Guilderland Branch

Ballston Spa Bancorp, Inc.

2017 ANNUAL REPORT

Voorheesville Branch

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,	2017		2016
FOR THE YEAR ENDED				
Net income	$	3,278	$	2,378
Basic earnings per share		4.41		3.20
Dividends declared per share		1.24		1.24
AT YEAR END				
Total assets	$	500,909	$	443,264
Loans		396,456		330,173
Deposits		405,842		401,010
Shareholders' equity		34,046		31,413
Book value per share		44.71		42.30
Tangible book value per share		43.64		40.07
ASSET QUALITY RATIOS				
Nonperforming loans to total loans		0.90%		0.82 %
Nonperforming assets to total assets		0.74		0.76
Allowance for loan losses to:				
Total loans		1.22		1.22
Nonperforming loans		135.03		149.68

REGULATORY CAPITAL RATIOS

			Required Ratios	
	December 31, 2017 Actual	December 31, 2016 Actual	Minimum capital adequacy	Classified as well capitalized
Tier 1 leverage ratio	8.23%	8.37%	4.00%	5.00%
Tier 1 risk-based capital ratio	10.88	12.12	6.00	8.00
Common equity tier 1 capital ratio	10.87	12.11	4.50	6.50
Total risk-based capital ratio	12.12	13.36	8.00	10.00

"Thanks to the efforts of an experienced and dedicated team, we were able to achieve the highest level of net income in the bank's history."

Christopher R. Dowd
President and Chief Executive Officer

TO OUR SHAREHOLDERS,

We are pleased to report that Ballston Spa Bancorp, Inc., parent company of Ballston Spa National Bank, had an exceptionally strong and historic year in 2017. Thanks to the efforts of an experienced and dedicated team, we were able to achieve the highest level of net income in the bank's history, while also completing several key initiatives designed to enhance the service and support we provide to our customers and area communities.

Financial Highlights

Net income increased to a record $3.3 million or $4.41 per share, up 37.9% from the $2.4 million or $3.20 per share reported in 2016. The improved earnings performance is attributable to several factors, including robust growth in the Company's lending portfolios, gains in core deposits and improved net interest margins. Total assets increased $57.6 million or 13.0% over the course of the year to $500.9 million at December 31, 2017. Strong loan growth was the driving factor with gains in both the commercial and residential lending portfolios. More specifically, our focus on the commercial banking market sector continued to pay dividends with a record increase of $48.7 million or 35.4% in commercial and commercial real estate loan balances from the prior year. Residential mortgage lending experienced solid growth as well with an increase of $16.3 million, or 10.3% over year-end 2016 results.

The increased activity in the loan portfolios was funded by substantial growth in core deposits and increased borrowings from the Federal Home Loan Bank. During 2017, retail deposits increased $10.4 million, or 5.0% while commercial deposits grew $9.7 million, or 19.5%.

The combination of loan and deposit growth during the year coupled with recent increases in short- and long-term interest rates contributed to an increase of $2.2 million, or 15.3% in net interest income as compared to 2016.

Recognizing the higher than anticipated levels of growth, management increased the provision for loan loss expense during 2017 to $799 thousand. As a result, the allowance for loan and lease losses represented 1.22% of total loans and 135% of nonperforming loans at December 31, 2017. Further evidence of balance sheet strength is reflected in the Company's capital and problem loan levels. Our Tier 1 capital ratio at 10.88% as of December 31, 2017 is well above the regulatory minimum for a well-capitalized institution. Furthermore, problem loan levels remain at manageable levels as nonperforming loans stood at 0.90% of total loans at December 31, 2017.

In addition to the positive financial results, I am also pleased to report that the quarterly dividend will increase from $0.31 per share to $0.33 per share, effective April 1, 2018. Considering the strength of our balance sheet, improved earnings performance, and prospects for future growth, the Board of Directors determined the increase was warranted.

Building for the Future

As previously referenced, the Company completed several key initiatives in 2017 that reflect our long-term commitment to continually improve performance and enhance the service we provide to our customers. In 2017 the Company announced plans for further expansion into Albany County with the opening of two new banking offices. The Guilderland Office opened on May 1, 2017 and the Voorheesville Office followed shortly thereafter on July 17th. As of December 31, 2017, these offices have provided very positive results, and when combined with the recently opened Latham Office have served to enhance the care and support we provide to customers throughout the greater Capital Region.

