2018 ANNUAL REPORT

BALLSTON SPA BANCORP, INC.

BSNB
Ballston Spa National Bank
Better.

OUR MISSION

At BSNB, we seek to be recognized as a high performing community bank by adding value to and building strong relationships with our shareholders, customers, employees, and community.

To achieve our goal, we are committed to the following objectives:

- To consistently exceed expectations and treat every customer as if we've known them our entire life;
- To give back and strengthen the communities where we work and live;
- To continually improve and enhance the value we deliver to our customers, staff, and community;
- To constantly surprise people with what a bank can be and the impact it can have on customers and the community;
- To a belief that actions and not just words define who we are as a company.

THE YEAR IN REVIEW

(Dollars in thousands, except per share data)	December 31,	**2018**		2017
FOR THE YEAR ENDED				
Net income	**$**	**4,750**	$	3,278
Basic earnings per share		**6.40**		4.41
Dividends declared per share		**1.32**		1.24
AT YEAR END				
Total assets	**$**	**534,455**	$	500,909
Loans		**430,614**		396,456
Deposits		**419,567**		405,842
Shareholders' equity		**36,043**		34,046
Book value per share		**48.53**		45.84
Tangible book value per share		**46.30**		43.63
ASSET QUALITY RATIOS				
Nonperforming loans to total loans		**0.67%**		0.90%
Nonperforming assets to total assets		**0.54**		0.74
Allowance for loan losses to:				
Total loans		**1.31**		1.22
Nonperforming loans		**196.79**		135.03

REGULATORY CAPITAL RATIOS

			Required Ratios	
	December 31, 2018 Actual	December 31, 2017 Actual	Minimum capital adequacy	Classified as well capitalized
Tier 1 leverage ratio	8.50%	8.23%	4.00%	5.00%
Tier 1 risk-based capital ratio	11.38	10.88	6.00	8.00
Common equity tier 1 capital ratio	11.38	10.87	4.50	6.50
Total risk-based capital ratio	14.62	12.12	8.00	10.00

"Given recent financial achievements and our solid foundation, management initiated specific plans to further enhance service and support of our customers..."

Christopher R. Dowd
President and Chief Executive Officer

TO OUR SHAREHOLDERS,

Ballston Spa Bancorp, Inc., parent company of Ballston Spa National Bank, achieved a second consecutive year of record earnings in 2018. In addition to the financial success, the Company also took definitive steps to enhance the service and support provided to customers and community.

Financial Highlights

We are very pleased to report that net income in 2018 totaled $4.75 million or $6.40 per share, up 45.0% from the $3.3 million or $4.41 per share reported in 2017. The improved earnings performance is primarily the result of growth in the Company's loan and deposit portfolios over the last several years coupled with certain nonrecurring income items recognized in 2018. A gain on the sale of our former Clifton Park office location, and the recovery of past due interest on three non-performing loans, contributed approximately $1 million in pretax income during 2018. We do not anticipate the same level of non-recurring income in future periods.

Following an exceptional year in 2017, we again achieved strong levels of loan growth in 2018. Total loans increased $34.2 million, or 8.6% over the course of the year to $430.6 million at December 31, 2018. Consistent with plan, we remain keenly focused on growth opportunities in the commercial banking market segment. As a result, commercial and commercial real estate loans demonstrated strong growth in 2018 increasing by a very healthy $15.4 million, or 8.3%. Residential mortgage lending experienced strong growth as well with an increase of $23.9 million, or 13.8% over 2017. Asset growth in 2018 was funded in part by the continued development and expansion of our deposit base, specifically in the commercial and consumer deposit sectors. In 2018, commercial deposits increased by $12.3 million, or 20.6% and consumer deposits grew by $11.5 million, or 5.2%.

In light of our growth pattern and opportunities we see in the market, the Company recently executed a capital planning strategy to solidify balance sheet strength at our subsidiary bank. More specifically, the Company was successful in raising $7.75 million in additional funding through the issuance of subordinated debt in the third quarter of 2018. The infusion of additional capital at this juncture will help support efforts to deliver enhanced service to customers and the pursuit of additional growth and expansion opportunities in future periods. We are very appreciative of the support of local investors in achieving this goal.

