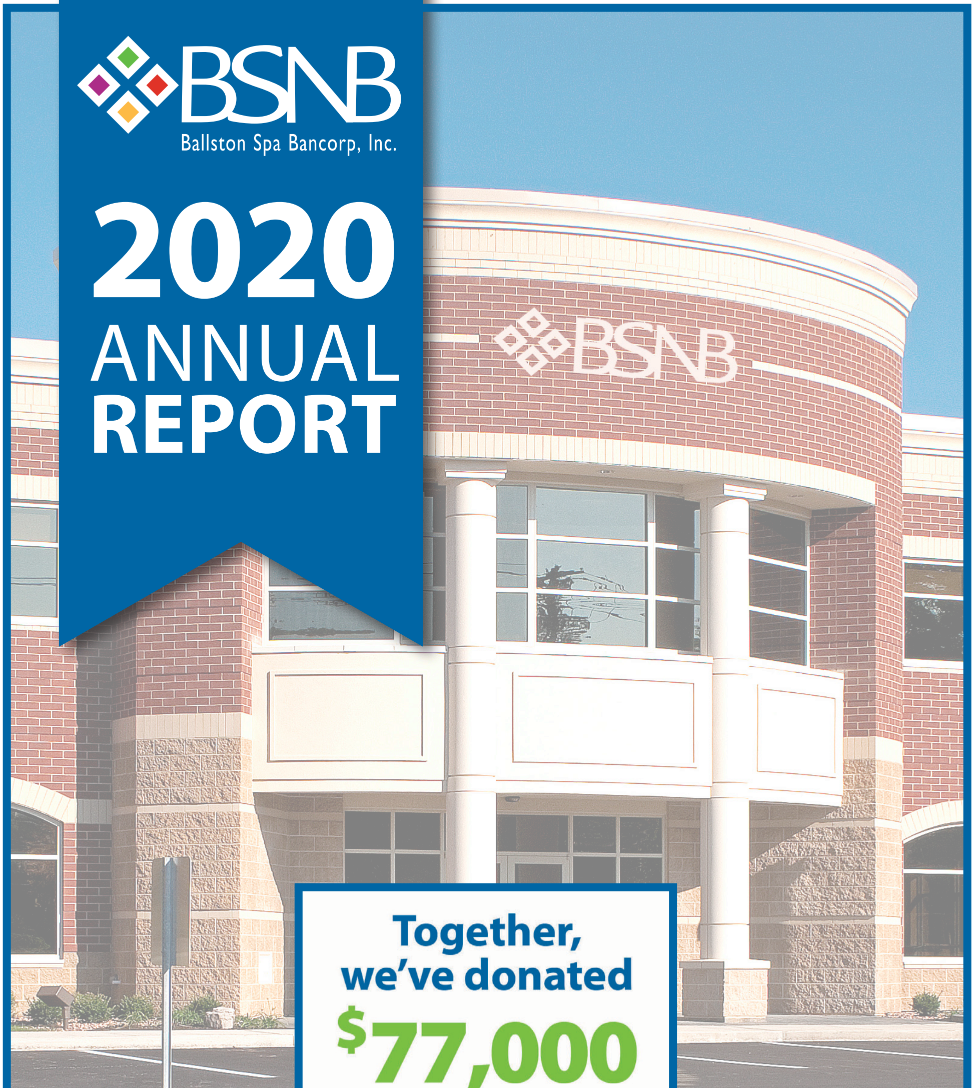
BSNB
Ballston Spa Bancorp, Inc.

