2019 ANNUAL REPORT

BALLSTON SPA BANCORP, INC.

BSNB
Ballston Spa National Bank

Better.

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,	**2019**		2018
FOR THE YEAR ENDED				
Net income	**$**	**3,905**	$	4,750
Basic earnings per share		**5.26**		6.40
Dividends declared per share		**1.32**		1.32
AT YEAR END				
Total assets	**$**	**588,192**	$	534,455
Loans		**477,834**		430,614
Deposits		**446,026**		419,567
Shareholders' equity		**40,770**		36,043
Book value per share		**54.90**		48.53
Tangible book value per share		**52.62**		46.30
ASSET QUALITY RATIOS				
Nonperforming loans to total loans		**0.37%**		0.67%
Nonperforming assets to total assets		**0.35**		0.54
Allowance for loan losses to:				
Total loans		**1.30**		1.31
Nonperforming loans		**350.94**		196.79

REGULATORY CAPITAL RATIOS

			Required Ratios	
	December 31, 2019 Actual	December 31, 2018 Actual	Minimum capital adequacy	Classified as well capitalized
Tier 1 leverage ratio	8.25%	8.50%	4.00%	5.00%
Tier 1 risk-based capital ratio	10.49	11.38	6.00	8.00
Common equity tier 1 capital	10.49	11.38	4.50	6.50
Total risk-based capital ratio	13.46	14.62	8.00	10.00

"Reflecting the Company's very successful financial performance, our stock price increased 16% in 2019, and a cumulative 69% since 2015."

Christopher R. Dowd
President and Chief Executive Officer

TO OUR SHAREHOLDERS,

Ballston Spa Bancorp, Inc., parent company of Ballston Spa National Bank, completed a very successful year in 2019. In addition to accomplishing key initiatives designed to enhance service and support for our customers, the Company delivered strong financial performance.

Financial Highlights

Net income in 2019 totaled $3.9 million or $5.26 per share, down from the $4.8 million or $6.40 per share reported in 2018. As previously reported, income performance in 2018 was positively impacted by a number of one-time income recognition items including the sale of our former Clifton Park office and the recovery of past due interest on three non-performing loans. Absent these items, 2019 income was slightly ahead of 2018 performance.

In 2019, the Company benefited from solid growth in both loan and deposit portfolios. Total loans increased $47.2 million, or 11.0%, to $477.8 million at December 31, 2019. Our focus on the commercial banking market has been successful as commercial and commercial real estate loans increased $24.6 million, a robust 12.2%. We also achieved strong growth in residential mortgage lending which increased $18.3 million, or 9.3% over the same period. Loan growth was supported by an increase in total deposits of $26.5 million, or 6.3% as of December 31, 2019. A primary driver of our success is the Company's expansion strategy in Albany County. Likewise, enhancements to our treasury management platform of services contributed to the growth of commercial deposits, up $5.3 million, or 7.5%, as of year-end 2019.

While we are seeing consistent and meaningful loan growth, averaging 12.4% annually over the last 5 years, asset quality indicators remain very positive. Nonperforming loans as a percentage of total loans decreased in 2019 from 0.67% in 2018 to a very healthy 0.37%. Balance sheet strength is further evidenced by our Tier 1 capital ratio which stood at 11.92% as of December 31, 2019, a level well above regulatory minimums. Given our financial stability and strength, the Company is well positioned for continued success as we move forward.

Reflecting the Company's very successful financial performance, our stock price increased 16% in 2019, and a cumulative 69% since 2015. Combined with our steady dividend rate, total shareholder return has been well above the median in our peer group.

Building for the Future

During the course of the year, management took steps to not only pursue growth opportunities but to further enhance service and support to customers.

- Recognizing the pace of technological advancement and the heightened levels of fraud and cyber risk in our industry, the Company made significant investments during the year to further strengthen our technology infrastructure and security measures.
  - These investments also contributed to improved service to our customers. As an example, we introduced new features and services such as Positive Pay to our treasury management platform. This service enables

commercial customers to automatically match presented check numbers and dollar amounts with checks that have been issued by them to minimize the potential for fraudulent or counterfeit transactions. All businesses should consider this resource as a practical tool in combating cyber risk and fraud.

