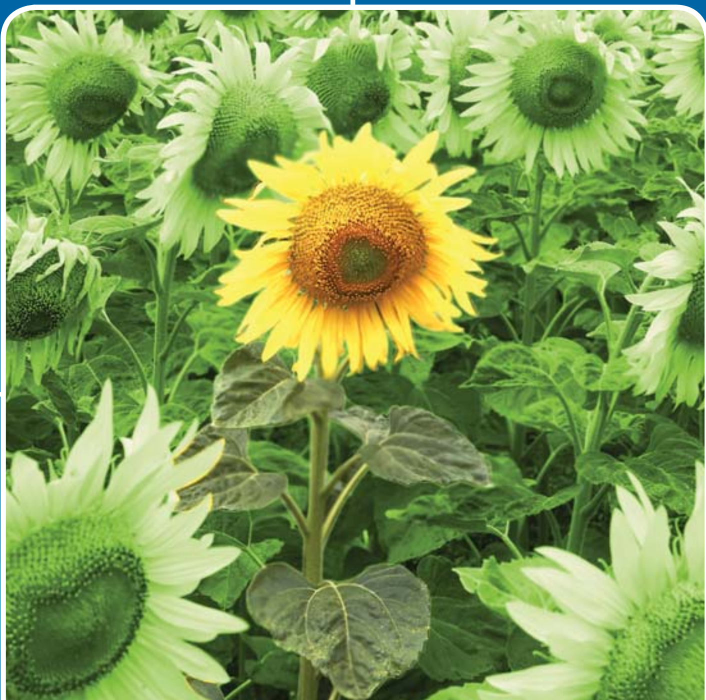
BSNB

Ballston Spa Bancorp, Inc.

2009 Annual Report



The Year In Review

(Dollars in thousands, except per share data) December 31,	2009	2008
FOR THE YEAR ENDED		
Net income	**$ 2,344**	$ 2,210
Basic earnings per share	**3.16**	2.98
Dividends declared per share	**1.21**	1.14
AT YEAR END		
Total assets	**$ 365,779**	$ 356,637
Loans	**253,217**	268,565
Deposits	**288,825**	260,428
Shareholders' equity	**23,030**	19,722
Book value per share	**31.01**	26.56
Tangible book value per share	**28.82**	24.38
ASSET QUALITY RATIOS		
Nonperforming loans to total loans	**1.05%**	1.17%
Nonperforming assets to total assets	**0.73**	0.92
Allowance for loan losses to:		
Total loans	**1.72**	1.40
Nonperforming loans	**163.95**	119.94

REGULATORY CAPITAL RATIOS		Required Ratios	
	December 31, 2009 Actual	Minimum capital adequacy	Classified as well capitalized
Tier 1 leverage ratio	7.45%	4.00%	5.00%
Tier 1 risk-based capital ratio	12.63	4.00	6.00
Total risk-based capital ratio	13.88	8.00	10.00

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" We enter 2010 with a strong balance sheet and seasoned staff, well-positioned to pursue our growth strategy. "

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, remains strong. BSNB's focus on banking fundamentals, diligent cost management, and providing our customers with outstanding service and value, was rewarded in 2009 as we recorded our second consecutive year of record earnings. Net income for 2009 increased to $2.3 million or $3.16 per share, up 6% from the $2.2 million or $2.98 per share reported for 2008. Despite significant increases in FDIC premiums, a weakening economy and reactive regulatory environment, BSNB experienced strong growth in our commercial loan and deposit portfolios which led to the improved earnings performance. Our underwriting standards have allowed us to preserve the quality of our loan and investment portfolios while maintaining a strong capital position, well in excess of regulatory minimums. As such, we enter 2010 with a strong balance sheet and seasoned staff, well-positioned to pursue our growth strategy.

2009 Financial Highlights

Our financial performance in 2009 was impacted by the weakened economy, increased governmental and regulatory oversight, and a historically low interest rate environment. As previously reported, a 1.2% increase in net interest income was offset by significant increases in FDIC premiums and the cost of our defined benefit plan. Combined, the cost of these two expense items increased more than $1.1 million during 2009 as compared to the previous year.