Benefitting from the aforementioned subordinated debt issuance and record earnings, the Company's balance sheet remains strong and reflects increases in our regulatory capital ratios and improvement in our asset quality. The Bank's Tier 1 capital ratio stood at 12.96% as of December 31, 2018 up from 10.64% a year ago and is at a level well above the regulatory minimum for a well-capitalized institution. We are also pleased to report that credit quality is very solid. In fact, nonperforming loans as a percentage of total loans declined from 0.90% as of December 31, 2017 to 0.67% for the year ending 2018. Despite this reduction and recognizing our strong growth trends, management determined to increase the allowance for loan and lease losses to 1.31% of total loans as of December 31, 2018, a level we believe more than adequately covers the credit risk in our loan portfolios.

Building for the Future

Given recent financial achievements and our solid foundation, management initiated specific plans to further enhance service and support of our customers during the year.

• A new branch banking office located at 1714 Route 9 in the Clifton Park/Halfmoon business district was completed in March 2018. The new office replaces our former branch located on Ushers Road and provides customers with a more modern design, convenient location, and extended hours of service.

• In May 2018, BSNB joined the Allpoint network, the world's largest network of surcharge-free ATMs. With 55,000 ATMs worldwide, many located in major retail locations, cash is now more accessible and convenient for our customers.

• For business customers, we greatly enhanced our treasury management platform of services. The new features provide business customers greater ability to manage their finances from the convenience of their office. The new Positive Pay service also helps our customers limit the risk of fraud on their accounts.

In addition to these initiatives, BSNB introduced several product design changes recognizing the changing needs and goals of our customers.

Community Support

While proud of our financial achievements, in 2018 BSNB continued to build on a longstanding tradition of providing support to local communities. In light of our strong earnings performance, the Board of Directors approved a $50 thousand contribution to the BSNB Charitable Foundation. Since its founding in 2009, the Foundation has been utilized to supplement the Bank's charitable giving efforts, which encompass scholarships for local high school students, programs to help support the homeless and economically disadvantaged, area youth, veterans, and other worthy causes. Our hope is that the Foundation will continue to grow and be utilized to provide such support for years to come.

Beyond BSNB's financial support, our employees dedicate thousands of hours each year volunteering for charitable and civic organizations in local communities. On May 8, 2018 all employees participated in our second annual Bank-Wide Community Service Day. All BSNB locations closed early to give employees the opportunity to volunteer among several organizations providing essential services in our region: Rebuilding Together Saratoga, CAPTAIN Community Human Services, Brookside Museum, Gateway House of Peace, and the Ballston Spa Village Cemetery. Our *Volunteers in Action* program also continued to support activities throughout the year, contributing to the vitality of our communities. Collecting food and toys for those in need, delivering meals to shut-ins, supporting fundraising walks for charity, and cleaning local roadways are just a few of the ways we chose to give back.

Future Direction

Looking forward, BSNB will focus on further leveraging our strong financial position to enhance the value delivered to shareholders, customers and community. Additional investments in our branch banking network, technology infrastructure, and automated delivery channels are planned for 2019. While concerned with the recent flattening of the yield curve and other economic indicators, we are confident that these and other investments will contribute to the long-term success of the Company.

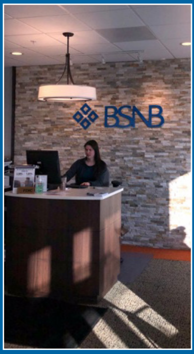
On behalf of our Board of Directors and staff, we thank you for your continued support.

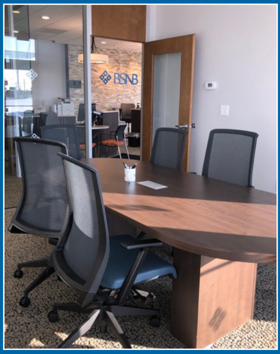
Christopher R. Dowd
President and Chief Executive Officer

