BALLSTON SPA BANCORP, INC.

2011 Annual Report

THE YEAR IN REVIEW

(Dollars in thousands, except per share data) December 31,	2011	2010
FOR THE YEAR ENDED		
Net income	$ 2,175	$ 2,372
Basic earnings per share	2.93	3.19
Dividends declared per share	1.24	1.24
AT YEAR END		
Total assets	$ 388,059	$ 385,538
Loans	238,487	234,544
Deposits	308,334	307,576
Shareholders' equity	25,309	24,070
Book value per share	34.08	32.41
Tangible book value per share	31.75	30.10
ASSET QUALITY RATIOS		
Nonperforming loans to total loans	4.09%	2.64%
Nonperforming assets to total assets	2.60	1.80
Allowance for loan losses to:		
Total loans	1.64	1.96
Nonperforming loans	39.99	74.14

REGULATORY CAPITAL RATIOS			Required Ratios	
	December 31, 2011 Actual	December 31, 2010 Actual	Minimum capital adequacy	Classified as well capitalized
Tier 1 leverage ratio	7.61%	7.44%	4.00%	5.00%
Tier 1 risk-based capital ratio	13.36	13.53	4.00	6.00
Total risk-based capital ratio	14.62	14.79	8.00	10.00

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Christopher R. Dowd
President and Chief Executive Officer

TO OUR SHAREHOLDERS,

Ballston Spa Bancorp, Inc., parent company of Ballston Spa National Bank, completed a successful and rather important year in 2011. In addition to accomplishing certain key initiatives designed to enhance the level of service and support we provide to our customers and community, the Company delivered another year of solid financial performance.

Financial Highlights

Net income decreased to $2.2 million or $2.93 per share for 2011, down 8.3% from the $2.4 million or $3.19 per share reported in 2010. Similar to other financial institutions in 2011, we experienced further contraction in our net interest margins due to the protracted low interest rate environment. Earnings were also impacted by elevated levels of problem loans and soft loan demand. These factors, combined with the carrying costs for our new sales and operations center, negatively impacted income results.

Total assets increased to $388 million at December 31, 2011 supported by modest gains in both loan and deposit balances during the year. Despite soft demand, total loans increased to $238 million at year-end 2011, an increase of 1.7% over year-end 2010 balances. In view of the historically low interest rates, BSNB continued to sell and service most new residential real estate loans originated during the year to protect the balance sheet from rising interest rates. We experienced modest runoff in our residential and consumer portfolios as a result of this strategy. This decline was offset by an 11.2% increase in commercial and commercial real estate loans. Similarly, total deposits increased by $758 thousand during the year to $308.3 million at December 31, 2011. While a modest increase as compared to recent periods, we were successful in strengthening our core deposit base during the year which increased 5.2% to $247 million.

As the recessionary economy continued to impact loan demand, it also had an effect on asset quality. Nonperforming loans increased to $9.8 million or 4.09% of total loans in 2011, up from $6.2 million or 2.64% of total loans at year-end 2010. Considering portfolio growth and increased levels of problem loans, the Company increased provision for loan loss expense to $682 thousand in 2011. As a result, our allowance for loan losses now stands at a healthy $3.9 million representing 1.64% of total loans.

Like all financial institutions, our future is not without risk. Despite the adequacy of our reserve levels, problem loan levels are elevated and will take time and expense to remediate. Moreover, we face the continued threat to earnings posed by the Federal Reserve's decision to maintain interest rates at historically low levels for an extended period of time. These factors have and will continue to have a negative impact on our earnings performance for the coming year. However, in view of the fragile yet improving economy, ample liquidity, and strong and increasing capital levels, the Company is well positioned to achieve our short- and long-term growth goals. We strongly believe our disciplined growth strategy will continue to serve us well in future periods.

Building for the Future

In addition to our financial achievements, BSNB realized a major milestone in October 2011 as we completed construction of a new sales and operations center located on Route 67 in the Town of Ballston. The new facility, BSNB Corporate Plaza, is home to our tenth branch office and team of lending and banking professionals. Designed to assist in delivering superior customer service and support, the expansion also provides for greater visibility and a more efficient and professional work environment for our staff.