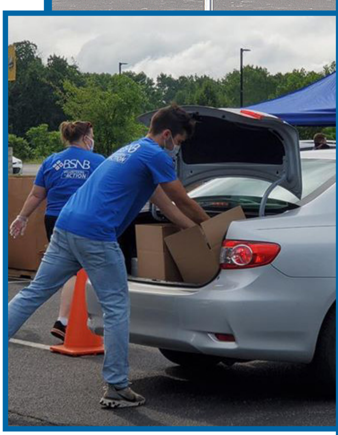
2020 ANNUAL REPORT

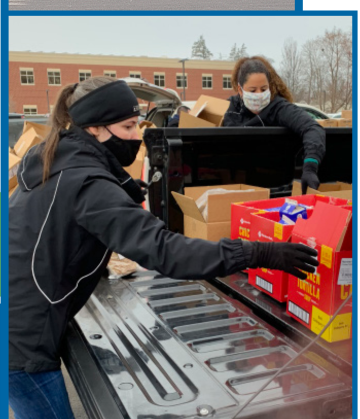


Together, we've donated $77,000 to the Regional Food Bank!

Regional Food Bank
OF NORTHEASTERN NEW YORK

Delivered **100 tons** of food to over **3,000** families in need.





BSNB
Ballston Spa Bancorp, Inc.

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,	2020	2019
FOR THE YEAR ENDED		
Net income	**$ 4,989**	$ 3,905
Basic earnings per share	**6.72**	5.26
Dividends declared per share	**1.32**	1.32
AT YEAR-END		
Total assets	**$ 691,264**	$ 588,192
Loans	**510,248**	477,834
Deposits	**604,972**	446,026
Shareholders' equity	**45,210**	40,770
Book value per share	**60.88**	54.90
Tangible book value per share	**58.20**	52.62
ASSET QUALITY RATIOS		
Nonperforming loans to total loans	**0.39%**	0.37%
Nonperforming assets to total assets	**0.29**	0.35
Allowance for loan losses to:		
Total loans	**1.45**	1.30
Nonperforming loans	**369.09**	350.94

REGULATORY CAPITAL RATIOS

	December 31, 2020 Actual	December 31, 2019 Actual	Required Ratios: Minimum capital adequacy	Required Ratios: Classified as well capitalized
Tier 1 leverage ratio	**7.94%**	8.25%	4.00%	5.00%
Tier 1 risk-based capital ratio	**10.63**	10.49	6.00	8.00
Common equity tier 1 capital	**10.63**	10.49	4.50	6.50
Total risk-based capital ratio	**13.49**	13.46	8.00	10.00

"Given our strong financial foundation, the Company will pursue additional growth opportunities in the months and years ahead."

Christopher R. Dowd
President and Chief Executive Officer

TO OUR SHAREHOLDERS,

We hope that you and your families are safe and healthy as we begin a new year and hopefully a return to a more normal environment in the near future. As you are well aware, 2020 was a challenging year for many of us. The effects of the pandemic have been far reaching and impactful, disrupting many aspects of our life both at home and at work.

From the earliest days of the pandemic, we recognized that modifications to our business model and plan were necessary to ensure the well-being of our staff and customers and to provide support to the greater community. While we continue to adapt and respond to the evolving risks and opportunities, we are pleased to report on our performance in 2020 and provide some insight on our notable accomplishments, potential risks and the road ahead.

Financial Highlights

Ballston Spa Bancorp, Inc. completed a successful year in 2020 as net income totaled $5.0 million or $6.72 per share, up 27.8% from the $3.9 million or $5.26 per share reported in 2019. The improved earnings performance reflects strong loan and deposit growth achieved in recent years and was positively impacted by two unique accomplishments: 1) the record levels of residential mortgage production, and subsequent sales in the secondary market, and 2) the significant volume of loans extended under the Small Business Administration's Paycheck Protection Program (PPP).

As the pandemic gained momentum in the first quarter of 2020, interest rates continued a precipitous decline and have remained at historic lows. The unusually low rate environment prompted many homeowners to seek mortgage refinancing and served to expand housing affordability. These factors contributed greatly to a significant increase in residential mortgage activity in 2020. In fact, residential mortgage production increased nearly two-fold in 2020 to more than $108 million.

Consistent with balance sheet management goals, the majority of these loans were sold in the secondary market to limit interest rate risk. As a result, residential real estate loan balances remained level year-over-year, however, the sales contributed $1.5 million in gains during the year, up considerably from $228 thousand in 2019.