FIVE YEAR SELECTED FINANCIAL DATA

At or for the years ended December 31, (In thousands, except for share and per share data)	2018	2017	2016	2015	2014
EARNINGS					
Interest income	**$ 20,342**	$ 17,307	$ 14,989	$ 13,893	$ 13,835
Interest expense	**1,994**	1,080	919	1,248	1,602
Net interest income	**18,348**	16,227	14,070	12,645	12,233
Provision for loan losses	**803**	799	180	90	120
Noninterest income	**3,625**	2,799	1,873	2,384	2,605
Noninterest expense	**15,389**	14,348	12,664	12,246	11,532
Income before tax expense	**5,781**	3,879	3,099	2,693	3,186
Tax expense	**1,031**	601	721	566	765
Net income	**4,750**	3,278	2,378	2,127	2,421
PER SHARE DATA					
Basic earnings	**$ 6.40**	$ 4.41	$ 3.20	$ 2.86	$ 3.26
Cash dividends declared	**1.32**	1.24	1.24	1.24	1.24
Book value at year end	**48.53**	45.84	42.30	40.63	39.31
Tangible book value at year end	**46.30**	43.63	40.07	38.34	36.98
Closing market price	**49.01**	43.00	37.95	33.75	34.36
AVERAGE BALANCES					
Total assets	**$ 510,771**	$ 468,497	$ 433,783	$ 421,455	$ 410,790
Earning assets	**487,371**	446,737	414,168	401,419	387,671
Loans	**412,699**	363,510	305,228	279,229	263,085
Securities available for sale	**68,494**	73,651	80,719	78,223	77,817
Deposits	**424,408**	401,119	383,000	365,090	343,277
Borrowings	**45,781**	29,395	14,911	22,083	31,937
Shareholders' equity	**35,812**	32,940	31,407	30,108	30,450

CLIFTON PARK BRANCH





UNAUDITED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts) December 31,	2018	2017
ASSETS		
Cash and due from banks	$ 7,485	$ 5,803
Short-term investments	3,643	1,477
Securities available for sale, at fair value	71,992	74,257
FHLB of NY & FRB stock, at cost	5,236	4,310
Loans	430,614	396,456
Allowance for loan losses	(5,652)	(4,839)
Net loans	424,962	391,617
Premises and equipment, net	10,180	10,589
Other assets	10,957	12,856
Total assets	$ 534,455	$ 500,909
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand Deposits	77,450	72,481
Savings	80,215	85,844
NOW and money markets	222,888	217,526
Time Deposits	39,014	29,991
Total Deposits	419,567	405,842
FHLB borrowings, short-term	54,850	50,100
FHLB borrowings, long-term	5,880	-
Junior subordinated debentures	12,905	5,155
Other liabilities	5,210	5,766
Total liabilities	498,412	466,863
Shareholders' Equity:		
Common stock $12.50 par value. Authorized 10,000,000 shares; issued 768,000 shares at December 31, 2018 and 2017	9,600	9,600
Preferred stock $12.50 par value. Authorized 2,000,000 shares; none issued at December 31, 2018 and 2017	-	-
Additional paid-in-capital	42	42
Treasury stock, at cost (25,337 shares at December 31, 2018 and 2017)	(991)	(991)
Retained earnings	31,797	28,027
Accumulated other comprehensive loss	(4,405)	(2,632)
Total shareholders' equity	36,043	34,046
Total liabilities and shareholders' equity	$ 534,455	$ 500,909

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share amounts) Years ended December 31,	2018	2017
INTEREST AND FEE INCOME		
Loans, including fees	$ 18,507	$ 15,510
Securities available for sale	1,551	1,611
FHLB of NY & FRB stock	235	134
Short-term investments	49	52
Total interest and fee income	20,342	17,307
INTEREST EXPENSE		
Deposits	748	528
FHLB borrowings, short-term	774	324
FHLB borrowings, long-term	110	-
Junior subordinated debentures	362	228
Total interest expense	1,994	1,080
Net interest income	18,348	16,227
Provision for loan losses	803	799
Net interest income after provision for loan losses	17,545	15,428
NONINTEREST INCOME		
Service charges on deposit accounts	734	623
Trust and investment services income	1,124	997
Net gain on sale and call of securities	-	2
Net gain on sale of loans	101	77
Net gain on sale of fixed assets	379	-
Net gain (loss) on sale and writedown of other real estate	(19)	75
Debit card interchange income	659	604
Earnings on bank owned life insurance	133	133
Other	514	288
Total noninterest income	3,625	2,799
NONINTEREST EXPENSE		
Compensation and benefits	9,596	8,776
Occupancy and equipment	1,546	1,558
FDIC and OCC assessment	488	419
Advertising and public relations	363	324
Legal and professional fees	480	449
Data processing	801	756
Debit Card Processing	358	324
Other	1,757	1,742
Total noninterest expense	15,389	14,348
Income before income tax expense	5,781	3,879
Income tax expense	1,031	601
NET INCOME	$ 4,750	$ 3,278
Basic earnings per share	$ 6.40	$ 4.41
Weighted average common shares outstanding	742,663	742,663