Despite these factors, BSNB continued a five-year trend of enhanced returns to our shareholders in 2009 as return on average equity increased to 11.09% from 10.22% in 2008. Book value per share increased to $31.01 at December 31, 2009 from $26.56 a year earlier. We also took the opportunity to again increase our dividends as cash dividends declared in 2009 totaled $1.21, up 6% from $1.14 in 2008.

As previously indicated, the improved earnings performance in 2009 was fueled by strong growth in both our commercial loan and deposit portfolios. Total deposits increased 11% in 2009 to $288.8 million and reflects growth in commercial, retail and municipal deposit balances and accounts. Strong sales efforts, introduction of new products and services, and a focused effort to expand our commercial banking business contributed to the expansion. As a result of our financial stability, BSNB also benefitted from an increased national savings rate and the financial uncertainty associated with the stock market and larger financial institutions. We are encouraged by the growth achieved in 2009 and hope to build on this momentum in 2010 and beyond.

While total loans declined modestly in 2009 due to the planned reduction of our residential mortgage and auto loan portfolios, strong growth in commercial loan balances served to further diversify and strengthen our balance sheet. A historically low interest rate environment combined with a steep yield curve prompted management to utilize our secondary market outlets in 2009 to control the growth in the residential mortgage portfolio. While challenging in the short-term, this strategy enables us to remain the primary point of contact for our customers while protecting our balance sheet from a rising interest rate environment. Offsetting the decline in residential mortgages, BSNB achieved 8% growth in commercial and commercial real estate loans. We are very satisfied with our continued success in building market share in the commercial banking arena. With an experienced lending team, automated financial management solutions, and access to local decision makers, we believe we offer the business community a highly competitive solution to meet their commercial banking needs.

As anticipated, asset quality was impacted by the weakening economy in late 2008 to early 2009 but has since stabilized. Nonperforming assets decreased to 0.73% of total assets as of December 31, 2009, down from 0.92% a year earlier. While these levels compare favorably to our peers, we anticipate the recovery from this recessionary period to be slow and painful for many businesses. As such, management increased our allowance for loan losses to $4.3 million or 1.72% of total loans at December 31, 2009, up from $3.8 million or 1.40% of total loans a year earlier. We will continue to closely monitor our loan and investment portfolios as well as regional economic conditions for indications of any further deterioration.

In addition to the financial accomplishments and consistent with our long-term plan, BSNB initiated several new projects in 2009 designed to enhance operational efficiency, strengthen staffing, and improve customer service. Through the introduction of automation, enhanced staff training and development, as well as diligent evaluation and oversight, we believe we can further differentiate ourselves from the competition by consistently providing our customers with superior service and value. We will continue to aggressively pursue this strategy in future periods.

BSNB also continued its record of strong community support in 2009. In light of our financial success, the Company's Board of Directors authorized an additional $50 thousand contribution to the recently established BSNB Charitable Foundation. Consistent with the original design and intent, the Foundation extended grants to establish scholarships at four local high schools in 2009 and funded an innovative robotics program at the Ballston Spa Central School District. In addition, we provided financial support to and actively participated in numerous other civic and charitable organizations within our market in 2009. We will continue to build on this tradition of community support and charitable giving that has been a central component of our mission for over 170 years.

The economic challenges experienced in 2009 are anticipated to continue in 2010, placing further stress on all businesses. However, with a healthy allowance for loan losses, strong capital, and a record of responsible underwriting, we are prepared to meet these challenges and are committed to pursuing our long-term plan.

In 2010, BSNB will remain focused on enhancing shareholder value by leveraging our financial and human resources, identifying operating efficiencies for improved performance, and on enhancing our customer sales and service culture to further penetrate our market and expand existing customer relationships. Given our recent financial record, we strongly believe our prudent growth strategy will lead to continued success.

On behalf of our Board of Directors, I would like to thank our employees, customers, and shareholders for their continued support. We look forward to another exciting and prosperous year at your BSNB.

