for sale and are reported at fair value, with net unrealized gains or losses reported, net of taxes, in accumulated other comprehensive income or loss (a separate component of shareholders' equity). Unrealized losses on securities which reflect a decline in value which is other than temporary, if any, are charged to income. Realized gains or losses on the disposition of securities are based on the net proceeds and the amortized cost of the securities sold, using the specific identification method. The amortized cost of securities is adjusted for amortization of premium and accretion of discount, which is calculated using the effective interest method.

Loans

Loans are carried at the principal amount outstanding, net of unearned discount, net of deferred loan origination fees and costs, and the allowance for loan losses. Unearned discounts and net deferred loan origination fees and costs are accreted to income using the effective interest method. Loans considered doubtful of collection by management are placed on a nonaccrual status for the recording of interest. Generally, loans past due 90 days or more as to principal or interest are placed on nonaccrual status except for (i) those loans which, in management's judgment, are adequately secured and in the process of collection, and (ii) certain consumer and open-end credit loans which are usually charged-off when they become 120 days past due. Past due status is based on the contractual terms of the loan. When a loan is placed on nonaccrual status, all previously accrued income that has not been collected is reversed. Subsequent cash receipts are generally applied to reduce the unpaid principal balance; however, interest on loans can also be recognized as cash is received. Amortization of the related unearned discount and net deferred loan fees and costs is suspended when a loan is placed on nonaccrual status. Loans are removed from nonaccrual status when they become current as to principal and interest and when, in the opinion of management, the loans are expected to be fully collectible as to principal and interest.

Allowance for Credit Losses - Loans

Effective January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after the adoption date are presented in accordance to the guidance under Topic 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net increase to retained earnings of $504 thousand as of January 1, 2023 for the cumulative effect of adopting ASC 326.

The allowance for credit losses is a valuation account that is deducted from, or added to, the loans' amortized cost basis to present the net amount expected to be collected on the loans. Additions are made to the allowance through provisions, which are charged to expense. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance on a quarterly basis using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions such as changes in unemployment rates, property values, or other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the periods in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense.

Trust Assets and Service Fees

Assets held by the Company in a fiduciary or agency capacity for its customers are not included in the consolidated balance sheets since these assets are not assets of the Company. Fee income is recognized on the accrual method based on the fair value of assets administered.

Employee Benefit Costs

The Company maintains a tax qualified noncontributory, defined benefit pension plan that provides benefits to substantially all its employees. Participants receive an annual cash balance benefit based on annual compensation. Participants also receive an annual interest credit on the balance of their account. Employees become vested upon completing three years of vesting service. For employees hired prior to 2010, an additional pension benefit is provided to eligible employees based on years of service, multiplied by a percentage of their final average pay. The Company also maintains a 401(k) Retirement Plan for the benefit of those employees who meet certain eligibility requirements and have elected to participate in the Plan. Employee deferrals and employer matching contributions are invested among a variety of investment alternatives at the discretion of the participant.

Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income or loss, which are reported directly in shareholders' equity, net of tax, such as the change in the net unrealized gain or loss on securities available for sale, net unrealized gain or loss on cash flow hedges, and net minimum pension liabilities. Comprehensive income and its components are included in the consolidated statement of changes in shareholders' equity. Accumulated other comprehensive income or loss, which is a component of shareholders' equity, represents the net unrealized gain or loss on securities available for sale and cash flow hedges, and net minimum pension liabilities, net of tax.

Fair Value Hedging

The Company is exposed to changes in the fair value of certain of its fixed-rate assets due to changes in benchmark interest rates. The Company uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate. Interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for the Company receiving variable-rate payments over the life of the agreement without the exchange of the underlying notional amount. Such derivatives are used to hedge the changes in fair value of certain of its pools of fixed rate assets.

As of December 31, 2023, the Company had two interest rate swaps, designated as fair value hedges, each with a notional amount of $10 million (total of $20 million) hedging fixed-rate residential mortgage loans. The first swap matures in May 2025, and the second swap matures in May 2026. Collectively, the interest rate swaps had an estimated market value of $46 thousand as of December 31, 2023.