In a related initiative, December 2011 marked the start of renovation work at our Main Office located at 87 Front Street in the Village of Ballston Spa. Slated for completion in the spring of 2012, the renovations will serve to enhance our banking services while preserving our historic downtown location. As part of this initiative, our Trust and Financial Services Department has relocated to the Main Office from their previous home on Prospect Street in Ballston Spa.

In addition to our significant investment in building infrastructure, BSNB also completed several initiatives in 2011 to strengthen our non-branch delivery channels and to better meet customer expectations today and into the future.

- In July 2011, the Bank transitioned to a new and enhanced online banking platform;

- In August 2011, we introduced mobile banking services to provide our customers with greater access and control of their accounts; and

- In September 2011, we launched a redesigned website offering expanded features and functionality. Among these features was an Online Mortgage Center where customers can access detailed information on our mortgage and home equity loan products, complete a loan application online at any time, and track the progress of their loan from application to closing.

Community Support

In view of our financial performance and recognizing our commitment to the community, BSNB continued to support area charitable, civic and educational organizations in 2011 through our volunteer efforts and financial contributions. Furthermore, to strengthen our support and further solidify our corporate culture, we introduced *BSNB Volunteers in Action* in 2011, an employee-based program designed to encourage volunteer efforts among all staff members. In groups and individually across the Company's footprint, BSNB employees volunteered over 5,000 hours during 2011, benefiting programs in the arts, social and human services, education and youth, and many others. Likewise, through the bank's charitable giving programs, the Company once again provided scholarships to students in several of our local school districts and funding to support dozens of additional organizations spanning a variety of causes.

BSNB has served its customers and community for 173 years. We continue to build for the future with products, services, facilities and technology to remain the strong, independent financial resource that we are today. Moreover, our experienced staff remains focused on enhancing the value we provide to our shareholders, and on delivering unparalleled levels of customer service.

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 for share and per share data)	**2011**	2010	2009	2008	2007
EARNINGS					
Interest income	**$ 15,527**	$ 16,766	$ 18,375	$ 19,773	$ 18,585
Interest expense	**3,270**	4,093	4,958	6,518	7,633
Net interest income	**12,257**	12,673	13,417	13,255	10,952
Provision for loan losses	**682**	655	900	1,270	500
Noninterest income	**2,307**	2,397	2,018	1,521	1,986
Noninterest expense	**11,072**	11,005	11,346	10,389	9,523
Income before tax expense	**2,810**	3,410	3,189	3,117	2,915
Tax expense	**635**	1,038	845	907	914
Net income	**2,175**	2,372	2,344	2,210	2,001
PER SHARE DATA					
Basic earnings	**$ 2.93**	$ 3.19	$ 3.16	$ 2.98	$ 2.69
Cash dividends declared	**1.24**	1.24	1.21	1.14	1.06
Book value at year end	**34.08**	32.41	31.01	26.56	28.42
Tangible book value at year end	**31.75**	30.10	28.82	24.38	26.20
Closing market price	**31.00**	29.50	25.50	36.00	38.00
AVERAGE BALANCES					
Total assets	**$ 397,222**	$ 372,143	$ 354,597	$ 349,147	$ 324,042
Earning assets	**383,676**	362,755	347,209	338,536	311,770
Loans	**236,766**	245,571	257,619	265,430	241,935
Securities available for sale	**82,939**	77,787	71,408	72,396	68,282
Deposits	**318,138**	293,754	274,279	257,090	262,415
Borrowings	**50,655**	50,655	54,278	67,425	39,340
Shareholders' equity	**25,266**	24,383	21,134	21,634	19,783

Corporate Branch Office Lobby
990 State Route 67, Ballston Spa

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts) December 31,	2011	2010
ASSETS		
Cash and due from banks	$ 1,331	$ 1,278
Short term investments	51,130	50,766
Securities available for sale, at fair value	73,707	85,816
FHLB of NY & FRB stock, at cost	3,956	3,670
Loans	238,487	234,544
Allowance for loan losses	(3,902)	(4,595)
Net loans	234,585	229,949
Premises and equipment, net	10,833	4,158
Accrued interest receivable	1,266	1,258
Goodwill	1,595	1,595
Bank owned life insurance	4,033	-
Other assets	5,623	7,048
Total assets	$ 388,059	$ 385,538
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits	$ 44,202	$ 42,513
Savings	50,628	45,890
NOW and money markets	152,819	147,076
Time deposits	60,685	72,097
Total deposits	308,334	307,576
Long-term FHLB borrowings	45,500	45,500
Junior subordinated debentures	5,155	5,155
Other liabilities	3,761	3,237
Total liabilities	362,750	361,468
Shareholders' Equity:		
Common stock, $12.50 par value. Authorized 1,000,000 shares; issued 768,000 shares at December 31, 2011 and 2010	9,600	9,600
Additional paid-in capital	42	42
Treasury stock, at cost (25,337 shares at December 31, 2011 and 2010)	(991)	(991)
Retained earnings	18,060	16,806
Accumulated other comprehensive loss	(1,402)	(1,387)
Total shareholders' equity	25,309	24,070
Total liabilities and shareholders' equity	$ 388,059	$ 385,538