Conversely, commercial and commercial real estate loan activity in 2020 was greatly impacted by the economic slowdown starting in the second quarter, and our redirection of efforts to the delivery of relief funds through PPP loans. The Company's performance during this period is notable as we were able to quickly develop and deploy the necessary systems and staffing resources that enabled us to fund nearly $30 million in PPP loans during the year. These funds provided critical support to hundreds of local businesses, while preserving thousands of jobs in the region. The extension of these PPP loans combined with a reduced level of economic activity in the region contributed to commercial and commercial real estate portfolio growth of $32.6 million, or 14.4% as compared to year-end 2019. We continue to work with our business customers in the new year, providing PPP loans as well as other support as needed to aid them during these uncertain economic times.

Business activity has improved, however, we do not anticipate returning to pre-pandemic levels for several months.

The growth in loans was accompanied by a sizeable increase in total deposits of $159 million, or 35.6%, as compared to year-end 2019. While a portion of this increase relates to a funding strategy deployed by the Bank in early 2020, management believes the majority of the remainder will be temporary and is largely a result of reduced spending by consumers and businesses during the pandemic. We anticipate deposit balances will diminish over the coming months as society emerges from existing health and safety protocols.

Despite widespread expectations of significant deterioration in asset quality as a result of the pandemic, the Company's balance sheet remains strong. Nonperforming loans as a percentage of total loans increased only minimally from 0.37% as of December 31, 2019 to 0.39% for the year ending 2020 and remains at a very manageable level. Another measure of the Company's strength is demonstrated in the Bank's Tier 1 capital ratio. Standing at 11.99% as of December 31, 2020, the ratio is up slightly from 11.92% a year ago and is well above the regulatory minimum for a well-capitalized institution. Given our strong financial foundation, the Company will pursue additional growth opportunities in the months and years ahead.

Building for the Future

To help ensure our future success, we continue to take steps that will enhance the service and support we provide to our customers and communities. For instance:

- After a determined search, we have partnered with a new marketing firm to assist in enhancing visibility for our brand and services;
- Our Wealth Management Solutions team expanded offerings to include mutual funds as a new investment option and have now also added a 401K product for our business customers;
- In an effort to further enhance the residential lending borrower experience, the Company introduced a new website portal for mortgage information and online applications.

Community Support

Beyond the care provided to our customers, the Company identified additional opportunities to provide support in the region. Beginning in early May 2020, and continuing through the first quarter of 2021, BSNB has partnered with the Regional Food Bank of Northeastern New York to hold 11 drive-thru food pantries, serving an estimated 3,000 families and more than 10,000 people across the Capital Region. BSNB volunteers staffed each of these events helping to ensure food supplies were provided to each family seeking assistance. Furthermore, and in light of the extraordinary need, BSNB has donated $55,000 in financial support and raised another $22,000 in community donations for the benefit of the Regional Food Bank. During the past months, the Food Bank has been a life-line to thousands in our community. I know that the employees who have participated in these distribution events feel fortunate that our organization is in a position to make a very positive and tangible difference in the lives of our neighbors.

In addition to our efforts with the Regional Food Bank, the Company and the BSNB Charitable Foundation provided targeted sponsorships and donations throughout the year to support a variety of local community organizations. This year, in light of the increased need, we expanded our giving to a greater number of organizations who are dedicated to helping those less fortunate or organizations that enhance the quality of life for those who live and work in our communities. The homeless and economically disadvantaged, area youth, veterans, and other worthy groups benefit from these efforts.

Moving Forward

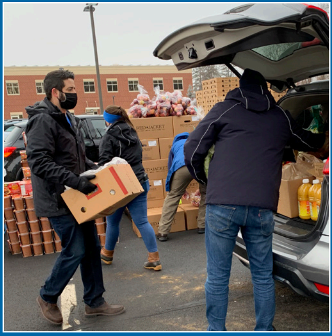
Prior to the outbreak of COVID-19 in early 2020, management and the board of directors created a new long-term plan to guide the Company over the next three years. While the pandemic has certainly been impactful, given our financial stability and strength, we remain focused on opportunities for additional market expansion and growth in our southern branches and expansion of existing relationships throughout the markets we serve. While we do anticipate further contraction of net interest margins due to the protracted low rate environment, we are well positioned to endure this period and to pursue growth opportunities as economic activity increases in the months ahead. On behalf of our Board of Directors and staff, we thank you for your support.