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)	2009	2008	2007	2006	2005
EARNINGS					
Interest income	**$ 18,375**	$ 19,773	$ 18,585	$ 17,492	$ 15,040
Interest expense	**4,958**	6,518	7,633	6,913	4,466
Net interest income	**13,417**	13,255	10,952	10,579	10,574
Provision for loan losses	**900**	1,270	500	310	150
Noninterest income	**2,018**	1,521	1,986	1,871	1,674
Noninterest expense	**11,346**	10,389	9,523	9,848	10,716
Income before tax expense	**3,189**	3,117	2,915	2,292	1,382
Tax expense	**845**	907	914	672	278
Net income	**2,344**	2,210	2,001	1,620	1,104
PER SHARE DATA					
Basic earnings	**$ 3.16**	$ 2.98	$ 2.69	$ 2.18	$ 1.49
Cash dividends declared	**1.21**	1.14	1.06	1.01	0.97
Book value at year end	**31.01**	26.56	28.42	25.48	23.92
Tangible book value at year end	**28.82**	24.38	26.20	23.14	21.74
Closing market price	**25.50**	36.00	38.00	40.00	47.00
AVERAGE BALANCES					
Total assets	**$ 354,597**	$ 349,147	$ 324,042	$ 321,631	$ 307,322
Earning assets	**347,209**	338,536	311,770	306,619	290,356
Loans	**257,619**	265,430	241,935	223,895	187,184
Securities available for sale	**71,408**	72,396	68,282	82,076	100,750
Deposits	**274,279**	257,090	262,415	264,153	261,161
Borrowings	**54,278**	67,425	39,340	37,283	26,468
Shareholders' equity	**21,134**	21,634	19,783	17,942	17,710

Consolidated Balance Sheets

(In thousands, except share and per share amounts) December 31,	2009	2008
ASSETS		
Cash and due from banks	**$ 26,533**	$ 4,180
Securities available for sale, at fair value	**72,756**	73,003
FHLB of NY & FRB stock, at cost	**3,097**	4,007
Federal funds sold	**3,000**	-
Loans	**253,217**	268,565
Allowance for loan losses	**(4,348)**	(3,766)
Net loans	**248,869**	264,799
Premises and equipment, net	**4,097**	4,141
Accrued interest receivable	**1,332**	1,539
Goodwill	**1,595**	1,595
Other assets	**4,500**	3,373
Total assets	**$ 365,779**	$ 356,637
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits	**$ 44,072**	$ 41,090
Savings	**45,592**	45,485
NOW and money market	**120,563**	95,111
Time deposits	**78,598**	78,742
Total deposits	**288,825**	260,428
Short-term FHLB advances	**-**	16,850
Long-term FHLB borrowings	**45,500**	49,500
Junior subordinated debentures	**5,155**	5,155
Other liabilities	**3,269**	4,982
Total liabilities	**342,749**	336,915
Shareholders' Equity:		
Common stock, $12.50 par value. Authorized 10,000,000 shares; issued 768,000 shares at December 31, 2009 and 2008	**9,600**	9,600
Additional paid-in capital	**42**	42
Treasury stock, at cost (25,337 shares at December 31, 2009 and 2008)	**(991)**	(991)
Retained earnings	**15,355**	13,828
Accumulated other comprehensive loss	**(976)**	(2,757)
Total shareholders' equity	**23,030**	19,722
Total liabilities and shareholders' equity	**$ 365,779**	$ 356,637

See accompanying notes to consolidated financial statements.

Consolidated Income Statements

(In thousands, except share and per share amounts) Years ended December 31,	2009	2008
INTEREST AND FEE INCOME		
Loans, including fees	$ 15,135	$ 16,406
Securities available for sale	3,085	3,147
FHLB of NY & FRB stock	121	211
Due from banks	26	6
Federal funds sold	8	3
Total interest and fee income	18,375	19,773
INTEREST EXPENSE		
Deposits	2,852	4,050
Short-term FHLB advances	14	382
Long-term FHLB borrowings	1,884	1,747
Junior subordinated debentures	208	339
Total interest expense	4,958	6,518
Net interest income	13,417	13,255
Provision for loan losses	900	1,270
Net interest income after provision for loan losses	12,517	11,985
NONINTEREST INCOME		
Service charges on deposit accounts	636	690
Trust and investment services income	667	796
Other than temporary impairment	(86)	(502)
Gain on call of securities	71	52
Net loan transactions	51	22
Other	679	463
Total noninterest income	2,018	1,521
NONINTEREST EXPENSE		
Compensation and benefits	6,587	6,038
Occupancy and equipment	1,066	1,224
FDIC and OCC assessment	796	152
Supplies	99	116
Advertising and public relations	283	274
Legal and professional fees	333	355
Data processing	746	688
Other	1,436	1,542
Total noninterest expense	11,346	10,389
Income before income tax expense	3,189	3,117
Income tax expense	845	907
Net income	$ 2,344	$ 2,210
Basic earnings per share	$ 3.16	$ 2.98
Weighted average common shares outstanding	742,663	742,663