In addition to this significant expansion of our footprint, BSNB also successfully introduced additional products and services to better meet the changing needs of the market. For example:

• To provide a better user experience, we introduced an enhanced website that features improved navigation, increased content, modern design and the added benefit of being optimized for viewing on mobile devices;

• Our mobile banking app was given a makeover and now provides a more streamlined, enhanced look and feel. In addition, a message center allows users to receive, read, reply and initiate new messages regarding their accounts directly from their smartphone;

• BSNB debit cards were improved to include SecurLOCK Equip, a security feature that provides customers with a smartphone the ability to turn their BSNB debit card on and off and control where it may be used;

• Expanding on our offerings for business clients, we introduced branded BSNB business credit cards through TCM Bank N.A. Based on a client's size and needs, four different card options are available, including cards offering merchandise and travel rewards as well as cash back;

• As part of our better banking promise, we streamlined our online form to open checking, savings, money markets and certificates of deposit accounts, making it easier to use. In addition, we introduced a new reward option, a high yield checking account, as an incentive to attract new relationships.

Community Support

On May 9th, BSNB employees from every department and location participated in our first bank-wide volunteer effort. During this day of giving back, the bank closed early to assist the American Red Cross with their Home Fire Campaign. As a result, BSNB employees visited local neighborhoods, installed 78 new smoke alarms and educated more than 2,000 homeowners about fire safety.

Our *Volunteers in Action* program also continued to assist programs that add to the vitality of our communities. Feeding the hungry, collecting toys for disadvantaged children, delivering meals to shut-ins, and cleaning up local road-sides are just some of the ways our employees make a difference. In light of our financial success, the Company continued to provide monetary support to fund scholarships at four local high schools as well as provide aid to dozens of organizations supporting education, social services, veterans, the arts, and other worthy causes.

In 2018 and beyond, we will continue to build on our financial accomplishments, further strengthen our delivery channels and introduce new products and services. With a commitment to excellent customer service and giving back to our communities, we are confident in our ability to provide a better banking experience for our clients and increased value for our shareholders.

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

Christopher R. Dowd
President and Chief Executive Officer

FIVE YEAR SELECTED FINANCIAL DATA

At or for the years ended December 31, (In thousands, except for share and per share data)	2017	2016	2015	2014	2013
EARNINGS					
Interest income	$ 17,307	$ 14,989	$ 13,893	$ 13,835	$ 14,224
Interest expense	1,080	919	1,248	1,602	2,020
Net interest income	16,227	14,070	12,645	12,233	12,204
Provision for loan losses	799	180	90	120	120
Noninterest income	2,799	1,873	2,384	2,605	3,115
Noninterest expense	14,348	12,664	12,246	11,532	11,764
Income before tax expense	3,879	3,099	2,693	3,186	3,435
Tax expense	601	721	566	765	816
Net income	3,278	2,378	2,127	2,421	2,619
PER SHARE DATA					
Basic earnings	$ 4.41	$ 3.20	$ 2.86	$ 3.26	$ 3.53
Cash dividends declared	1.24	1.24	1.24	1.24	1.24
Book value at year end	44.71	42.30	40.63	39.31	39.09
Tangible book value at year end	43.64	40.07	38.34	36.98	36.70
Closing market price	43.00	37.95	33.75	34.36	32.00
AVERAGE BALANCES					
Total assets	$ 468,497	$ 433,783	$ 421,455	$ 410,790	$ 407,060
Earning assets	446,737	414,168	401,419	387,671	387,062
Loans	363,510	305,228	279,229	263,085	256,407
Securities available for sale	73,651	80,719	78,223	77,817	76,272
Deposits	401,119	383,000	365,090	343,277	334,123
Borrowings	29,395	14,911	22,083	31,937	42,030
Shareholders' equity	32,940	31,407	30,108	30,450	27,391

BSNB EMPLOYEES PARTICIPATED IN OUR FIRST BANK-WIDE COMMUNITY SERVICE EVENT

During this day of giving back, the bank closed early to assist the American Red Cross with their Home Fire Campaign.