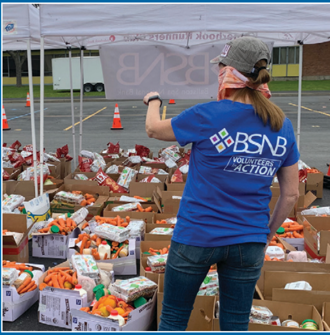
Christopher R. Dowd
President and Chief Executive Officer

FIVE YEAR SELECTED FINANCIAL DATA

At or for the years ended December 31, (In thousands, except per share amounts)	2020	2019	2018	2017	2016
EARNINGS					
Interest income	$ 23,089	$ 22,438	$ 20,342	$ 17,307	$ 14,989
Interest expense	2,968	4,072	1,994	1,080	919
Net interest income	20,121	18,366	18,348	16,227	14,070
Provision for loan losses	1,167	725	803	799	180
Non-interest income	4,282	3,215	3,625	2,799	1,873
Non-interest expense	17,252	16,146	15,389	14,348	12,664
Income before tax expense	5,984	4,710	5,781	3,879	3,099
Tax expense	995	805	1,031	601	721
Net income	4,989	3,905	4,750	3,278	2,378
PER SHARE DATA					
Basic earnings	$ 6.72	$ 5.26	$ 6.40	$ 4.41	$ 3.20
Cash dividends declared	1.32	1.32	1.32	1.24	1.24
Book value at year-end	60.88	54.90	48.53	45.84	42.30
Tangible book value at year-end	58.20	52.62	46.30	43.63	40.07
Closing market price	45.00	57.00	49.01	43.00	37.95
AVERAGE BALANCES					
Total assets	$ 646,346	$ 553,477	$ 510,771	$ 468,497	$ 433,783
Earning assets	623,646	531,667	487,371	446,737	414,168
Loans	497,512	451,979	412,699	363,510	305,228
Securities available for sale	70,660	72,132	68,494	73,651	80,719
Deposits	564,722	448,747	424,408	401,119	383,000
Borrowings	29,211	60,533	45,781	29,395	14,911
Shareholders' equity	43,159	38,682	35,812	32,940	31,407

2020 DRIVE-THRU FOOD PANTRIES





UNAUDITED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts) December 31,	2020	2019
ASSETS		
Cash and due from banks	$ 6,188	$ 6,837
Short-term investments	84,154	4,575
Securities available for sale, at fair value	68,332	75,325
FHLB of NY & FRB stock, at cost	5,518	6,425
Loans	510,248	477,834
Allowance for loan losses	(7,374)	(6,205)
Net loans	502,874	471,629
Premises and equipment, net	9,819	10,434
Accrued interest receivable	1,820	1,698
Goodwill	1,595	1,595
Other real estate owned	-	135
Bank owned life insurance	5,236	5,103
Other assets	5,728	4,436
Total assets	$ 691,264	$ 588,192
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand Deposits	$ 124,120	$ 80,888
Savings	93,828	78,380
NOW and money markets	330,140	238,198
Time Deposits	56,884	48,560
Total Deposits	604,972	446,026
FHLB borrowings, short-term	10,000	74,210
FHLB borrowings, long-term	5,880	5,880
Junior subordinated debentures	12,905	12,905
Other liabilities	12,297	8,401
Total liabilities	646,054	547,422
Shareholders' Equity:		
Common stock $12.50 par value. Authorized 10,000,000 shares; issued 768,000 shares at December 31, 2020 and 2019	9,600	9,600
Preferred stock $12.50 par value. Authorized 2,000,000 shares; none issued at December 31, 2020 and 2019	-	-
Additional paid-in-capital	42	42
Treasury stock, at cost (25,337 shares at December 31, 2020 and 2019)	(991)	(991)
Retained earnings	38,731	34,722
Accumulated other comprehensive loss	(2,172)	(2,603)
Total shareholders' equity	45,210	40,770
Total liabilities and shareholders' equity	$ 691,264	$ 588,192

