BALLSTON SPA BANCORP, INC.

2016 ANNUAL REPORT

BSNB
Ballston Spa National Bank

Better.

WWW.BSNB.COM

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,	2016	2015
FOR THE YEAR ENDED		
Net income	$ 2,378	$ 2,127
Basic earnings per share	3.20	2.86
Dividends declared per share	1.24	1.24
AT YEAR END		
Total assets	$ 443,264	$ 442,435
Loans	330,173	293,037
Deposits	401,010	391,810
Shareholders' equity	31,413	30,173
Book value per share	42.30	40.63
Tangible book value per share	40.07	38.34
ASSET QUALITY RATIOS		
Nonperforming loans to total loans	0.82%	1.78 %
Nonperforming assets to total assets	0.76	1.47
Allowance for loan losses to:		
Total loans	1.22	1.43
Nonperforming loans	149.68	80.50

REGULATORY CAPITAL RATIOS			Required Ratios	
	December 31, 2016 Actual	December 31, 2015 Actual	Minimum capital adequacy	Classified as well capitalized
Tier 1 leverage ratio	8.37%	8.21%	4.00%	5.00%
Tier 1 risk-based capital ratio	12.12	13.13	6.00	8.00
Common equity tier 1 capital ratio	12.11	13.11	4.50	6.50
Total risk-based capital ratio	13.36	14.38	8.00	10.00

"We are excited about the opportunities ahead as we expand our market presence and look to build on our previous accomplishments."

Christopher R. Dowd
President and Chief Executive Officer

TO OUR SHAREHOLDERS,

Ballston Spa Bancorp, Inc., parent company of Ballston Spa National Bank, enjoyed a very successful year in 2016. Net income increased to $2.4 million or $3.20 per share, up 11.8% from the $2.1 million or $2.86 per share reported in 2015. The improved earnings performance was attributable to several factors, including continued growth in the company's lending portfolios, growth in core deposits and improved net interest margins.

Financial Highlights

Consistent with our strategy to pursue growth in the commercial banking market segment, the company again posted substantial increases in the commercial and commercial real estate lending portfolios. Balances increased $24.2 million, or 21.4% during 2016. Residential mortgage lending experienced growth as well, reflecting the addition of new staffing resources. Loans in this portfolio increased $11.1million, or 7.6% over year-end 2015. To support the total $37.1 million in loan growth, the company utilized cash flows from short-term investments and securities available for sale. Growth of deposits totaling $9.2 million, or 2.4% enabled the company to repay its long-term borrowings. This lower cost funding source, coupled with the growth in higher earning assets, assisted the company in achieving an increase in net interest income of $1.4 million or 11.3%.

As part of its program to manage interest rate risk, the company employed an interest rate swap in September 2016, swapping variable rate debentures for a 5 year fixed rate instrument to hedge against rising interest rates.

To protect against the growing risks in today's business environment, the company formed a wholly-owned captive insurance subsidiary, Ballston Spa Risk Management, Inc., in December 2016. The captive provides another tool in managing risks and allows us to pool resources with several other insurance subsidiaries of financial institutions and spread a limited amount of risk among those pool participants.

Our balance sheet remains strong. Our Tier 1 capital ratio, at 12.12% as of December 31, 2016, is at a level well above the regulatory minimum for a well-capitalized institution. In addition, consistent efforts to reduce problem loan levels have resulted in a decrease in nonperforming loans as a percentage of total loans from 1.78% as of December 31, 2015 to 0.82% for the year ending 2016, our lowest point in eight years.

Given our solid financial foundation, we believe the company is well-positioned to pursue additional growth opportunities in the years ahead.

