BALLSTON SPA BANCORP, INC.

2012 Annual Report

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,	2012	2011
FOR THE YEAR ENDED		
Net income	$ 2,205	$ 2,175
Basic earnings per share	2.97	2.93
Dividends declared per share	1.24	1.24
AT YEAR END		
Total assets	$ 421,352	$ 388,059
Loans	257,802	238,487
Deposits	340,624	308,334
Shareholders' equity	26,548	25,309
Book value per share	35.75	34.08
Tangible book value per share	33.36	31.75
ASSET QUALITY RATIOS		
Nonperforming loans to total loans	2.33%	4.09%
Nonperforming assets to total assets	1.49	2.60
Allowance for loan losses to:		
Total loans	1.67	1.64
Nonperforming loans	71.35	39.99

REGULATORY CAPITAL RATIOS

			Required Ratios	
	December 31, 2012 Actual	December 31, 2011 Actual	Minimum capital adequacy	Classified as well capitalized
Tier 1 leverage ratio	7.48%	7.61%	4.00%	5.00%
Tier 1 risk-based capital ratio	12.72	13.36	4.00	6.00
Total risk-based capital ratio	13.98	14.62	8.00	10.00

Christopher R. Dowd
President and Chief Executive Officer

"The heart and soul of our company has been, and will continue to be, a talented team of banking professionals."

TO OUR SHAREHOLDERS,

Ballston Spa Bancorp, Inc., parent company of Ballston Spa National Bank, completed a successful year in 2012. We exceeded income expectations, achieved solid loan and deposit growth, and accomplished key initiatives designed to enhance the level of service and support we provide to our customers and community.

Financial Highlights

Net income increased modestly in 2012 to $2.2 million or $2.97 per share, up 1.4% from the $2.93 per share reported in 2011. Several factors contributed to the improved performance including strong loan production, increased noninterest income, and effective cost management. Considering the economic and regulatory environment that continues to burden community banks and small businesses nationwide, we are very pleased with our performance in 2012. That said, I believe some of our accomplishments and a few of the factors influencing our performance warrant additional comment.

Total assets increased $33 million or 8.6% during the year to $421 million at December 31, 2012. Our focus on the commercial banking market segment continued to pay dividends during the year. Commercial and commercial real estate loans increased 11% to $94 million at December 31, 2012. Given our performance in 2012, the strength of our staff, and regional economic prospects, we remain focused on this market segment as an opportunity for future growth. Similarly, we experienced strong demand for residential lending products in 2012. Refinance activity increased significantly as long-term mortgage rates remained at historically low levels. Moreover, consumers responded well to our new online mortgage platform and the introduction of new products and services. As a result, residential mortgage loan balances increased 6.9% during the year to $139 million at December 31, 2012. In keeping with our strategy to protect the balance sheet from rising interest rates, an additional $14 million in longer-term mortgage loans were originated during the year and sold to the secondary market. The company recognized an impressive $549 thousand from the sale of these assets.

Asset growth in 2012 was funded in part by a $32 million or 10.5% increase in total deposits to $340.6 million at December 31, 2012. Our sales and marketing efforts were successful in attracting new customers to the bank in 2012, primarily away from larger financial institutions. Furthermore, the regional economy is showing signs of modest improvement.

The positive impact of growth in loan and deposit portfolios in 2012 was partially offset by net interest margin compression and increased noninterest expense. As anticipated, the Federal Reserve's decision to keep rates at historically low levels resulted in further compression in net interest margins, declining from 3.19% in 2011 to 3.13% for 2012. In addition, we recognized the first full year of expenses associated with our new sales and operations center. As compared to 2011, occupancy and equipment expense increased $196 thousand in 2012. Considering this increase and the costs associated with the ongoing implementation of the Dodd Frank Wall Street Reform and Consumer Protection Act, we were pleased to limit the increase in noninterest expense to just 3.7% over 2011 results.