UNAUDITED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts) December 31,	2017	2016
ASSETS		
Cash and due from banks	$ 5,803	$ 2,181
Short-term investments	1,477	11,271
Securities available for sale, at fair value	74,257	78,773
FHLB of NY & FRB stock, at cost	4,310	2,050
Loans	396,456	330,173
Allowance for loan losses	(4,839)	(4,040)
Net loans	391,617	326,133
Premises and equipment, net	10,589	9,918
Accrued interest receivable	1,565	1,323
Goodwill	1,595	1,595
Other real estate owned	139	675
Bank owned life insurance	4,837	4,704
Other assets	4,720	4,641
Total assets	$ 500,909	$ 443,264
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits	$ 72,481	$ 69,758
Savings	85,844	75,085
NOW and money markets	217,526	227,677
Time deposits	29,991	28,490
Total deposits	405,842	401,010
FHLB borrowings	50,100	-
Junior subordinated debentures	5,155	5,155
Other liabilities	5,766	5,686
Total liabilities	466,863	411,851
Shareholders' Equity:		
Common stock, $12.50 par value. Authorized 10,000,000 shares; issued 768,000 shares at December 31, 2017 and 2016	9,600	9,600
Preferred stock, $12.50 par value. Authorized 2,000,000 shares; none issued at December 31, 2017 and 2016	-	-
Additional paid-in capital	42	42
Treasury stock, at cost (25,337 shares at December 31, 2017 and 2016)	(991)	(991)
Retained earnings	28,027	25,205
Accumulated other comprehensive loss	(2,632)	(2,443)
Total shareholders' equity	34,046	31,413
Total liabilities and shareholders' equity	$ 500,909	$ 443,264

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED INCOME STATEMENTS

(In thousands, except share and per share amounts) Years ended December 31,	2017	2016
INTEREST AND FEE INCOME		
Loans, including fees	$ 15,510	$ 12,966
Securities available for sale	1,611	1,765
FHLB of NY & FRB stock	134	136
Short-term investments	52	122
Total interest and fee income	17,307	14,989
INTEREST EXPENSE		
Deposits	528	484
FHLB borrowings	324	232
Junior subordinated debentures	228	203
Total interest expense	1,080	919
Net interest income	16,227	14,070
Provision for loan losses	799	180
Net interest income after provision for loan losses	15,428	13,890
NONINTEREST INCOME		
Service charges on deposit accounts	623	447
Trust and investment services income	997	982
Net gain on sale and call of securities	2	59
Net gain on sale of loans	77	7
Net gain (loss) on sale and writedown of other real estate	75	(612)
Debit card interchange income	604	559
Earnings on bank owned life insurance	133	135
Other	288	296
Total noninterest income	2,799	1,873
NONINTEREST EXPENSE		
Compensation and benefits	8,776	7,764
Occupancy and equipment	1,558	1,276
FDIC and OCC assessment	419	436
Advertising and public relations	324	285
Legal and professional fees	449	575
Data processing	756	659
Debit card processing	324	323
Other	1,742	1,346
Total noninterest expense	14,348	12,664
Income before income tax expense	3,879	3,099
Income tax expense	601	721
Net income	$ 3,278	$ 2,378
Basic earnings per share	$ 4.41	$ 3.20
Weighted average common shares outstanding	742,663	742,663

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except share and per share amounts) Years ended December 31,	2017	2016
Net income	**$ 3,278**	$ 2,378
Other comprehensive income (loss), net of tax:		
Unrealized holding gains on other-than-temporary impaired securities arising during period, net of tax	6	6
Unrealized holding losses on securities arising during period, net of tax	(167)	(623)
Unrealized holding gains on cash flow hedge, net of tax	6	96
Changes in funded status of pension plan, net of tax	431	304
Total other comprehensive income (loss)	276	(217)
Total comprehensive income	**$ 3,554**	$ 2,161

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2017 and 2016 (In thousands, except per share amounts)	Common stock	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total share-holders' equity
Balance at January 1, 2016	$ 9,600	$ 42	$ (991)	$ 23,748	$ (2,226)	$ 30,173
Comprehensive income:						
Net income				2,378		2,378
Other comprehensive loss					(217)	(217)
Cash dividends declared ($1.24 per share)				(921)		(921)
Balance at December 31, 2016	9,600	42	(991)	25,205	(2,443)	31,413
Comprehensive income:						
Net income				3,278		3,278
Reclassification adjustment for disparate tax effect				465	(465)	-
Other comprehensive income					276	276
Cash dividends declared ($1.24 per share)				(921)		(921)
Balance at December 31, 2017	**$ 9,600**	**$ 42**	**$ (991)**	**$ 28,027**	**$ (2,632)**	**$ 34,046**