2. Securities

The amortized cost and approximate fair value of securities available for sale at December 31 are as follows:

	2023			
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. treasury securities	**$ 10,665**	**$ 35**	**$ (1)**	**$ 10,699**
State and political subdivisions	**9,787**	**-**	**(484)**	**9,303**
Mortgage-backed securities - residential	**37,652**	**692**	**(672)**	**37,672**
Collateralized mortgage obligations	**101**	**1**	**(37)**	**65**
Corporate securities	**6,956**	**-**	**(70)**	**6,886**
Total securities available for sale	**$ 65,161**	**$ 728**	**$ (1,264)**	**$ 64,625**

	2022			
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. Government agency obligations	$ 3,951	$ -	$ (120)	$ 3,831
U.S. treasury securities	24,204	97	(355)	23,946
State and political subdivisions	25,303	-	(1,500)	23,803
Mortgage-backed securities - residential	24,879	11	(1,400)	23,490
Collateralized mortgage obligations	102	2	(32)	72
Corporate securities	6,945	-	(117)	6,828
Total securities available for sale	$ 85,384	$ 110	$ (3,524)	$ 81,970

3. Loans

The components of loans as of December 31, are as follows:

(In thousands)	2023	2022
Residential real estate	$ 304,836	$ 268,747
Commercial real estate	323,494	282,619
Commercial & industrial	36,806	40,039
Consumer	43,733	36,241
Loans	708,869	627,646
Allowance for loan losses	(8,076)	(8,346)
Net loans	$ 700,793	$ 619,300

Changes in the allowance for loan losses for the years ended December 31, were as follows:

(In thousands)	2023	2022
Allowance for loan losses at beginning of year	$ 8,346	$ 8,081
Loan charge-offs:		
Residential real estate	-	-
Commercial real estate	-	-
Commercial & industrial	14	49
Consumer	109	87
Total charge-offs	123	136
Loan recoveries:		
Residential real estate	18	32
Commercial real estate	-	-
Commercial & industrial	-	-
Consumer	38	9
Total recoveries	56	41
Loan charge-offs, net of recoveries	67	95
Provision charged to operations	480	360
ASC 326 adoption	(683)	-
Allowance for loan losses at end of year	$ 8,076	$ 8,346

Nonperforming loans as of December 31, were as follows:

(In thousands)	2023	2022
Nonaccrual loans		
Residential real estate	$ 459	$ 628
Commercial real estate	-	-
Commercial & industrial	101	178
Consumer	-	-
Total nonaccruing loans	560	806
Loans past due 90 days or more and still accruing interest		
Residential real estate	606	398
Commercial real estate	-	-
Commercial & industrial	-	-
Consumer	91	165
Total loans past due 90 days or more and still accruing interest	697	563
Total nonperforming loans	$ 1,257	$ 1,369

4. Borrowings

Short-Term FHLB Advances

The bank has a line of credit with the Federal Home Loan Bank of NY (FHLB). This short-term borrowing program is based upon an overnight period with interest based generally upon a spread above the current Federal funds rate. In addition, short-term advances with an original maturity of less than one year are classified in this category. The rates on these borrowings can be either fixed or floating. As of December 31, 2023 and 2022, short-term FHLB advances amounted to $25 million and $22 million, respectively, with a weighted average rate of 5.05% and 3.14%, respectively. Short-term FHLB advances are collateralized by FHLB stock and a blanket lien on all residential real estate loans and certain commercial real estate loans not otherwise pledged.

Long-Term FHLB Borrowings

As of December 31, 2023, long-term borrowings amounted to $30 million. During the year then ended, long-term borrowings averaged $19.5 million, with a weighted average rate of 4.19%. Long-term FHLB borrowings are collateralized by FHLB stock and a blanket lien on all residential real estate loans and certain commercial real estate loans not otherwise pledged.

5. Income Taxes

The components of income tax expense for the years ended December 31 were as follows:

(Dollars in thousands)	**2023**	2022
Current tax expense:		
Federal	**$ 854**	$ 1,066
State	**134**	176
Deferred tax benefit	**(154)**	(134)
Total income tax expense	**$ 834**	$ 1,108

The actual tax expense for the years ended December 31, 2023 and 2022 differs from the statutory Federal tax rate due principally to New York State taxes and tax-exempt investment income.

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Susan M. Slovic	*Marketing*
Thomas M. White	*Wealth Management Solutions*

General Information
(518) 885-6781

Ballston Spa
87 Front Street
(518) 363-8150

Burnt Hills
770 Saratoga Road
(518) 399-8144

Clifton Park
1714 Route 9
(518) 877-6667

Corporate Branch
990 State Route 67
(518) 363-8199

Galway
5091 Sacandaga Road
(518) 882-1225

Greenfield Center
3060 Route 9N
(518) 893-2265

Guilderland
1973 Western Avenue
(518) 213-0922

Latham
1202 Troy Schenectady Road
(518) 640-2800

Malta
124 Dunning Street
(518) 899-2912

Milton Crest
344 Rowland Street
(518) 885-4346

Stillwater
428 Hudson Avenue
(518) 664-3200

Voorheesville
13 Maple Road
(518) 513-2000

Wilton
625 Maple Avenue
(518) 583-6608

www.bsnb.com

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Ballston Spa Bancorp, Inc.