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share and per share amounts) Years ended December 31,		2020		2019
INTEREST AND FEE INCOME				
Loans, including fees	$	21,262	$	20,373
Securities available for sale		1,416		1,721
FHLB of NY & FRB stock		249		270
Short-term investments		162		74
Total interest and fee income		23,089		22,438
INTEREST EXPENSE				
Deposits		1,819		2,169
FHLB borrowings, short-term		304		1,055
FHLB borrowings, long-term		172		173
Junior subordinated debentures		673		675
Total interest expense		2,968		4,072
Net interest income		20,121		18,366
Provision for loan losses		1,167		725
Net interest income after provision for loan losses		18,954		17,641
NON-INTEREST INCOME				
Service charges on deposit accounts		643		769
Trust and investment services income		935		1,021
Net gain on sale of loans		1,472		228
Net gain on sale and writedown of other real estate		6		24
Debit card interchange income		716		692
Earnings on bank owned life insurance		133		133
Other		377		348
Total non-interest income		4,282		3,215
NON-INTEREST EXPENSE				
Compensation and benefits		10,992		10,524
Occupancy and equipment		1,771		1,502
FDIC and OCC assessment		412		279
Advertising and public relations		294		300
Legal and professional fees		613		587
Data processing		977		895
Debit card processing		418		353
Other		1,775		1,706
Total non-interest expense		17,252		16,146
INCOME BEFORE INCOME TAX EXPENSE		5,984		4,710
Income tax expense		995		805
NET INCOME	$	4,989	$	3,905
Basic earnings per share	$	6.72	$	5.26
Weighted average common shares outstanding		742,663		742,663

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands) Years ended December 31,	2020	2019
NET INCOME	**$ 4,989**	$ 3,905
Other comprehensive income (loss), net of tax:		
Unrealized holding losses on other-than-temporary impaired securities arising during period, net of tax	**(10)**	(6)
Unrealized holding gains on securities arising during period, net of tax	**938**	1,585
Unrealized holding loss on cash flow hedges, net of tax	**(802)**	(291)
Changes in funded status of pension plan, net of tax	**305**	514
Total other comprehensive income	**431**	1,802
TOTAL COMPREHENSIVE INCOME	**$ 5,420**	$ 5,707

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2020 and 2019 (In thousands, except per share amounts)	Common stock	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income	Total share-holders' equity
Balance at January 1, 2019	$ 9,600	$ 42	$ (991)	$ 31,797	$ (4,405)	$ 36,043
Comprehensive income:						
Net income				3,905		3,905
Other comprehensive income, net of tax:					1,802	1,802
Cash dividends declared ($1.32 per share)				(980)		(980)
Balance at December 31, 2019	9,600	42	(991)	34,722	(2,603)	40,770
Comprehensive income:						
Net income				**4,989**		**4,989**
Other comprehensive income, net of tax					**431**	**431**
Cash dividends declared ($1.32 per share)				**(980)**		**(980)**
Balance at December 31, 2020	**$ 9,600**	**$ 42**	**$ (991)**	**$ 38,731**	**$ (2,172)**	**$45,210**