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2009 and 2008 (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, 2008	$ 9,600	$ 42	$ (991)	$ 12,483	$ (30)	$ 21,104
Comprehensive income (loss):						
Net income				2,210		2,210
Other comprehensive income (loss) net of tax:						
Net unrealized losses on securities, net of reclassification adjustment					(6)	
Changes in funded status of pension plan, net of tax					(2,494)	
Total other comprehensive loss						(2,500)
Total comprehensive loss:						(290)
Effect of adopting measurement date provisions on SFAS No. 158, net of tax				(19)	(227)	(246)
Cash dividends declared ($1.14 per share)				(846)		(846)
Balance at December 31, 2008	9,600	42	(991)	13,828	(2,757)	19,722
Comprehensive income (loss):						
Net income				**2,344**		**2,344**
Other comprehensive income (loss) net of tax:						
Adjustment for adoption of other than temporary impairment guidance, net of tax				**81**	**(81)**	**-**
Change in unrealized gain associated with other than temporary impairment, net of reclassification and tax					**(53)**	
Change in unrealized gain, net of reclassification and tax					**1,146**	
Changes in funded status of pension plan, net of tax					**769**	
Total other comprehensive income						**1,862**
Total comprehensive income:						**4,206**
Cash dividends declared ($1.21 per share)				**(898)**		**(898)**
Balance at December 31, 2009	**$ 9,600**	**$ 42**	**$ (991)**	**$ 15,355**	**$ (976)**	**$ 23,030**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands) Years ended December 31,	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,344	$ 2,210
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	385	409
Provision for loan losses	900	1,270
Net premium amortization (accretion) on securities	(77)	70
Deferred tax expense	260	211
Gain on call of securities	(71)	(52)
Other than temporary impairment	86	502
Gain on sale of loans	(51)	(22)
Proceeds from sales of loans held for sale	2,518	911
Loans originated and held for sale	(2,467)	(889)
Net loss on sales and disposal of premises and equipment	-	14
Net gain on sale of ORE	(65)	-
Net decrease (increase) in accrued interest receivable	207	(121)
Net increase in other assets	(1,422)	(2,530)
Net increase (decrease) in other liabilities	(1,764)	1,133
Net cash provided by operating activities	783	3,116
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, calls and paydowns of securities available for sale	15,595	17,073
Purchases of securities available for sale	(13,495)	(20,683)
Net redemptions (purchases) of FHLB stock	910	(1,040)
Net loans repaid by (made to) customers	13,823	(14,547)
Proceeds from sale of ORE	1,272	-
Proceeds from sale of premises and equipment	-	8
Purchases of premises and equipment	(184)	(383)
Net cash provided by (used in) investing activities	17,921	(19,572)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	28,397	(5,906)
Net increase (decrease) in short-term FHLB advances	(16,850)	2,350
Issuance of long-term FHLB borrowings	-	24,000
Repayment of long-term FHLB borrowings	(4,000)	(5,000)
Dividends paid	(898)	(846)
Net cash provided by financing activities	6,649	14,598
Net increase (decrease) in cash and cash equivalents	25,353	(1,858)
Cash and cash equivalents at beginning of year	4,180	6,038
Cash and cash equivalents at end of year	$ 29,533	$ 4,180

See accompanying notes to 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 nine 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 this Trust, therefore, the Trust is not consolidated for financial statement purposes and the subordinated debentures are shown as a liability. The junior subordinated debentures qualify as Tier 1 capital under regulatory definitions.