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands) Years ended December 31,	2018	2017
Net income	**$ 4,750**	$ 3,278
Other comprehensive income (loss), net of tax:		
Unrealized holding (losses) gains on other-than-temporary impaired securities arising during period, net of tax	**(6)**	6
Unrealized holding losses on securities arising during period, net of tax	**(598)**	(167)
Unrealized holding (losses) gains on cash flow hedge, net of tax	**(135)**	6
Changes in funded status of pension plan, net of tax	**(1,034)**	431
Total other comprehensive income (loss)	**(1,773)**	276
Total comprehensive income	**$ 2,977**	$ 3,554

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2018 and 2017 (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, 2017	$ 9,600	$ 42	$ (991)	$ 25,205	$ (2,443)	$ 31,413
Comprehensive income:						
Net income				3,278		3,278
Reclassification adjustment for disparate tax effect				465	(465)	-
Other comprehensive income, net of tax:					276	276
Cash dividends declared ($1.24 per share)				(921)		(921)
Balance at December 31, 2017	9,600	42	(991)	28,027	(2,632)	34,046
Comprehensive income:						
Net income				**4,750**		**4,750**
Other comprehensive loss, net of tax					**(1,773)**	**(1,773)**
Cash dividends declared ($1.32 per share)				**(980)**		**(980)**
Balance at December 31, 2018	**$ 9,600**	**$ 42**	**$ (991)**	**$ 31,797**	**$ (4,405)**	**$ 36,043**

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) Years ended December 31,	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,750	$ 3,278
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	599	672
Provision for loan losses	803	799
Net premium amortization on securities	479	544
Deferred tax benefit	(359)	(531)
Net gain on sale and call of securities.	-	(2)
Net gain on sale of loans	(101)	(77)
Proceeds from sale of loans held for sale	5,397	3,220
Loans originated for sale	(5,296)	(3,143)
Earnings on bank owned life insurance	(133)	(133)
Net gain on sale and disposal of premises and equipment	(379)	-
Net (gain) loss on sale of other real estate owned	19	(75)
Net increase in accrued interest receivable	(68)	(242)
Net decrease in other assets	378	632
Net increase in other liabilities	435	438
Net cash provided by operating activities	6,524	5,380
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, calls and paydowns of securities available for sale	16,117	21,529
Purchases of securities available for sale	(15,153)	(17,817)
Net purchases of FHLB stock	(926)	(2,260)
Net loans made to customers	(34,148)	(66,596)
Proceeds from sale of other real estate owned	120	924
Proceeds from sale of premises and equipment	636	-
Purchases of premises and equipment	(447)	(1,343)
Net cash used in investing activities	(33,801)	(65,563)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	13,725	4,832
Net increase in short-term FHLB advances	4,750	50,100
Issuance of long-term FHLB borrowings	5,880	-
Issuance of junior subordinated notes	7,750	-
Dividends paid	(980)	(921)
Net cash provided by financing activities	31,125	54,011
Net change in cash and cash equivalents	3,848	(6,172)
Cash and cash equivalents at beginning of year	7,280	13,452
Cash and cash equivalents at end of year	$ 11,128	$ 7,280

See accompanying notes to unaudited consolidated financial statements.

BALLSTON SPA BANCORP, INC. AND SUBSIDIARIES

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Ballston Spa Bancorp, Inc. (the Parent Company) and its subsidiaries (collectively referred to as the Company) conform to accounting principles generally accepted in the United States of America and reporting practices followed by the banking industry. A summary of the more significant policies is described below.

Organization

The Company is a bank-based financial services company. The Parent Company's banking subsidiary, Ballston Spa National Bank (the Bank), is a community-based commercial bank and provides a wide range of banking, financing, fiduciary, brokerage and other financial services to corporate, municipal, and individual customers through its thirteen branch offices.

The Company has established Ballston Statutory Trust I (the Trust), which was organized for the purposes of (1) 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; (2) using the proceeds from the sale of the capital securities to acquire the junior subordinated debentures issued by the Company and (3) engaging in only those other activities necessary, advisable, or incidental thereto. The junior subordinated debentures are the sole assets of the Trust and, accordingly, payments under the Company obligated junior debentures are the sole revenue of the Trust. All of the common securities of the Trust are owned by the Company. The Company has used the net proceeds from the sale of the capital securities for general business purposes. The Company is not considered the primary beneficiary of the Trust, therefore, the Trust is not consolidated for financial statement purposes and the subordinated debentures are shown as a liability. The subordinated debentures may be included in Tier 1 capital under current regulatory definitions.