- The Company hosted a cyber security seminar in November 2019 to educate and better prepare our business customers to understand the increasing risk of cyber activities.

- Our Wealth Management Solutions group was a primary focus during 2019. With the addition of a new and highly experienced leader, combined with recent staff additions and promotions, we are now better able to deliver customized solutions for customers, expand product offerings, and pursue growth opportunities.

- Key staffing additions and promotions occurred in several other areas of the bank during the year. While the labor market remains extremely tight and challenging, the Company was again able to build on our experienced team of banking professionals.

- Renovations and upgrades to our branch offices continued in 2019 as we completed a comprehensive project at our Milton Crest branch. The improvements provide customers greater comfort and convenience and a more modern design.

- Residential mortgage product offerings were expanded to better assist veterans, rural homebuyers and borrowers seeking low down payment options.

- Better U, an online financial education initiative was launched, offering critical financial topics through our website, free of charge, to encourage participants to build their financial confidence.

Community Support

While appreciative of our financial and strategic accomplishments, we are even more proud of the support we provide and impact we have on local communities.

We witnessed the full effects of what more than 125 energized employees can achieve during the bank's third annual Community Support Day held in May 2019. BSNB locations across the capital region closed early, allowing employees to collectively volunteer their time supporting Rebuilding Together Saratoga, Saratoga County EOC, Brookside Museum, Gateway House of Peace, The Charlton School and the Ballston Spa Village Cemetery.

Community Support Day is a wonderful way to make an immediate impact. However, it's important to note that our employees are visible throughout the year. Serving as goodwill ambassadors, our employees participate in a number of efforts through our *Volunteers in Action* program, including collecting food and monetary donations for area food pantries, delivering meals to shut-ins, conducting mock interviews with high school students, and supporting fundraising events for charity.

In addition to our volunteer efforts, the Company and the BSNB Charitable Foundation provide targeted sponsorships and donations throughout the year to support local community organizations. These groups are dedicated to helping those in need or enhancing the quality of life for those who live and work in the capital region. The homeless and economically disadvantaged, area youth, veterans, and other worthy groups benefit from these efforts.

Moving Forward

The recent volatile financial markets and rapid changes in interest rates will continue to put pressure on net interest margins, and provide other challenges to near-term income performance. That said, we are confident that the foundation we have laid and our focus on balancing both short-term and long-term financial goals will enable the Company to navigate these turbulent times and continue to achieve solid results in the future.

We believe that the strength of our team and commitment to the support of customers and community will remain a key component contributing to our long-term success. Furthermore, our focus on security and support of customers in a world of evolving digital solutions will distinguish BSNB as a premier provider of financial services to the commercial banking market.

On behalf of our Board of Directors and staff, we thank you for your 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 per share amounts)	**2019**	2018	2017	2016	2015
EARNINGS					
Interest income	**$ 22,438**	$ 20,342	$ 17,307	$ 14,989	$ 13,893
Interest expense	**4,072**	1,994	1,080	919	1,248
Net interest income	**18,366**	18,348	16,227	14,070	12,645
Provision for loan losses	**725**	803	799	180	90
Noninterest income	**3,215**	3,625	2,799	1,873	2,384
Noninterest expense	**16,146**	15,389	14,348	12,664	12,246
Income before tax expense	**4,710**	5,781	3,879	3,099	2,693
Tax expense	**805**	1,031	601	721	566
Net income	**3,905**	4,750	3,278	2,378	2,127
PER SHARE DATA					
Basic earnings	**$ 5.26**	$ 6.40	$ 4.41	$ 3.20	$ 2.86
Cash dividends declared	**1.32**	1.32	1.24	1.24	1.24
Book value at year end	**54.90**	48.53	45.84	42.30	40.63
Tangible book value at year end	**52.62**	46.30	43.63	40.07	38.34
Closing market price	**57.00**	49.01	43.00	37.95	33.75
AVERAGE BALANCES					
Total assets	**$ 553,477**	$ 510,771	$ 468,497	$ 433,783	$ 421,455
Earning assets	**531,667**	487,371	446,737	414,168	401,419
Loans	**451,979**	412,699	363,510	305,228	279,229
Securities available for sale	**72,132**	68,494	73,651	80,719	78,223
Deposits	**448,747**	424,408	401,119	383,000	365,090
Borrowings	**60,533**	45,781	29,395	14,911	22,083
Shareholders' equity	**38,682**	35,812	32,940	31,407	30,108