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). Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

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.

As a member of the Federal Home Loan Bank of New York (FHLB), and Federal Reserve Bank (FRB) the Company is required to hold stock, which is carried at cost since there is no readily available market value.

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. 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 reserve 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 taxes are accounted for under the asset and liability method. 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 substantially all 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 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 (Loss)

Comprehensive income (loss) 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, and changes in the funded status of the pension plan. Comprehensive income (loss) 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 the funded status of the pension plan, net of tax.

2. Securities

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

	2009			
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U. S. Treasuries	**$ 8,474**	**$ -**	**$ (1)**	**$ 8,473**
U.S. Government sponsored entities and agencies	**5,001**	**154**	**-**	**5,155**
State and political subdivisions	**16,505**	**821**	**-**	**17,326**
Mortgage-backed securities	**32,641**	**1,088**	**(341)**	**33,388**
Corporate securities	**8,411**	**515**	**(512)**	**8,414**
Total securities available for sale	**$ 71,032**	**$2,578**	**$ (854)**	**$ 72,756**

	2008			
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. Government sponsored entities and agencies	$ 8,585	$ 390	$ -	$ 8,975
State and political subdivisions	18,011	139	(87)	18,063
Mortgage-backed securities	37,910	900	(440)	38,370
Corporate securities	8,432	160	(997)	7,595
Total securities available for sale	$ 72,938	$ 1,589	$ (1,524)	$ 73,003

Notes to Consolidated Financial Statements

3. Loans

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

(In thousands)	2009	2008
Residential real estate	**$ 152,206**	$ 170,540
Commercial real estate	**45,841**	42,568
Commercial loans	**26,940**	24,540
Consumer loans	**28,230**	30,917
Loans	**253,217**	268,565
Allowance for loan losses	**(4,348)**	(3,766)
Net loans	**$ 248,869**	$ 264,799

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

(In thousands)	2009	2008
Allowance for loan losses at beginning of year	**$ 3,766**	$ 2,936
Loan charge-offs:		
Residential real estate	**167**	296
Commercial real estate	**2**	-
Commercial loans	**-**	-
Consumer loans	**186**	186
Total charge-offs	**355**	482
Loan recoveries:		
Residential real estate	**6**	5
Commercial real estate	**-**	4
Commercial loans	**8**	-
Consumer loans	**23**	33
Total recoveries	**37**	42
Loan charge-offs, net of recoveries	**318**	440
Provision charged to operations	**900**	1,270
Allowance for loan losses at end of year	**$ 4,348**	$ 3,766

Nonperforming loans as of December 31, were as follows:

(In thousands)	2009	2008
Nonaccrual loans		
Residential real estate	**$ 1,702**	$ 1,643
Commercial real estate	**708**	556
Commercial loans	**41**	5
Consumer loans	**12**	18
Total nonaccruing loans	**2,463**	2,222
Loans past due 90 days or more and still accruing interest		
Residential real estate	**189**	887
Commercial real estate	**-**	-
Commercial loans	**-**	-
Consumer loans	**-**	31
Total loans past due 90 days or more and still accruing interest	**189**	918
Total nonperforming loans	**$ 2,652**	$ 3,140

4. Borrowings

Short-Term FHLB Advances

The Bank has a line of credit with the FHLB totaling $58.1 million. This short-term borrowing program is based upon either an overnight or thirty-day borrowing 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, 2009 and 2008, short-term FHLB advances amounted to zero and $16.8 million, respectively. Short-term FHLB advances are collateralized by FHLB stock and a blanket lien on all residential real estate loans not otherwise pledged.

Long-Term FHLB Borrowings

Scheduled repayments and callable amounts of long-term FHLB borrowings as of December 31, 2009 are as follows:

(Dollars in thousands)	Scheduled payments	Weighted-average interest rate	Callable amounts	Weighted-average interest rate
Maturing or callable in the year ending December 31,				
2010	$ -	- %	$ 21,500	4.68 %
2011	14,000	3.56	-	-
2012	17,500	4.67	-	-
2013	14,000	3.80	-	-
Total long term FHLB borrowings	$ 45,500	4.06 %	$ 21,500	4.68 %

Long term FHLB borrowings are collateralized by a blanket lien on all residential 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)	2009	2008
Current tax expense:		
Federal	**$ 584**	$ 695
State	**1**	1
Deferred tax expense	**260**	211
Total income tax expense	**$ 845**	$ 907

The actual tax expense for the years ended December 31, 2009 and 2008 differs from the statutory Federal tax rate due principally to New York State taxes and tax-exempt investment income.