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

Basis of Presentation

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

Use of Estimates

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

Securities

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

Loans

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

Allowance for Loan Losses

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

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

Income Taxes

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

Trust Assets and Service Fees

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

Employee Benefit Costs

The Company has a tax qualified noncontributory defined benefit pension plan that provides benefits to substantially all its employees. Participants receive annual cash balance pay credits based on eligible pay multiplied by a percentage determined by their age and years of service. Participants also receive an annual interest credit. Employees become vested upon completing three years of vesting service. For employees hired prior to 2010, an additional pension benefit is provided to eligible employees based on years of service, multiplied by a percentage of their final average pay. The Company also maintains a 401(k) Retirement Plan for the benefit of those employees who meet certain eligibility requirements and have elected to participate in the Plan. Employee deferrals and employer matching contributions are invested among a variety of investment alternatives at the discretion of the participant.

Comprehensive Income

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

Cash Flow Hedging

The Company has entered into an interest rate swap that swapped its 3-month LIBOR floating rate interest payments on a $5 million notional associated with subordinated debentures, to a fixed rate for five years to provide protection against rising rates. At December 31, 2018, the interest rate swap had an estimated market value of $178 thousand.

During 2018, the Company executed a second interest rate swap that swapped its 3-month FHLB floating rate interest payments on a $10 million notional associated with short-term FHLB borrowings, to a fixed rate for five years to provide protection against rising rates. At December 31, 2018, the interest rate swap had an estimated market value of ($192 thousand).

2. Securities

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

2018				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. treasury securities	**$ 2,000**	**$ -**	**$ (1)**	**$ 1,999**
State and political subdivisions	**20,139**	**60**	**(180)**	**20,019**
Mortgage-backed securities - residential	**47,159**	**195**	**(957)**	**46,397**
Collateralized mortgage obligations	**318**	**56**	**-**	**374**
Corporate securities	**3,407**	**-**	**(204)**	**3,203**
Total securities available for sale	**$ 73,023**	**$ 311**	**$ (1,342)**	**$ 71,992**

2017				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. treasury securities	$ 3,494	$ -	$ (8)	$ 3,486
State and political subdivisions	22,489	106	(171)	22,424
Mortgage-backed securities - residential	42,676	330	(485)	42,521
Collateralized mortgage obligations	379	64	-	443
Corporate securities	5,428	2	(47)	5,383
Total securities available for sale	$ 74,466	$ 502	$ (711)	$ 74,257

3. Loans

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

(In thousands)	2018	2017
Residential real estate	$ 197,476	$ 173,547
Commercial real estate	174,023	162,355
Commercial & industrial	31,721	33,473
Consumer	27,394	27,081
Loans	430,614	396,456
Allowance for loan losses	(5,652)	(4,839)
Net loans	$ 424,962	$ 391,617

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

(In thousands)	2018	2017
Allowance for loan losses at beginning of year	$ 4,839	$ 4,040
Loan charge-offs:		
Residential real estate	-	72
Commercial real estate	-	-
Commercial & industrial	-	-
Consumer	12	9
Total charge-offs	12	81
Loan recoveries:		
Residential real estate	6	22
Commercial real estate	-	-
Commercial & industrial	4	43
Consumer	12	16
Total recoveries	22	81
Net loan charge-offs, (recoveries)	(10)	-
Provision charged to operations	803	799
Allowance for loan losses at end of year	$ 5,652	$ 4,839

Nonperforming loans as of December 31, were as follows:

(In thousands)	2018	2017
Nonaccrual loans		
Residential real estate	$ 1,419	$ 1,995
Commercial real estate	1,016	87
Commercial & industrial	5	658
Consumer	-	-
Total nonaccrual loans	2,440	2,740
Loans past due 90 days or more and still accruing interest		
Residential real estate	422	694
Commercial real estate	-	143
Commercial & industrial	-	-
Consumer	10	7
Total loans past due 90 days or more and still accruing interest	432	844
Total nonperforming loans	$ 2,872	$ 3,584

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, 2018 and 2017, short-term FHLB advances amounted to $54.9 million and $50.1 million, respectively. During the years then ended, short-term advances averaged $34.8 million and $24.2 million with a weighted average rate of 2.22% and 1.34%, respectively. Short-term FHLB advances are collateralized by FHLB stock and a blanket lien on all residential real estate loans and certain commercial real estate loans not otherwise pledged.