New Opportunities to Grow

Building on the success of our 2015 branch opening in Latham N.Y., the company explored options to further expand within Albany County. After careful consideration, the board and management decided to move forward with plans to acquire former banking locations in Voorheesville and Guilderland. Upon regulatory approval, these new locations will help to enhance the service and support we deliver to existing customers while extending our reach further into the Capital Region. As with the other markets we serve, our focus will be on providing customers with exceptional service while seeking to make a positive difference in the community through volunteerism and philanthropy. Considering our strong financial position, skilled staff, and technology resources, the company is well-positioned to deliver on these goals.

In addition to our expansion plans, BSNB initiated several other projects in 2016 focused on enhancing our non-branch delivery channels and better meeting customer expectations. For example:

• We introduced new protections for BSNB debit cardholders through SecurLOCK Communicate. When a suspicious transaction occurs, cardholders are contacted by a combination of text messages, phone calls and/or emails to quickly confirm validity;

• With our continued focus on deposit growth, we expanded our cash management solutions to include new services for specialized needs. Lockbox services assist clients with processing high volumes of accounts receivable more efficiently while lease security accounts help ease the burden of managing tenant security deposits for multi-tenant property managers;

• A competitive review of our deposit products resulted in enhancements to our Free Small Business Checking account, the introduction of a new Student Checking account and a simplified product line for customers and employees alike;

• Focusing on convenience, we updated the look and feel of our online banking service and will be focusing on making similar enhancements to our mobile banking app in the near future;

• On a similar theme, we redesigned our website to feature a modern design, enhanced navigation and increased content. Additionally, the site is now optimized for improved viewing on mobile devices.

These and other changes implemented throughout the year have enhanced opportunities to attract new customers and expand relationships with existing customers.

Community Support

BSNB also continued its record of strong community support in 2016. In light of our financial success, the company continued to fund scholarships at area high schools as well as provide meaningful and targeted financial support to dozens of organizations supporting the arts, social services, education, youth, veterans and other worthy causes.

In addition to supporting organizations through donations and sponsorships, we believe that giving back to our communities through volunteerism is equally important. Through our BSNB *Volunteers in Action* program, our employees helped to feed the hungry, raised funds to help fight breast cancer, heart disease and juvenile diabetes, taught economic principles to students, organized sending cards to our military overseas and collected socks and personal care items for the homeless. These efforts are a small sampling of the ongoing commitment of BSNB staff members and are a point of tremendous pride for the company.

Expanding on these accomplishments, we are actively planning BSNB's first bank-wide community service day for later this spring. During this day of giving back, we will be closing early so that all employees may participate in a community service project in partnership with the American Red Cross.

In closing, we are excited about the opportunities ahead as we expand our market presence and look to build on our previous accomplishments. With a seasoned and dedicated team of professionals, a well-crafted long-range plan, and an ongoing commitment to the highest level of customer service and community support, we are confident we will 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 continued support.

Christopher R. Dowd
President and Chief Executive Officer

FIVE YEAR SELECTED FINANCIAL DATA

At or for the years ended December 31, (In thousands, except for share and per share data)	**2016**	2015	2014	2013	2012
EARNINGS					
Interest income	**$ 14,989**	$ 13,893	$ 13,835	$ 14,224	$ 14,559
Interest expense	**919**	1,248	1,602	2,020	2,624
Net interest income	**14,070**	12,645	12,233	12,204	11,935
Provision for loan losses	**180**	90	120	120	400
Noninterest income	**1,873**	2,384	2,605	3,115	2,802
Noninterest expense	**12,664**	12,246	11,532	11,764	11,485
Income before tax expense	**3,099**	2,693	3,186	3,435	2,852
Tax expense	**721**	566	765	816	647
Net income	**2,378**	2,127	2,421	2,619	2,205
PER SHARE DATA					
Basic earnings	**$ 3.20**	$ 2.86	$ 3.26	$ 3.53	$ 2.97
Cash dividends declared	**1.24**	1.24	1.24	1.24	1.24
Book value at year end	**42.30**	40.63	39.31	39.09	35.75
Tangible book value at year end	**40.07**	38.34	36.98	36.70	33.36
Closing market price	**37.95**	33.75	34.36	32.00	31.50
AVERAGE BALANCES					
Total assets	**$ 433,783**	$ 421,455	$ 410,790	$ 407,060	$ 401,282
Earning assets	**414,168**	401,419	387,671	387,062	381,587
Loans	**305,228**	279,229	263,085	256,407	246,946
Securities available for sale	**80,719**	78,223	77,817	76,272	74,438
Deposits	**383,000**	365,090	343,277	334,123	320,990
Borrowings	**14,911**	22,083	31,937	42,030	50,655
Shareholders' equity	**31,407**	30,108	30,450	27,391	26,267