COMMUNITY SUPPORT DAY 2019

UNAUDITED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts) December 31,	2019	2018
ASSETS		
Cash and due from banks	$ 6,837	$ 7,485
Short-term investments	4,575	3,643
Securities available for sale, at fair value	75,325	71,992
FHLB of NY & FRB stock, at cost	6,425	5,236
Loans	477,834	430,614
Allowance for loan losses	(6,205)	(5,652)
Net loans	471,629	424,962
Premises and equipment, net	10,434	10,180
Accrued interest receivable	1,698	1,633
Goodwill	1,595	1,595
Other real estate owned	135	-
Bank owned life insurance	5,103	4,970
Other assets	4,436	2,759
Total assets	$ 588,192	$ 534,455
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand Deposits	$ 80,888	$ 77,450
Savings	78,380	80,215
NOW and money markets	238,198	222,888
Time Deposits	48,560	39,014
Total Deposits	446,026	419,567
FHLB borrowings, short-term	74,210	54,850
FHLB borrowings, long-term	5,880	5,880
Junior subordinated debentures	12,905	12,905
Other liabilities	8,401	5,210
Total liabilities	547,422	498,412
Shareholders' Equity:		
Common stock $12.50 par value. Authorized 10,000,000 shares; issued 768,000 shares at December 31, 2019 and 2018	9,600	9,600
Preferred stock $12.50 par value. Authorized 2,000,000 shares; none issued at December 31, 2019 and 2018	-	-
Additional paid-in-capital	42	42
Treasury stock, at cost (25,337 shares at December 31, 2019 and 2018)	(991)	(991)
Retained earnings	34,722	31,797
Accumulated other comprehensive loss	(2,603)	(4,405)
Total shareholders' equity	40,770	36,043
Total liabilities and shareholders' equity	$ 588,192	$ 534,455

UNAUDITED CONSOLIDATED INCOME STATEMENTS

(In thousands, except share and per share amounts) Years ended December 31,	2019	2018
INTEREST AND FEE INCOME		
Loans, including fees	$ 20,372	$ 18,507
Securities available for sale	1,721	1,551
FHLB of NY & FRB stock	270	235
Short-term investments	75	49
Total interest and fee income	22,438	20,342
INTEREST EXPENSE		
Deposits	2,168	748
FHLB borrowings, short-term	1,055	774
FHLB borrowings, long-term	173	110
Junior subordinated debentures	676	362
Total interest expense	4,072	1,994
Net interest income	18,366	18,348
Provision for loan losses	725	803
Net interest income after provision for loan losses	17,641	17,545
NON-INTEREST INCOME		
Service charges on deposit accounts	769	734
Trust and investment services income	1,022	1,124
Net gain on sale of loans	228	101
Net gain on sale of fixed assets.	-	379
Net gain (loss) on sale and writedown of other real estate	24	(19)
Debit card interchange income	692	659
Earnings on bank owned life insurance	133	133
Other	347	514
Total non-interest income.	3,215	3,625
NON-INTEREST EXPENSE		
Compensation and benefits	10,524	9,596
Occupancy and equipment	1,502	1,546
FDIC and OCC assessment	279	488
Advertising and public relations	300	363
Legal and professional fees	587	480
Data processing	895	801
Debit Card Processing.	353	358
Other	1,706	1,758
Total non-interest expense	16,146	15,389
INCOME BEFORE INCOME TAX EXPENSE	4,710	5,781
Income tax expense	805	1,031
NET INCOME	$ 3,905	$ 4,750
Basic earnings per share	$ 5.26	$ 6.40
Weighted average common shares outstanding	742,663	742,663