As referenced previously, the current economic cycle has impacted performance and continues to expose the company to certain risks and increased regulatory costs. However, by adhering to a disciplined growth strategy and through the effective management of interest rate risk, our balance sheet is strong. Capital levels have continued to grow during this period and remain well above regulatory minimums. Problem loan levels, while elevated during the economic downturn, were significantly reduced during the year. Nonperforming loans declined from 4.09% of total loans at December 31, 2011 to 2.33% at December 31, 2012. Liquidity levels continue to be strong and provide an ample source of funding for projected loan growth. As such, the company is well positioned to pursue both short and long-term business objectives.

Building for the Future

As relayed in last year's Annual Report, we ended 2011 moving into our new sales and operations center and opening our 10th branch office at the same location. We had also initiated a renovation project at our Home Office location at 87 Front Street in the Village of Ballston Spa. The project was successfully completed in April 2012. In late 2012 we kicked off a project to renovate five additional branch offices. The renovation work is expected to be completed in the spring of 2013. With each building project we are attempting to provide for an enhanced customer experience and professional work environment.

In addition to the building projects, BSNB also introduced new products and services and completed certain initiatives designed to enhance the service and support we provide to our customers. More specifically,

- In November 2012, we introduced GoChecking, a new mobile checking account designed to provide on the go customers with greater access to their funds;

- In October 2012, we introduced a Veteran's Appreciation Package for active, reserve and retired service members. The package recognizes the significant contribution these men and women make to our country and the community;

- In March 2012, we introduced our CustomFit Mortgage that allows customers to choose from a range of non-traditional terms to best fit their financial needs; and

- In February 2012, we initiated a project to enhance our utilization of existing technology, achieve greater operational efficiency, and ultimately improve customer service. The initiative has been successful in accomplishing these objectives and will continue into the coming year.

While we will continue to make prudent investments in our building and technology infrastructure, the heart and soul of our company has been, and will continue to be, a talented team of banking professionals. It is through these resources that we are able to clearly differentiate ourselves from the competition. With this in mind, we will also continue to invest time and money in programs designed to strengthen our staff.

Community Support

An additional benefit of our strong financial performance is that we are able to fulfill our ongoing mission to give back and strengthen the communities where we do business. In 2012, through the Bank's charitable giving programs and the BSNB Charitable Foundation, the company again provided scholarships to students in four local school districts, and funded several organizations benefiting the arts, social and human services, education and youth. Our Volunteers in Action Program, introduced in 2011, has been successful in solidifying our corporate culture and enhancing our support of the local community. In fact, BSNB employees volunteered over 6,000 hours during 2012 in support of over 110 organizations, an increase of 1,000 hours over the prior year.

BSNB has served its customers and community for 174 years. With a seasoned and dedicated team of banking professionals, a strong balance sheet, and a clear and thoughtful long-term plan, we are confident that we can continue to enhance the value we provide to our shareholders, customers, and community.

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)	**2012**	2011	2010	2009	2008
EARNINGS					
Interest income	**$ 14,559**	$ 15,527	$ 16,766	$ 18,375	$ 19,773
Interest expense	**2,624**	3,270	4,093	4,958	6,518
Net interest income	**11,935**	12,257	12,673	13,417	13,255
Provision for loan losses	**400**	682	655	900	1,270
Noninterest income	**2,802**	2,307	2,397	2,018	1,521
Noninterest expense	**11,485**	11,072	11,005	11,346	10,389
Income before tax expense	**2,852**	2,810	3,410	3,189	3,117
Tax expense	**647**	635	1,038	845	907
Net income	**2,205**	2,175	2,372	2,344	2,210
PER SHARE DATA					
Basic earnings	**$ 2.97**	$ 2.93	$ 3.19	$ 3.16	$ 2.98
Cash dividends declared	**1.24**	1.24	1.24	1.21	1.14
Book value at year end	**35.75**	34.08	32.41	31.01	26.56
Tangible book value at year end	**33.36**	31.75	30.10	28.82	24.38
Closing market price	**31.50**	31.00	29.50	25.50	36.00
AVERAGE BALANCES					
Total assets	**$ 401,282**	$ 397,222	$ 372,143	$ 354,597	$ 349,147
Earning assets	**381,587**	383,676	362,755	347,209	338,536
Loans	**246,946**	236,766	245,571	257,619	265,430
Securities available for sale	**78,595**	82,939	77,787	71,408	72,396
Deposits	**320,990**	318,138	293,754	274,279	257,090
Borrowings	**50,655**	50,655	50,655	54,278	67,425
Shareholders' equity	**26,267**	25,266	24,383	21,134	21,634