See accompanying notes to consolidated financial statements.

CONSOLIDATED INCOME STATEMENTS

(In thousands, except share and per share amounts) Years ended December 31,	2011	2010
INTEREST AND FEE INCOME		
Loans, including fees	$ 12,660	$ 14,003
Securities available for sale	2,529	2,503
FHLB of NY & FRB stock	184	167
Short term investments	154	93
Total interest and fee income	15,527	16,766
INTEREST EXPENSE		
Deposits	1,480	2,147
Long-term FHLB borrowings	1,612	1,766
Junior subordinated debentures	178	180
Total interest expense	3,270	4,093
Net interest income	12,257	12,673
Provision for loan losses	682	655
Net interest income after provision for loan losses	11,575	12,018
NONINTEREST INCOME		
Service charges on deposit accounts	546	594
Trust and investment services income	772	706
Other than temporary impairment of securities	(25)	-
Gain on sale of securities	117	-
Gain on sale of loans	143	427
Earnings on bank owned life insurance	33	-
Other	721	670
Total noninterest income	2,307	2,397
NONINTEREST EXPENSE		
Compensation and benefits	6,687	6,561
Occupancy and equipment	1,123	1,063
FDIC and OCC assessment	521	521
Advertising and public relations	312	304
Legal and professional fees	395	375
Data processing	616	626
Other	1,418	1,555
Total noninterest expense	11,072	11,005
Income before income tax expense	2,810	3,410
Income tax expense	635	1,038
Net income	$ 2,175	$ 2,372
Basic earnings per share	$ 2.93	$ 3.19
Weighted average common shares outstanding	742,663	742,663

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER EQUITY

Years ended December 31, 2011 and 2010 (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, 2010	$ 9,600	$ 42	$ (991)	$ 15,355	$ (976)	$ 23,030
Comprehensive income (loss):						
Net income				2,372		2,372
Other comprehensive income (loss) net of tax:						
Change in unrealized loss on securities for which a portion of an OTTI has been recognized in earnings, net					130	130
Net unrealized loss on securities, net of reclassification					(80)	(80)
Changes in funded status of pension plan, net of tax					(461)	(461)
Total other comprehensive loss						(411)
Total comprehensive income:						1,961
Cash dividends declared ($1.24 per share)				(921)		(921)
Balance at December 31, 2010	9,600	42	(991)	16,806	(1,387)	24,070
Comprehensive income (loss):						
Net income				**2,175**		**2,175**
Other comprehensive income (loss) net of tax:						
Change in unrealized loss on securities for which a portion of an OTTI has been recognized in earnings, net					**985**	**985**
Net unrealized loss on securities, net of reclassification					**(376)**	**(376)**
Changes in funded status of pension plan, net of tax					**(624)**	**(624)**
Total other comprehensive loss						**(15)**
Total comprehensive income:						**2,160**
Cash dividends declared ($1.24 per share)				**(921)**		**(921)**
Balance at December 31, 2011	**$ 9,600**	**$ 42**	**$ (991)**	**$ 18,060**	**$ (1,402)**	**$ 25,309**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) Years ended December 31,	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,175	$ 2,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	412	351
Provision for loan losses	682	655
Net premium amortization on securities	298	378
Deferred tax expense	510	668
Gain on sale of securities	(117)	-
Other than temporary impairment of securities.	25	-
Gain on sale of loans	(143)	(427)
Proceeds from sales of loans held for sale	4,779	14,406
Loans originated and held for sale	(4,636)	(13,979)
Net gain on sales and disposal of premises and quipment	-	(4)
Net (gain) loss on sale of other real estate owned	(43)	3
Earnings on bank owned life insurance	(33)	-
Net (increase) decrease in accrued interest receivable	(8)	74
Net (increase) decrease in other assets	12	(2,247)
Net increase in other liabilities	24	888
Net cash provided by operating activities	3,937	3,138
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, calls and paydowns of securities available for sale	21,955	28,651
Proceeds from sales of securities available for sale.	2,367	-
Purchases of securities available for sale	(11,421)	(42,008)
Net redemptions of FHLB stock	(286)	(573)
Net loans (repaid by) made to customers	(5,924)	17,299
Proceeds from sale of other real estate owned	1,039	227
Proceeds from sale of premises and equipment	-	4
Purchases of premises and equipment	(7,087)	(412)
Purchase of bank owned life insurance	(4,000)	-
Net cash (used in) provided by investing activities	(3,357)	3,188
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	758	18,751
Issuance of long-term FHLB borrowings	-	31,500
Repayment of long-term FHLB borrowings	-	(31,500)
Payment of penalty on restructured borrowings	-	(1,645)
Dividends paid	(921)	(921)
Net cash (used in) provided by financing activities	(163)	16,185
Net change in cash and cash equivalents	417	22,511
Cash and cash equivalents at beginning of year	52,044	29,533
Cash and cash equivalents at end of year	$ 52,461	$ 52,044