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) Years ended December 31,	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,278	$ 2,378
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	672	576
Provision for loan losses	799	180
Net premium amortization on securities	544	555
Deferred tax (benefit) expense	(1,054)	278
Net gain on sale and call of securities.	(2)	(59)
Net gain on sale of loans	(77)	(7)
Proceeds from sale of loans held for sale	3,220	315
Loans originated for sale	(3,143)	(308)
Earnings on bank owned life insurance	(133)	(135)
Write down of other real estate owned	-	650
Net gain on sale of other real estate owned	(75)	(38)
Net increase in accrued interest receivable	(242)	(121)
Net decrease in other assets	632	33
Net increase in other liabilities	961	768
Net cash provided by operating activities	5,380	5,065
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, calls and paydowns of securities available for sale	21,529	11,733
Proceeds from sale of securities available for sale	-	3,167
Purchases of securities available for sale	(17,817)	(13,460)
Net (purchases) redemptions of FHLB stock	(2,260)	612
Net loans made to customers	(66,596)	(37,681)
Proceeds from sale of other real estate owned	924	219
Purchases of premises and equipment	(1,343)	(175)
Net cash used in investing activities	(65,563)	(35,585)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	4,832	9,200
Net increase in short-term FHLB advances	50,100	-
Repayment of long-term FHLB borrowings	-	(10,500)
Dividends paid	(921)	(921)
Net cash (used in)provided by financing activities	54,011	(2,221)
Net change in cash and cash equivalents	(6,172)	(32,741)
Cash and cash equivalents at beginning of year	13,452	46,193
Cash and cash equivalents at end of year	$ 7,280	$ 13,452

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.

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 (1) those loans which, in management's judgment, are adequately secured and in the process of collection, and (2) 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 Loan Losses

The allowance for loan losses is a valuation allowance established for probable losses in the loan portfolio. Additions are made to the allowance through provisions, which are charged to expense. All losses of principal are charged to the allowance when incurred or when a determination is made that a loss is expected. Subsequent recoveries, if any, are credited to the allowance.

The adequacy of the allowance for loan losses is determined through a quarterly review of outstanding loans. Historical loss rates are applied to existing loans with similar characteristics. The loss rates used to establish the allowance may be adjusted to reflect management's current assessment of various factors. The impact of economic conditions on the credit-worthiness of the borrowers is considered, as well as loan loss experience, changes in experience, ability and depth of lending management and staff, changes in the composition and volume of the loan portfolio, trends in the volume of past due, nonaccrual and other loans, and management's assessment of the risks inherent in the loan portfolio, as well as other external factors, such as competition, legal developments and regulatory guidelines.

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 noncontributory, defined benefit pension plan covering employees who meet the eligibility requirements. The plan provides benefits based on the current earnings of each participant, which is subject to certain reductions if the employee retires early. The cost of this plan, based upon the actuarial computation of current and future benefits to employees, is charged to current operating expenses. The plan is closed to anyone newly hired by the Company. 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.

Cash Flow Hedging

During 2016, the Company executed an interest rate swap that swapped its 3-month LIBOR floating rate interest payments on a $5 million notional associated with Ballston Statutory Trust I to a fixed rate for five years to provide protection against rising rates. At December 31, 2017 the interest rate swap had an estimated market value of $169 thousand due to increased expectations of higher rates over the term of the contract.

2. Securities

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

2017 (In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. treasury securities	$ 3,494	$ -	$ (8)	$ 3,486
State and political subdivisions	22,489	106	(171)	22,424
Mortgage-backed securities - residential	42,676	330	(485)	42,521
Collateralized mortgage obligations	379	64	-	443
Corporate securities	5,428	2	(47)	5,383
Total securities available for sale	$ 74,466	$ 502	$ (711)	$ 74,257

2016 (In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. treasury securities	$ 8,184	$ 20	$ -	$ 8,204
State and political subdivisions	27,779	261	(193)	27,847
Mortgage-backed securities - residential	36,767	522	(488)	36,801
Collateralized mortgage obligations	465	54	-	519
Corporate securities	5,525	-	(123)	5,402
Total securities available for sale	$ 78,720	$ 857	$ (804)	$ 78,773

3. Loans

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

(In thousands)	2017	2016
Residential real estate	$ 173,547	$ 157,278
Commercial real estate	162,487	113,489
Commercial & industrial	33,341	36,160
Consumer	27,081	23,246
Loans	396,456	330,173
Allowance for loan losses	(4,839)	(4,040)
Net loans	$ 391,617	$ 326,133

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

(In thousands)	2017	2016
Allowance for loan losses at beginning of year	$ 4,040	$ 4,188
Loan charge-offs:		
Residential real estate	72	214
Commercial real estate	-	-
Commercial & industrial	-	135
Consumer	9	9
Total charge-offs	81	358
Loan recoveries:		
Residential real estate	22	3
Commercial real estate	-	-
Commercial & industrial	43	2
Consumer	16	25
Total recoveries	81	30
Loan charge-offs, net of recoveries	-	328
Provision charged to operations	799	180
Allowance for loan losses at end of year	$ 4,839	$ 4,040