BSNB VOLUNTEERS IN ACTION

To strengthen our community support and further solidify our corporate culture, the bank introduced BSNB Volunteers in Action in 2011. This employee-based program is designed to encourage volunteer efforts among all staff members. Over the course of 2012, BSNB employees contributed more than 6,000 volunteer hours to more than 110 organizations.

UNAUDITED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts) December 31,	2012	2011
ASSETS		
Cash and due from banks	$ 950	$ 1,331
Short-term investments	59,504	51,130
Securities available for sale, at fair value	81,373	73,707
FHLB of NY & FRB stock, at cost	4,392	3,956
Loans	257,802	238,487
Allowance for loan losses	(4,294)	(3,902)
Net loans	253,508	234,585
Premises and equipment, net	10,587	10,833
Accrued interest receivable	1,237	1,266
Goodwill	1,595	1,595
Bank owned life insurance	4,170	4,033
Other assets	4,036	5,623
Total assets	$ 421,352	$ 388,059
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits	$ 50,493	$ 44,202
Savings	54,635	50,628
NOW and money markets	187,936	152,819
Time deposits	47,560	60,685
Total deposits	340,624	308,334
Long-term FHLB borrowings	45,500	45,500
Junior subordinated debentures	5,155	5,155
Other liabilities	3,525	3,761
Total liabilities	394,804	362,750
Shareholders' Equity:		
Common stock, $12.50 par value. Authorized 1,000,000 shares; issued 768,000 shares at December 31, 2012 and 2011	9,600	9,600
Additional paid-in capital	42	42
Treasury stock, at cost (25,337 shares at December 31, 2012 and 2011)	(991)	(991)
Retained earnings	19,344	18,060
Accumulated other comprehensive loss	(1,447)	(1,402)
Total shareholders' equity	26,548	25,309
Total liabilities and shareholders' equity	$ 421,352	$ 388,059

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED INCOME STATEMENTS

(In thousands, except share and per share amounts) Years ended December 31,	2012	2011
INTEREST AND FEE INCOME		
Loans, including fees	$ 12,237	$ 12,660
Securities available for sale	2,017	2,529
FHLB of NY & FRB stock	171	184
Short-term investments	134	154
Total interest and fee income	14,559	15,527
INTEREST EXPENSE		
Deposits	825	1,480
Long-term FHLB borrowings	1,612	1,612
Junior subordinated debentures	187	178
Total interest expense	2,624	3,270
Net interest income	11,935	12,257
Provision for loan losses	400	682
Net interest income after provision for loan losses	11,535	11,575
NONINTEREST INCOME		
Service charges on deposit accounts	499	546
Trust and investment services income	801	772
Other than temporary impairment of securities	(25)	(25)
Gain on sale of securities	25	117
Gain on sale of loans	549	143
Debit card interchange income	455	412
Earnings on bank owned life insurance	137	33
Other	361	309
Total noninterest income	2,802	2,307
NONINTEREST EXPENSE		
Compensation and benefits	6,955	6,687
Occupancy and equipment	1,319	1,123
FDIC and OCC assessment	442	521
Advertising and public relations	299	312
Legal and professional fees	357	395
Debit card processing	257	212
Data processing	661	616
Other	1,195	1,206
Total noninterest expense	11,485	11,072
Income before income tax expense	2,852	2,810
Income tax expense	647	635
Net income	$ 2,205	$ 2,175
Basic earnings per share	$ 2.97	$ 2.93
Weighted average common shares outstanding	742,663	742,663