THOMAS K. GALLOGLY

Thomas K. Gallogly (right), pictured with nephew and fellow Board Member Michael S. Dunn. The portrait between them is of Thomas Kerley, Mr. Gallogly's grandfather.

The Board of Directors wishes to announce the retirement of its longest-serving member, Thomas Kerley Gallogly, who will not seek reelection at the Bank's Annual Meeting to be held in May, 2010. Mr. Gallogly became a Director at the Bank's Annual Meeting of the Shareholders on March 24, 1970 and will be completing 40 years of active service as a Director and former Vice President of the Bank. During his tenure as a Director, Mr. Gallogly has diligently worked to represent his family's interests and to ensure the long-term financial success of this community institution.

Born April 30, 1933 in Albany, New York, he is the son of Edward J. Gallogly and E. Jane Kerley Gallogly and the grandson of Thomas Kerley, President of Ballston Spa National Bank from 1908 to 1940. Mr. Gallogly graduated with a B.A. degree from Syracuse University in 1959 and has since developed a broad and diverse business background. He served for three years as an employee of Union National Bank in Troy, NY and continues to maintain business interests in real estate management and investments. Through his relationship with his grandfather, it is fair to say that Mr. Gallogly either knew personally or had connections with almost every single President of the Bank since its inception. In addition, his grandfather, John J. Gallogly, was the Chief Executive Officer of the Albany Exchange Bank. Through contacts and conversations with both of his grandfathers and his work experience, Mr. Gallogly became a knowledgeable professional regarding all banking matters.

While Mr. Gallogly will be missed as an active Director of the Bank, we are grateful for his determined oversight and support through the years. His vast experience, technical knowledge of all areas of bank finance and administration, and his practical common sense approach to problem solving were invaluable during his years of service. In addition to these qualities, Mr. Gallogly also possesses a detailed history of the Bank that time and again has proven useful for the Board in determining present and future directions. In recognition of his valuable contributions and service, Mr. Gallogly will be granted status as a Director Emeritus with the hope that he will make himself available for advice and counsel as the Bank moves forward with its many goals and plans into the 21st century.

Directors and Officers

BOARD OF DIRECTORS

Robert E. VanVranken, Esq.	*Chairman of the Board, Attorney*
Christopher R. Dowd	*President and Chief Executive Officer*
Michael S. Dunn	*Vice President, Hearst Corporation*
Thomas K. Gallogly	*Real Estate Investor*
J. Peter Hansen, DVM	*Veterinarian, Retired*
Ronald G. Harrington	*Treasurer, Cottrell Paper Company*
Timothy J. Provost	*Principal, Sneeringer Monahan Provost Redgrave Title Agency, Inc.*
Stephen E. Strader, MD	*Physician*
Susan M. Watson, CPA	*Certified Public Accountant*

DIRECTORS EMERITI

Robert K. Curtis	Leroy N. Hodsoll
Douglas P. Seholm	James Whelden

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*

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Tammy L. Zaiko	*Trust & Investments*

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Deborah A. Poulin	*Credit Administration*
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Chad M. Stoffer	*Commercial Lending*
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Ballston Spa Bancorp, Inc.

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OFFICES

Ballston Spa National Bank • General Information (518) 885-6781 • www.bsnb.com

Ballston Spa
87 Front Street
(518) 363-8150

Burnt Hills
770 Saratoga Road
(518) 399-8144

Clifton Park
256 Ushers Road
(518) 877-6667

Galway
5091 Sacandaga Road
(518) 882-1225

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

Malta
124 Dunning Street
(518) 899-2912

Milton Crest
344 Rowland Street
(518) 885-4346

Stillwater
159 River Road
(518) 664-3200

Wilton
625 Maple Avenue
(518) 583-6608