Nonperforming loans as of December 31, were as follows:

(In thousands)	2017	2016
Nonaccrual loans		
Residential real estate	$ 1,995	$ 1,676
Commercial real estate	87	113
Commercial & industrial	658	493
Consumer	-	-
Total nonaccrual loans	2,740	2,282
Loans past due 90 days or more and still accruing interest		
Residential real estate	695	417
Commercial real estate	143	-
Commercial & industrial	-	-
Consumer	7	-
Total loans past due 90 days or more and still accruing interest	845	417
Total nonperforming loans	$ 3,585	$ 2,699

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, 2017 and 2016, short-term FHLB advances amounted to $50.1 million and zero, respectively. During the years then ended, short-term advances averaged $24.2 million and $4.0 million with a weighted average rate of 1.34% and 0.59%, 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 and for the year ended December 31, 2017, the Bank had no long-term borrowings. As of December 31, 2016, the bank had no long-term borrowings. For the year ended December 31, 2016, long-term borrowings averaged $5.8 million with a weighted average rate of 3.61%. 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)	**2017**	2016
Current tax expense:		
Federal	**$ 1,634**	$ 438
State	**21**	5
Deferred tax expense	**(1,054)**	278
Total income tax expense	**$ 601**	$ 721

The actual tax expense for the years ended December 31, 2017 and 2016 differs from the statutory Federal tax rate due principally to New York State taxes and tax-exempt investment income.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Robert E. Van Vranken, Esq.	*Chairman of the Board, Attorney*
Christopher R. Dowd	*President and Chief Executive Officer*
Michael S. Dunn	*Chief Information Officer, VER*
Beth A. Kayser, CPA	*Certified Public Accountant*
Stephen J. Obermayer, CPA	*Chief Financial Officer, BBL Construction Services, LLC*
Timothy J. Provost	*Vice-Chairman of the Board, retired*
Richard P. Sleasman	*President and Managing Director, CBRE-Albany*
Stephen E. Strader, MD	*Physician*

EXECUTIVE OFFICERS

Christopher R. Dowd	*President and Chief Executive Officer*
Timothy E. Blow	*Executive Vice President, Corporate Secretary and Chief Financial Officer*
Margaret K. de Koning	*Executive Vice President and Chief Banking Officer*

DIRECTORS EMERITI

J. Peter Hansen, DVM
Ronald G. Harrington
Leroy N. Hodsoll

SENIOR VICE PRESIDENTS

Ervin M. Murray	*Information Technology & Operations, CIO*
Tammy L. Zaiko	*Wealth Management Solutions*

VICE PRESIDENTS

Donna D. Avery	*Retail Banking*
John B. Chandler	*Wealth Management Solutions*
Timothy J. Collins	*Commercial Lending*
Leslie S. Dorsey	*Human Resources*
Margaret G. Gavin	*Finance*
Andrei Krasnokutski	*Commercial Lending*
Thomas B. Leach	*Retail Lending*
William F. MacDuff	*Deposit Support Services*
Jenifer L. Marten	*Commercial Lending*
Deborah JR O'Connor	*Cash Management*
Joshua O'Leary	*Commercial Lending*
Colleen A. Pickett	*Risk Management*
Deborah A. Poulin	*Credit Administration*
Thomas E. Ratsep	*Commercial Lending*
Alicia A. Riegert	*Information Technology*
Jill A. Robbins	*Deposit Support Services*
Susan M. Slovic	*Marketing*
Thomas M. White	*Wealth Management Solutions*

IN MEMORY

Susan M. Watson

Board member, Susan M. Watson, passed away June 10, 2017. A certified public accountant with expertise in estate and trust taxation, Mrs. Watson owned Watson, Peterson & Company in downtown Schenectady before retiring in 2016. Mrs. Watson was appointed as the first female to the BSNB Board of Directors in 2007 and will be remembered for her thoughtful insights, spirited discussions and invaluable contributions to BSNB's strategic direction.

"I have found in my life's journey that a person with the ability to analyze complex subjects and use that information to make another person's life better is a very special human being," stated Board Chair Robert Van Vranken. "Susan was one of those people and I am proud to have served with her on the bank board. Her value to the company has been without equal."

In recognition of her extraordinary service to the customers, staff and colleagues of BSNB, the board of directors dedicated the **Susan M. Watson Board Room** on August 24, 2017.

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
1207 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

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