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 ten 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. In accordance with FASB Interpretation No. 46 (revised) Consolidation of Variable Interest Entities (FIN No. 46R) the Trust is not consolidated for financial statement purposes. 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). 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. 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 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 was closed to employees hired by the Company subsequent to October 1, 2010. 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 net minimum pension liabilities. Comprehensive (loss) 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 net minimum pension liabilities, net of tax.

Bank-Owned Life Insurance ("BOLI")
The Bank has purchased life insurance policies on certain key executives. BOLI is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

2. Securities

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

	2011			
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
State and political subdivisions	**$ 29,008**	**$1,895**	**$ (5)**	**$ 30,898**
Mortgage-backed securities - residential	**32,206**	**1,251**	**(6)**	**33,451**
Collateralized mortgage obligations	**1,324**	**-**	**(188)**	**1,136**
Corporate securities	**8,366**	**458**	**(602)**	**8,222**
Total securities available for sale	**$ 70,904**	**$3,604**	**$ (801)**	**$ 73,707**

	2010			
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. Government sponsored entities and agencies	$ 7,913	$ -	$ (113)	$ 7,800
State and political subdivisions	26,410	1,028	(127)	27,311
Mortgage-backed securities - residential	39,918	1,222	(319)	40,821
Collateralized mortgage obligations	1,381	-	(187)	1,194
Corporate securities	8,389	628	(327)	8,690
Total securities available for sale	$ 84,011	$ 2,878	$ (1,073)	$ 85,816

3. Loans

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

(In thousands)	2011	2010
Residential real estate	$ 130,015	$ 133,430
Commercial real estate	51,060	49,944
Commercial loans	33,634	26,231
Consumer loans	23,778	24,939
Loans	238,487	234,544
Allowance for loan losses	(3,902)	(4,595)
Net loans	$ 234,585	$ 229,949

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

(In thousands)	2011	2010
Allowance for loan losses at beginning of year	$ 4,595	$ 4,348
Loan charge-offs:		
Residential real estate	404	340
Commercial real estate	253	-
Commercial loans	776	-
Consumer loans	87	93
Total charge-offs	1,520	433
Loan recoveries:		
Residential real estate	80	-
Commercial real estate	-	-
Commercial loans	20	1
Consumer loans	45	24
Total recoveries	145	25
Loan charge-offs, net of recoveries	1,375	408
Provision charged to operations	682	655
Allowance for loan losses at end of year	$ 3,902	$ 4,595

Nonperforming loans as of December 31, were as follows:

(In thousands)	2011	2010
Nonaccrual loans		
Residential real estate	$ 2,194	$ 2,446
Commercial real estate	3,957	2,751
Commercial loans	1,851	287
Consumer loans	8	-
Total nonaccruing loans	8,010	5,484
Loans past due 90 days or more and still accruing interest		
Residential real estate	1,723	669
Commercial real estate	-	-
Commercial loans	-	-
Consumer loans	25	32
Total loans past due 90 days or more and still accruing interest	1,748	701
Total nonperforming loans	$ 9,758	$ 6,185