INTRODUCING BSNB BETTER!

We believe customers deserve better service, better banking options, and better community support. In short, they deserve the unique experience that BSNB delivers - a **better** experience that we've coined **BSNB Better.**

BSNB Better is both a daily reminder to staff and our ongoing commitment to customers. BSNB provides better local decision making, better flexibility and creativity to meet customer needs, better impact on the vitality of our communities by giving back, and personal, friendly and smart customer service. Combined with a regional branch network, an extensive line of products and services, and technology that makes banking easier, we believe that BSNB is the better banking option. BSNB Better.

BSNB
Ballston Spa National Bank
Better.

UNAUDITED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts) December 31,	2016	2015
ASSETS		
Cash and due from banks	$ 2,181	$ 1,128
Short-term investments	11,271	45,065
Securities available for sale, at fair value	78,773	81,731
FHLB of NY & FRB stock, at cost	2,050	2,662
Loans	330,173	293,037
Allowance for loan losses	(4,040)	(4,188)
Net loans	326,133	288,849
Premises and equipment, net	9,918	10,319
Accrued interest receivable	1,323	1,202
Goodwill	1,595	1,595
Other real estate owned	675	1,289
Bank owned life insurance	4,704	4,569
Other assets	4,641	4,026
Total assets	$ 443,264	$ 442,435
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits	$ 69,758	$ 71,394
Savings	75,085	68,598
NOW and money markets	227,677	220,049
Time deposits	28,490	31,769
Total deposits	401,010	391,810
Long-term FHLB borrowings	-	10,500
Junior subordinated debentures	5,155	5,155
Other liabilities	5,686	4,797
Total liabilities	411,851	412,262
Shareholders' Equity:		
Common stock, $12.50 par value. Authorized 1,000,000 shares; issued 768,000 shares at December 31, 2016 and 2015	9,600	9,600
Additional paid-in capital	42	42
Treasury stock, at cost (25,337 shares at December 31, 2016 and 2015)	(991)	(991)
Retained earnings	25,205	23,748
Accumulated other comprehensive loss	(2,443)	(2,226)
Total shareholders' equity	31,413	30,173
Total liabilities and shareholders' equity	$ 443,264	$ 442,435