Long-Term FHLB Borrowings

Long-term borrowings amounted to $5.9 million at December 31, 2018 and averaged $3.7 million with a weighted average rate of 2.95% for the year then ended. Long-term FHLB borrowings are collateralized by FHLB stock and a blanket lien on all residential real estate loans and certain commercial real estate loans not otherwise pledged. As of and for the year ended December 31, 2017, the Bank had no long-term borrowings.

5. Income Taxes

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

(Dollars in thousands)	**2018**	2017
Current tax expense:		
Federal	**$ 1,236**	$ 1,634
State	**68**	21
Deferred tax benefit	**(273)**	(1,054)
Total income tax expense	**$ 1,031**	$ 601

The actual tax expense for the years ended December 31, 2018 and 2017 differs from the statutory Federal tax rate due principally to New York State taxes and tax-exempt investment income.

NEW AND RETIRING MEMBERS OF THE BOARD

Dr. Dawn Abbuhl

In August 2018, Dr. Dawn Abbuhl was appointed to the Board of Directors. Dr. Abbuhl is the president of Repeat Business Systems, a company she founded in 1987 with her husband, John. The company provides office hardware, software and IT systems in New York, Vermont and Massachusetts. Dr. Abbuhl is also a New York state licensed psychologist who earned her doctorate degrees at The State University of New York at Albany. We are thrilled to welcome Dawn and are confident that given her entrepreneurial success, market knowledge and commitment to service and community, she will have a positive impact and contribute to the ongoing success of the Company.

Timothy J. Provost

Following 20 years of dedicated service to our Company, Director Timothy Provost retired from the Board in June of 2018. A long time principal of SMPR Title Agency in Ballston Spa, Tim was first appointed to the Board in 1998. During his tenure Tim was an active and engaged member of the Board, serving in multiple leadership roles on a number of board committees. Tim also served as Vice Chairman of the Board since 2006. He will be greatly missed for his keen insight, passionate support and occasional humorous comments. Over the years these qualities were instrumental in helping to shape corporate strategy and achieve financial success. We deeply appreciate and thank him for his excellent contributions to BSNB.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Robert E. Van Vranken, Esq.	*Chairman of the Board, Attorney*
Dawn Abbuhl, PhD	*President, Repeat Business Systems*
Christopher R. Dowd	*President and Chief Executive Officer*
Michael S. Dunn	*Chief Technology Officer, Ultra.io*
Beth A. Kayser, CPA	*Certified Public Accountant*
Stephen J. Obermayer, CPA	*Chief Financial Officer, BBL Construction Services, LLC*
Richard P. Sleasman	*President and Managing Director, CBRE-Albany*
Stephen E. Strader, MD	*Physician*

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*

DIRECTORS EMERITI

J. Peter Hansen, DVM
Ronald G. Harrington
Leroy N. Hodsoll

SENIOR VICE PRESIDENTS

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

VICE PRESIDENTS

Donna D. Avery	*Retail Banking*
Timothy J. Collins	*Commercial Lending*
Leslie S. Dorsey	*Human Resources*
James F. Dodd	*Finance*
Andrei Krasnokutski	*Commercial Lending*
Thomas B. Leach	*Retail Lending*
Deborah JR O'Connor	*Treasury Management*
Joshua E. O'Leary	*Commercial Lending*
David J. Omicinski	*Commercial Lending*
Colleen A. Pickett	*Risk Management*
Deborah A. Poulin	*Credit Administration*
Alicia A. Riegert	*Information Technology*
Jill A. Robbins	*Deposit Support Services*
Ann M. Sharpe	*Wealth Management Solutions*
Susan M. Slovic	*Marketing*
Thomas M. White	*Wealth Management Solutions*

General Information
(518) 885-6781

Branch Locations

Ballston Spa
87 Front Street
(518) 363-8150

Burnt Hills
770 Saratoga Road
(518) 399-8144

Clifton Park
1714 Route 9
(518) 877-6667

Corporate Branch
990 State Route 67
(518) 363-8199

Galway
5091 Sacandaga Road
(518) 882-1225

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

Guilderland
1973 Western Avenue
(518) 213-0922

Latham
1207 Troy Schenectady Road
(518) 640-2800

Malta
124 Dunning Street
(518) 899-2912

Milton Crest
344 Rowland Street
(518) 885-4346

Stillwater
428 Hudson Avenue
(518) 664-3200

Voorheesville
13 Maple Road
(518) 513-2000

Wilton
625 Maple Avenue
(518) 583-6608

www.bsnb.com

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