4. Borrowings

Short-Term FHLB Advances

The Bank has a line of credit with the 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, 2011 and 2010, short-term FHLB advances amounted to zero. 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 Advances

Scheduled repayments and callable amounts of long-term FHLB borrowings as of December 31, 2011 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,				
2013	$ 14,000	3.80 %	$ -	- %
2014	10,500	3.25	-	-
2015	10,500	3.35	-	-
2016	10,500	3.69	-	-
2017 and thereafter	-	-	-	-
Total long term FHLB borrowings	$ 45,500	3.54 %	$ -	- %

Long term FHLB borrowings are collateralized by a blanket lien on all residential real estate loans not otherwise pledged.

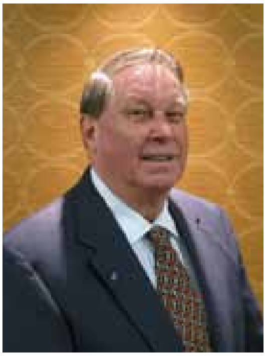
5. Income Taxes

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

(Dollars in thousands)	**2011**	2010
Current tax expense:		
Federal	**$ 124**	$ 369
State	**1**	1
Deferred tax expense	**510**	668
Total income tax expense	**$ 635**	$ 1,038

The actual tax expense for the years ended December 31, 2011 and 2010 differs from the statutory Federal tax rate due principally to New York State taxes and tax-exempt income.

RONALD G. HARRINGTON



After twenty-four years of dedicated service to our Company, Ronald G. Harrington will be retiring from the Board at the Bank's annual meeting to be held in May of 2012. Mr. Harrington became a director of the Bank and Holding Company on December 16, 1988, succeeding his father, Francis L. Harrington, who had served in the same capacity since 1963.

Mr. Harrington graduated from Union College in 1962 and joined the Air Guard, graduating from pilot school as number one in his class at Laughlin Air Force Base in Texas. He went on to serve four tours of duty in Vietnam and retired from the military in 1992 as a Lieutenant Colonel. Mr. Harrington built his civilian career at Cottrell Paper Mill in Rock City Falls, starting part time as a teenager and retiring in 2006 as the company's President. Today, Mr. Harrington continues to work for the 85-year-old family owned and operated business as Treasurer.

During his tenure as a director of Ballston Spa Bancorp, Mr. Harrington chaired the board's Trust Committee and also served on the Executive Committee. He will be missed for his common sense approach to problem solving, extensive business experience, knowledge of the Company's market territory, and his passion for community banking.

In recognition of his many contributions over the years and with much appreciation, Mr. Harrington will be granted status as Director Emeritus with the hope that he will make himself available for advice and counsel as the Company moves forward with its plans for 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*
J. Peter Hansen, DVM	*Veterinarian, Retired*
Ronald G. Harrington	*Treasurer, Cottrell Paper Company*
Beth A. Kayser, CPA	*Certified Public Accountant*
Timothy J. Provost	*Vice-Chairman of the Board, 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	Thomas K. Gallogly
Leroy N. Hodsoll	Douglas P. Seholm

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*

SENIOR VICE PRESIDENTS

Ervin M. Murray	*Information Technology*
Tammy L. Zaiko	*Trust & Investments*

VICE PRESIDENTS

Donna D. Avery	*Retail Sales*
John B. Chandler	*Trust & Investments*
Timothy J. Collins	*Commercial Lending*
Leslie S. Dorsey	*Human Resources*
Margaret G. Gavin	*Finance*
William F. MacDuff	*Deposit Operations*
Margaret M. McCanty	*Audit*
Deborah A. Poulin	*Credit Administration*
Laura A. Siracuse	*Commercial Lending*
Susan M. Slovic	*Marketing*
Chad M. Stoffer	*Retail Lending*
Thomas M. White	*Trust & Investments*

Ballston Spa Bancorp, Inc.

LOCATIONS

Ballston Spa
87 Front Street
(518) 363-8150

Burnt Hills
770 Saratoga Road
(518) 399-8144

Clifton Park
256 Ushers Road
(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

Malta
124 Dunning Street
(518) 899-2912

Milton Crest
344 Rowland Street
(518) 885-4346

Stillwater
428 Hudson Avenue
(518) 664-3200

Wilton
625 Maple Avenue
(518) 583-6608

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