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED INCOME STATEMENTS

(In thousands, except share and per share amounts) Years ended December 31,	2016	2015
INTEREST AND FEE INCOME		
Loans, including fees	$ 12,966	$ 11,876
Securities available for sale	1,765	1,791
FHLB of NY & FRB stock	136	125
Short-term investments	122	101
Total interest and fee income	14,989	13,893
INTEREST EXPENSE		
Deposits	484	492
FHLB borrowings	232	579
Junior subordinated debentures	203	177
Total interest expense	919	1,248
Net interest income	14,070	12,645
Provision for loan losses	180	90
Net interest income after provision for loan losses	13,890	12,555
NONINTEREST INCOME		
Service charges on deposit accounts	447	411
Trust and investment services income	982	979
Net gain on sale and call of securities	59	-
Net gain on sale of loans	7	37
Net gain (loss) on sale and writedown of other real estate	(612)	7
Debit card interchange income	559	542
Earnings on bank owned life insurance	135	133
Other	296	275
Total noninterest income	1,873	2,384
NONINTEREST EXPENSE		
Compensation and benefits	7,764	7,505
Occupancy and equipment	1,276	1,307
FDIC and OCC assessment	436	435
Advertising and public relations	285	274
Legal and professional fees	575	394
Data processing	659	627
Debit card processing	323	396
Other	1,346	1,308
Total noninterest expense	12,664	12,246
Income before income tax expense	3,099	2,693
Income tax expense	721	566
Net income	$ 2,378	$ 2,127
Basic earnings per share	$ 3.20	$ 2.86
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,	2016	2015
Net income	**$ 2,378**	$ 2,127
Other comprehensive income (loss), net of tax:		
Unrealized holding gains (losses) on other-than-temporary impaired securities arising during period, net of tax	**6**	(13)
Unrealized holding losses on securities arising during period, net of tax	**(623)**	(367)
Unrealized holding gains on cash flow hedge, net of tax	**96**	-
Changes in funded status of pension plan, net of tax	**304**	150
Total other comprehensive loss	**(217)**	(230)
Total comprehensive income	**$ 2,161**	$ 1,897

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2016 and 2015 (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, 2015	$ 9,600	$ 42	$ (991)	$ 22,542	$ (1,996)	$ 29,197
Comprehensive income:						
Net income				2,127		2,127
Other comprehensive loss					(230)	(230)
Cash dividends declared ($1.24 per share)				(921)		(921)
Balance at December 31, 2015	9,600	42	(991)	23,748	(2,226)	30,173
Comprehensive income:						
Net income				**2,378**		**2,378**
Other comprehensive loss					**(217)**	**(217)**
Cash dividends declared ($1.24 per share)				**(921)**		**(921)**
Balance at December 31, 2016	**$ 9,600**	**$ 42**	**$ (991)**	**$ 25,205**	**$ (2,443)**	**$ 31,413**

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) Years ended December 31,	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,378	$ 2,127
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	576	562
Provision for loan losses	180	90
Net premium amortization on securities	555	453
Deferred tax expense	283	128
Net gain on sale and call of securities.	(59)	-
Net gain on sale of loans	(7)	(37)
Proceeds from sale of loans held for sale	315	1,418
Loans originated for sale	(308)	(1,381)
Earnings on bank owned life insurance	(135)	(133)
Write down of other real estate owned.	650	-
Net gain on sale of other real estate owned	(38)	(7)
Net increase in accrued interest receivable	(121)	(3)
Net decrease in other assets	33	644
Net increase in other liabilities	763	372
Net cash provided by operating activities	5,065	4,233
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, calls and paydowns of securities available for sale	11,733	13,742
Proceeds from sale of securities available for sale	3,167	-
Purchases of securities available for sale	(13,460)	(16,460)
Net redemptions of FHLB stock	612	511
Net loans made to customers	(37,681)	(26,363)
Proceeds from sale of other real estate owned	219	109
Purchases of premises and equipment	(175)	(410)
Net cash used in investing activities	(35,585)	(28,871)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	9,200	27,540
Repayment of long-term FHLB borrowings	(10,500)	(10,500)
Dividends paid	(921)	(921)
Net cash (used in)provided by financing activities	(2,221)	16,119
Net change in cash and cash equivalents	(32,741)	(8,519)
Cash and cash equivalents at beginning of year	46,193	54,712
Cash and cash equivalents at end of year	$ 13,452	$ 46,193

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 eleven branch offices.

The Company has established Ballston Statutory Trust I (the Trust), which was organized for the purposes of (i) issuing and selling 30 year guaranteed preferred beneficial interests in the Company's junior subordinated debentures in the aggregate amount of $5 million bearing interest at the 3 month LIBOR plus 310 basis points; (ii) using the proceeds from the sale of the capital securities to acquire the junior subordinated debentures issued by the Company and (iii) engaging in only those other activities necessary, advisable, or incidental thereto. The junior subordinated debentures are the sole assets of the Trust and, accordingly, payments under the Company obligated junior debentures are the sole revenue of the Trust. All of the common securities of the Trust are owned by the Company. The Company has used the net proceeds from the sale of the capital securities for general business purposes. The Company is not considered the primary beneficiary of the Trust, therefore, the Trust is not consolidated for financials statement purposes and the subordinated debentures are shown as a liability. The subordinated debentures may be included in Tier 1 capital under current regulatory definitions.