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands) Years ended December 31,	2019	2018
Net income	**$ 3,905**	$ 4,750
Other comprehensive income (loss), net of tax:		
Unrealized holding (losses) gains on other-than-temporary impaired securities arising during period, net of tax	**(6)**	(6)
Unrealized holding (loss) gains on securities arising during period, net of tax	**1,585**	(598)
Unrealized holding (loss) gains on cash flow hedge, net of tax	**(291)**	(135)
Changes in funded status of pension plan, net of tax	**514**	(1,034)
Total other comprehensive income (loss)	**1,802**	(1,773)
Total comprehensive income	**$ 5,707**	$ 2,977

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2019 and 2018 (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, 2018	$ 9,600	$ 42	$ (991)	$ 28,027	$ (2,632)	$ 34,046
Comprehensive income:						
Net income				4,750		4,750
Other comprehensive income (loss), net of tax:					(1,773)	(1,773)
Cash dividends declared ($1.32 per share)				(980)		(980)
Balance at December 31, 2018	9,600	42	(991)	31,797	(4,405)	36,043
Comprehensive income:						
Net income				**3,905**		**3,905**
Other comprehensive income (loss), net of tax					**1,802**	**1,802**
Cash dividends declared ($1.32 per share)				**(980)**		**(980)**
Balance at December 31, 2019	**$ 9,600**	**$ 42**	**$ (991)**	**$ 34,722**	**$ (2,603)**	**$ 40,770**

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) Years ended December 31,	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,905	$ 4,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	630	599
Provision for loan losses	725	803
Net premium amortization on securities	469	479
Deferred tax benefit	(260)	(348)
Net gain on sale of loans	(228)	(101)
Proceeds from sale of loans held for sale	9,901	5,397
Loans originated for sale	(9,673)	(5,296)
Earnings on bank owned life insurance	(133)	(133)
Net gain on sale and disposal of premises and equipment	-	(379)
Net (gain) loss on sale of other real estate owned	(24)	19
Net increase in accrued interest receivable	(65)	(68)
Net (increase) decrease in other assets	(1,376)	453
Net increase in other liabilities	2,813	349
Net cash provided by operating activities	6,684	6,524
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities, calls and paydowns of securities available for sale	19,050	16,117
Purchases of securities available for sale	(20,714)	(15,153)
Net purchases of FHLB stock	(1,189)	(926)
Net loans made to customers	(47,689)	(34,148)
Proceeds from sale of other real estate owned	186	120
Proceeds from sale of premises and equipment	-	636
Purchases of premises and equipment	(883)	(447)
Net cash used in investing activities	(51,239)	(33,801)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	26,459	13,725
Net increase in short-term FHLB advances	19,360	4,750
Issuance of long-term FHLB borrowings	-	5,880
Issuance of junior subordinated notes	-	7,750
Dividends paid	(980)	(980)
Net cash provided by financing activities	44,839	31,125
NET CHANGE IN CASH AND CASH EQUIVALENTS	284	3,848
Cash and cash equivalents at beginning of year	11,128	7,280
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 11,412	$ 11,128

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 has a tax qualified noncontributory defined benefit pension plan that provides benefits to substantially all its employees. Participants receive annual cash balance pay credits based on eligible pay multiplied by a percentage determined by their age and years of service. Participants also receive an annual interest credit. 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.

Cash Flow Hedging

The Company has entered into an interest rate swap that swapped its 3-month LIBOR floating rate interest payments on a $5 million notional associated with subordinated debentures, to a fixed rate to provide protection against rising rates. The swap contract expires on September 26, 2021. At December 31, 2019, the interest rate swap had an estimated market value of $37 thousand.

The Company has entered into an interest rate swap that swapped its 3-month FHLB floating rate interest payments on a $10 million notional associated with short-term FHLB borrowings, to a fixed rate to provide protection against rising rates. The swap contract expires on May 1, 2023. At December 31, 2019, the interest rate swap had an estimated market value of ($445 thousand).