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except share and per share amounts) Years ended December 31,	2012	2011
Net income	**$ 2,205**	$ 2,175
Other comprehensive income (loss), net of tax:		
Change in unrealized gain (loss) on securities for which a portion of an OTTI has been recognized in earnings, net	**134**	(1)
Net unrealized gain (loss) on securities, net of reclassification	**(77)**	610
Changes in funded status of pension plan, net of tax	**(102)**	(624)
Total other comprehensive loss	**(45)**	(15)
Total comprehensive income	**$ 2,160**	$ 2,160

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2012 and 2011 (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, 2011	$ 9,600	$ 42	$ (991)	$ 16,806	$ (1,387)	$ 24,070
Comprehensive income (loss):						
Net income				2,175		2,175
Other comprehensive loss, net of tax:					(15)	(15)
Cash dividends declared ($1.24 per share)				(921)		(921)
Balance at December 31, 2011	9,600	42	(991)	18,060	(1,402)	25,309
Comprehensive income (loss):						
Net income				**2,205**		**2,205**
Other comprehensive loss, net of tax:					(45)	**(45)**
Cash dividends declared ($1.24 per share)				**(921)**		**(921)**
Balance at December 31, 2012	**$ 9,600**	**$ 42**	**$ (991)**	**$ 19,344**	**$ (1,447)**	**$ 26,548**

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) Years ended December 31,	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,205	$ 2,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	585	436
Provision for loan losses	400	682
Net premium amortization on securities	705	298
Deferred tax expense	70	493
Gain on sale of securities	(25)	(117)
Other than temporary impairment of securities	25	25
Gain on sale of loans	(549)	(143)
Proceeds from sale of loans held for sale	18,034	4,779
Loans originated and held for sale	(18,490)	(6,013)
Net gain on sale of other real estate owned	(43)	(43)
Earnings on bank owned life insurance	(137)	(33)
Net (increase) decrease in accrued interest receivable	29	(8)
Net decrease in other assets	1,342	12
Net increase (decrease) in other liabilities	(276)	41
Net cash provided operating activities	3,875	2,584
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, calls and paydowns of securities available for sale	16,382	21,955
Proceeds from sale of securities available for sale	411	2,367
Purchases of securities available for sale	(25,072)	(11,421)
Net redemptions of FHLB stock	(436)	(286)
Net loans made to customers	(18,586)	(4,547)
Proceeds from sale of other real estate owned	389	1,039
Purchases of premises and equipment	(339)	(7,111)
Purchase of bank owned life insurance	-	(4,000)
Net cash used in investing activities	(27,251)	(2,004)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	32,290	758
Dividends paid	(921)	(921)
Net cash (used in) provided by financing activities	31,369	(163)
Net change in cash and cash equivalents	7,993	417
Cash and cash equivalents at beginning of year	52,461	52,044
Cash and cash equivalents at end of year	$ 60,454	$ 52,461

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 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.

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, 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 plan was closed to anyone hired by the Company subsequent to October 1, 2010. 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 401(k) plan. Employee 401(k) plan expense is the amount of matching contributions. 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 income (loss) and its components are included in the consolidated statements of comprehensive income. 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.

2. Securities

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

	2012			
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
State and political subdivisions	**$ 33,977**	**$1,642**	**$ (13)**	**$ 35,606**
Mortgage-backed securities - residential	**30,568**	**1,298**	**(24)**	**31,842**
Collateralized mortgage obligations	**964**	**68**	**(37)**	**995**
Corporate securities	**12,969**	**255**	**(294)**	**12,930**
Total securities available for sale	**$ 78,478**	**$3,263**	**$ (368)**	**$ 81,373**

	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

3. Loans

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

(In thousands)	2012	2011
Residential real estate	$ 139,014	$ 130,015
Commercial real estate	64,266	51,060
Commercial loans	29,833	33,634
Consumer loans	24,689	23,778
Loans	257,802	238,487
Allowance for loan losses	(4,294)	(3,902)
Net loans	$ 253,508	$ 234,585