The Company established a Nevada-based captive insurance subsidiary, Ballston Spa Risk Management, Inc. in 2016. Ballston Spa Risk Management, Inc. is a wholly owned subsidiary which began operations in December and insures against certain risks for which insurance may not be currently available or economically feasible in today's insurance marketplace. Ballston Spa Risk Management, Inc. pools resources with several other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among the participants.

Basis of Presentation
The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated. The Company utilizes the accrual method of accounting for financial reporting purposes. Amounts in the prior year's consolidated financial statements have been reclassified whenever necessary to conform with the current year's presentation.

Use of Estimates
The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Securities
All securities are classified as securities available for sale and are reported at fair value, with net unrealized gains or losses reported, net of taxes, in accumulated other comprehensive income or loss (a separate component of shareholders' equity). Unrealized losses on securities which reflect a decline in value which is other than temporary, if any, are charged to income. Realized gains or losses on the disposition of securities are based on the net proceeds and the amortized cost of the securities sold, using the specific identification method. The amortized cost of securities is adjusted for amortization of premium and accretion of discount, which is calculated using the effective interest method.

Loans

Loans are carried at the principal amount outstanding, net of unearned discount, net deferred loan origination fees and costs, and the allowance for loan losses. Unearned discounts and net deferred loan origination fees and costs are accreted to income using the effective interest method. Loans considered doubtful of collection by management are placed on a nonaccrual status for the recording of interest. Generally, loans past due 90 days or more as to principal or interest are placed on nonaccrual status except for (1) those loans which, in management's judgment, are adequately secured and in the process of collection, and (2) certain consumer and open-end credit loans which are usually charged-off when they become 120 days past due. Past due status is based on the contractual terms of the loan. When a loan is placed on nonaccrual status, all previously accrued income that has not been collected is reversed. Subsequent cash receipts are generally applied to reduce the unpaid principal balance; however, interest on loans can also be recognized as cash is received. Amortization of the related unearned discount and net deferred loan fees and costs is suspended when a loan is placed on nonaccrual status. Loans are removed from nonaccrual status when they become current as to principal and interest and when, in the opinion of management, the loans are expected to be fully collectible as to principal and interest.

Allowance for Loan Losses

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

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

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the periods in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense.

Trust Assets and Service Fees

Assets held by the Company in a fiduciary or agency capacity for its customers are not included in the consolidated balance sheets since these assets are not assets of the Company. Fee income is recognized on the accrual method based on the fair value of assets administered.

Employee Benefit Costs

The Company maintains a noncontributory, defined benefit pension plan covering employees who meet the eligibility requirements. The plan provides benefits based on the current earnings of each participant, which is subject to certain reductions if the employee retires early. The cost of this plan, based upon the actuarial computation of current and future benefits to employees, is charged to current operating expenses. The plan is closed to anyone newly hired by the Company. The Company also maintains a 401(k) Retirement Plan for the benefit of those employees who meet certain eligibility requirements and have elected to participate in the Plan. Employee deferrals and employer matching contributions are invested among a variety of investment alternatives at the discretion of the participant.

Comprehensive Income (Loss)

Comprehensive income represents the sum of net income and items of other comprehensive income or loss, which are reported directly in shareholders' equity, net of tax, such as the change in the net unrealized gain or loss on securities available for sale, net unrealized gain or loss on cash flow hedges, and net minimum pension liabilities. Comprehensive income and its components are included in the consolidated statement of changes in shareholders' equity. Accumulated other comprehensive income or loss, which is a component of shareholders' equity, represents the net unrealized gain or loss on securities available for sale and cash flow hedges, and net minimum pension liabilities, net of tax.