2. Securities

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

	2019			
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
State and political subdivisions	**18,386**	**383**	**(1)**	**18,768**
Mortgage-backed securities - residential	**53,159**	**742**	**(66)**	**53,835**
Collateralized mortgage obligations	**266**	**48**	**-**	**314**
Corporate securities	**2,406**	**2**	**-**	**2,408**
Total securities available for sale	**$ 74,217**	**$1,175**	**$ (67)**	**$ 75,325**

	2018			
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. treasury securities	$ 2,000	$ -	$ (1)	$ 1,999
State and political subdivisions	20,138	60	(179)	20,019
Mortgage-backed securities - residential	47,159	195	(957)	46,397
Collateralized mortgage obligations	318	56	-	374
Corporate securities	3,407	-	(204)	3,203
Total securities available for sale	$ 73,022	$ 311	$ (1,341)	$ 71,992

3. Loans

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

(In thousands)	2019	2018
Residential real estate	$ 215,808	$ 197,476
Commercial real estate	188,198	174,023
Commercial & industrial	45,665	31,721
Consumer	28,163	27,394
Loans	477,834	430,614
Allowance for loan losses	(6,205)	(5,652)
Net loans	$ 471,629	$ 424,962

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

(In thousands)	2019	2018
Allowance for loan losses at beginning of year	$ 5,652	$ 4,839
Loan charge-offs:		
Residential real estate	73	
Commercial real estate	1	-
Commercial & industrial	100	-
Consumer	41	12
Total charge-offs	215	12
Loan recoveries:		
Residential real estate	5	6
Commercial real estate	-	-
Commercial & industrial	32	4
Consumer	6	12
Total recoveries	43	22
Net loan charge-offs, (recoveries)	172	(10)
Provision charged to operations	725	803
Allowance for loan losses at end of year	$ 6,205	$ 5,652

Nonperforming loans as of December 31, were as follows:

(In thousands)	2019	2018
Nonaccrual loans		
Residential real estate	$ 1,035	$ 1,419
Commercial real estate	532	1,016
Commercial & industrial	3	5
Consumer	8	-
Total nonaccrual loans	1,578	2,440
Loans past due 90 days or more and still accruing interest		
Residential real estate	186	422
Commercial real estate	-	-
Commercial & industrial	-	-
Consumer	4	10
Total loans past due 90 days or more and still accruing interest	190	432
Total nonperforming loans	$ 1,768	$ 2,872

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, 2019 and 2018, short-term FHLB advances amounted to $74.2 million and $54.9 million, respectively. During the years then ended, short-term advances averaged $41.7 million and $34.8 million with a weighted average rate of 2.53% and 2.22%, 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, 2019 and 2018, long-term borrowings amounted to $5.9 million. During the years ended, long-term borrowings averaged $5.9 million and $3.7 million respectively with a weighted average rate of 2.94% and 2.95% respectively. 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)	**2019**	2018
Current tax expense:		
Federal	**$ 1,026**	$ 1,311
State	**39**	68
Deferred tax benefit	**(260)**	(348)
Total income tax expense	**$ 805**	$ 1,031

The actual tax expense for the years ended December 31, 2019 and 2018 differs from the statutory Federal tax rate due principally to New York State taxes and tax-exempt investment income.

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Paul N. DiCaprio	*President, Specialty Silicone Products, Inc.*
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Richard P. Sleasman	*President and Managing Director, CBRE-Albany*
Stephen E. Strader, MD	*Physician*

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

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Leroy N. Hodsoll
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SENIOR VICE PRESIDENT

Ervin M. Murray	*Information Technology & Operations, CIO*

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Welcome, Paul N. DiCaprio

In September 2019, Paul DiCaprio was appointed to the Board of Directors. Mr. DiCaprio currently serves as the president of Specialty Silicone Products, Inc. The company manufactures silicone rubber based products for a variety of industries, including aerospace, medical research, pharmaceuticals and the military. Active in the community, he serves as a board member for Liberty ARC and for the Chief Executives Network for Manufacturing of the Capital Region, Inc. Mr. DiCaprio earned a Bachelor of Science degree in marketing from Siena College. "Given his manufacturing and sales experience, visibility as a business leader in the Capital Region, and strong character and reputation, we are thrilled to have Paul join us as our newest board member," said Robert E. Van Vranken, chairman of the board.

General Information
(518) 885-6781

Branch Locations

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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