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

(In thousands)	2012	2011
Allowance for loan losses at beginning of year	$ 3,902	$ 4,595
Loan charge-offs:		
Residential real estate	40	404
Commercial real estate	142	253
Commercial loans	18	776
Consumer loans	53	87
Total charge-offs	253	1,520
Loan recoveries:		
Residential real estate	94	80
Commercial real estate	-	-
Commercial loans	112	20
Consumer loans	39	45
Total recoveries	245	145
Loan charge-offs, net of recoveries	8	1,375
Provision charged to operations	400	682
Allowance for loan losses at end of year	$ 4,294	$ 3,902

Nonperforming loans as of December 31, were as follows:

(In thousands)	2012	2011
Nonaccrual loans		
Residential real estate	$ 2,049	$ 2,090
Commercial real estate	1,638	4,061
Commercial loans	1,704	1,851
Consumer loans	6	8
Total nonaccruing loans	5,397	8,010
Loans past due 90 days or more and still accruing interest		
Residential real estate	620	1,723
Commercial real estate	-	-
Commercial loans	-	-
Consumer loans	1	25
Total loans past due 90 days or more and still accruing interest	621	1,748
Total nonperforming loans	$ 6,018	$ 9,758

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, 2012 and 2011, 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, 2012 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)	**2012**	2011
Current tax expense:		
Federal	**$ 576**	$ 141
State	**1**	1
Deferred tax expense	**70**	493
Total income tax expense	**$ 647**	$ 635

The actual tax expense for the years ended December 31, 2012 and 2011 differs from the statutory Federal tax rate due principally to New York State taxes and tax-exempt investment income.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Robert E. Van Vranken, Esq.	*Chairman of the Board, Attorney*
Christopher R. Dowd	*President and Chief Executive Officer*
Michael S. Dunn	*Technology Consultant*
J. Peter Hansen, DVM	*Veterinarian, Retired*
Beth A. Kayser, CPA	*Certified Public Accountant*
Stephen J. Obermayer, CPA	*Chief Financial Officer, BBL Construction Services, LLC*
Timothy J. Provost	*Vice-Chairman of the Board, Principal, Sneeringer Monahan Provost Redgrave Title Agency, Inc.*
Stephen E. Strader, MD	*Physician*
Susan M. Watson, CPA	*Certified Public Accountant*

In Memory

Douglas P. Seholm

(April 14, 1935 – September 4, 2012)

Doug made valuable contributions to our company and community during his 24 years of service on our Board of Directors. He retired from the Board in 2007 and served as director emeritus until his passing.

DIRECTORS EMERITI

Robert K. Curtis	Thomas K. Gallogly
Ronald G. Harrington	Leroy N. Hodsoll

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

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Tammy L. Zaiko	*Trust & Investments*

VICE PRESIDENTS

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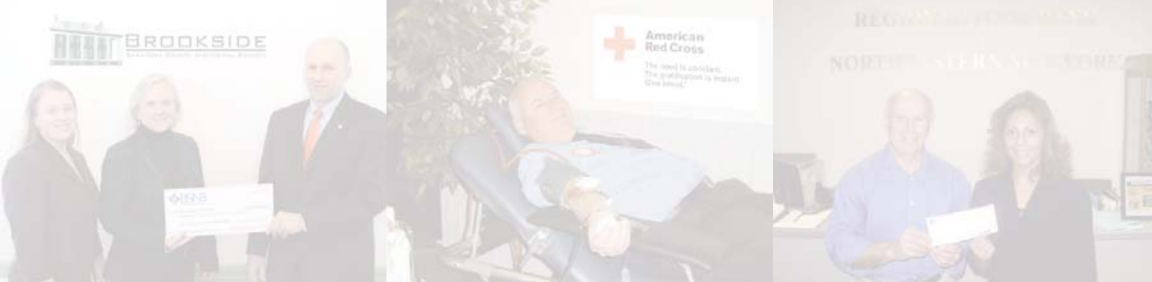
John B. Chandler	*Trust & Investments*
Timothy J. Collins	*Commercial Lending*
Leslie S. Dorsey	*Human Resources*
Margaret G. Gavin	*Finance*
William F. MacDuff	*Deposit Operations*
Margaret M. McCanty	*Audit*
Deborah A. Poulin	*Credit Administration*
Laura A. Siracuse	*Commercial Lending*
Susan M. Slovic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



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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