Cash Flow Hedging

In the third quarter of 2016, the Company executed an interest rate swap that swapped its 3 month LIBOR floating rate interest payments on a $5 million notional associated with Ballston Statutory Trust I to a fixed rate for five years to provide protection against rising rates. As of December 31, 2016, the interest rate swap had an estimated market value of $155 thousand due to increased expectations of higher rates over the term of the contract.

2. Securities

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

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

	2015			
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. treasury securities	$ 8,175	$ 7	$ (3)	$ 8,179
U.S. government agencies and corporations	1,990	-	(7)	1,983
State and political subdivisions	27,947	710	(3)	28,654
Mortgage-backed securities - residential	35,346	802	(185)	35,963
Collateralized mortgage obligations	566	45	(1)	610
Corporate securities	6,632	1	(291)	6,342
Total securities available for sale	$ 80,656	$ 1,565	$ (490)	$ 81,731

3. Loans

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

(In thousands)	2016	2015
Residential real estate	$ 157,278	$ 146,206
Commercial real estate	113,489	89,837
Commercial & industrial	36,160	34,139
Consumer	23,246	22,855
Loans	330,173	293,037
Allowance for loan losses	(4,040)	(4,188)
Net loans	$ 326,133	$ 288,849

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

(In thousands)	2016	2015
Allowance for loan losses at beginning of year	$ 4,188	$ 4,193
Loan charge-offs:		
Residential real estate	214	91
Commercial real estate	-	-
Commercial & industrial	135	2
Consumer	9	49
Total charge-offs	358	142
Loan recoveries:		
Residential real estate	3	27
Commercial real estate	-	-
Commercial & industrial	2	-
Consumer	25	20
Total recoveries	30	47
Loan charge-offs, net of recoveries	328	95
Provision charged to operations	180	90
Allowance for loan losses at end of year	$ 4,040	$ 4,188

Nonperforming loans as of December 31, were as follows:

(In thousands)	2016	2015
Nonaccrual loans		
Residential real estate	$ 1,676	$ 2,185
Commercial real estate	113	1,728
Commercial & industrial	493	1,276
Consumer	-	-
Total nonaccrual loans	2,282	5,189
Loans past due 90 days or more and still accruing interest		
Residential real estate	417	-
Commercial real estate	-	-
Commercial & industrial	-	-
Consumer	-	13
Total loans past due 90 days or more and still accruing interest	417	13
Total nonperforming loans	$ 2,699	$ 5,202

4. Borrowings

Short-Term FHLB Advances

The bank has a line of credit with the Federal Home Loan Bank of NY (FHLB). This short-term borrowing program is based upon an overnight period with interest based generally upon a spread above the current Federal funds rate. In addition, short-term advances with an original maturity of less than one year are classified in this category. The rates on these borrowings can be either fixed or floating. As of December 31, 2016 and 2015, short-term FHLB advances amounted to zero. During the year's then ended, short-term advances averaged $4.0 million and $646 thousand with a weighted average rate of 0.59% and 0.45% 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

As of December 31, 2016, long-term FHLB borrowings amounted to zero. During the year, long-term borrowings averaged $5.8 million with a weighted average rate of 3.61%. As of December 31, 2015, long-term borrowings were $10.5 million and averaged $16.3 million during 2015 at a weighted average rate of 3.54%. Long-term FHLB borrowings are collateralized by FHLB stock and 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)	**2016**	2015
Current tax expense:		
Federal	**$ 434**	$ 433
State	**4**	5
Deferred tax expense	**283**	128
Total income tax expense	**$ 721**	$ 566

The actual tax expense for the years ended December 31, 2016 and 2015 differs from the statutory Federal tax rate due principally to New York State taxes and tax-exempt investment income.

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