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) Years ended December 31,		2020		2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$	4,989	$	3,905
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		711		629
Provision for loan losses		1,167		725
Net premium amortization on securities		594		469
Deferred tax benefit		(531)		(169)
Net gain on sale and call of securities		(1)		-
Net gain on sale of loans		(1,472)		(228)
Proceeds from sale of loans held for sale		51,569		9,901
Loans originated for sale		(50,097)		(9,673)
Earnings on bank owned life insurance		(133)		(133)
Net loss on sale and disposal of premises and equipment		5		-
Net gain on sale of other real estate owned		(6)		(24)
Net increase in accrued interest receivable		(122)		(65)
Net increase in other assets		(477)		(1,375)
Net increase in other liabilities		2,791		2,722
Net cash provided by operating activities		8,987		6,684
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturities, calls and paydowns of securities available for sale		21,055		19,050
Purchases of securities available for sale		(13,403)		(20,714)
Net redemptions (purchases) of FHLB stock		907		(1,189)
Net loans made to customers		(32,412)		(47,689)
Proceeds from sale of other real estate owned		141		186
Purchases of premises and equipment		(101)		(883)
Net cash used in investing activities		(23,813)		(51,239)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase in deposits		158,946		26,459
Net (decrease) increase in short-term FHLB advances		(64,210)		19,360
Dividends paid		(980)		(980)
Net cash provided by financing activities		93,756		44,839
NET CHANGE IN CASH AND CASH EQUIVALENTS		78,930		284
Cash and cash equivalents at beginning of year		11,412		11,128
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	90,342	$	11,412

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 (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 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, regulatory guidelines, and the COVID-19 pandemic.

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 to provide protection against rising rates. The swap contract expires on September 26, 2021. At December 31, 2020, the interest rate swap had an estimated market value of ($40 thousand).

The Company has entered into an 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 to provide protection against rising rates. The swap contract expires on May 1, 2023. At December 31, 2020, the interest rate swap had an estimated market value of ($696 thousand).

The Company has entered into an interest rate swap that swapped its 3-month floating rate interest payments on a $20 million notional associated with a brokered CD, to a fixed rate to provide protection against rising rates. This swap contract expires on March 16, 2024. At December 31, 2020, the interest rate swap had an estimated market value of ($758 thousand).

2. Securities

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

	2020			
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. treasury securities	**$ 200**	**$ -**	**$ -**	**$ 200**
State and political subdivisions	**26,329**	**818**	**(15)**	**27,132**
Mortgage-backed securities - residential	**33,803**	**1,570**	**-**	**35,373**
Collateralized mortgage obligations	**222**	**43**	**(8)**	**257**
Corporate securities	**5,419**	**-**	**(49)**	**5,370**
Total securities available for sale	**$ 65,973**	**$ 2,431**	**$ (72)**	**$ 68,332**

	2019			
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
State and political subdivisions	18,386	383	(1)	18,768
Mortgage-backed securities - residential	53,159	742	(66)	53,835
Collateralized mortgage obligations	266	48	-	314
Corporate securities	2,406	2	-	2,408
Total securities available for sale	$ 74,217	$ 1,175	$ (67)	$ 75,325

3. Loans

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

(In thousands)	2020	2019
Residential real estate	$ 216,674	$ 215,808
Commercial real estate	207,888	188,198
Commercial & industrial	56,178	45,665
Consumer	29,508	28,163
Loans	510,248	477,834
Allowance for loan losses	(7,374)	(6,205)
Net loans	$ 502,874	$ 471,629

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

(In thousands)	2020	2019
Allowance for loan losses at beginning of year	$ 6,205	$ 5,652
Loan charge-offs:		
Residential real estate	-	73
Commercial real estate	-	1
Commercial & industrial	46	100
Consumer	44	41
Total charge-offs	90	215
Loan recoveries:		
Residential real estate	1	5
Commercial real estate	-	-
Commercial & industrial	86	32
Consumer	5	6
Total recoveries	92	43
Net loan (recoveries), charge-offs	(2)	172
Provision charged to operations	1,167	725
Allowance for loan losses at end of year	$ 7,374	$ 6,205

Nonperforming loans as of December 31, were as follows:

(In thousands)	2020	2019
Nonaccrual loans		
Residential real estate	$ 815	$ 1,035
Commercial real estate	470	532
Commercial & industrial	381	3
Consumer	-	8
Total nonaccrual loans	1,666	1,578
Loans past due 90 days or more and still accruing interest		
Residential real estate	110	186
Commercial real estate	160	-
Commercial & industrial	-	-
Consumer	62	4
Total loans past due 90 days or more and still accruing interest	332	190
Total nonperforming loans	$ 1,998	$ 1,768

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, 2020 and 2019, short-term FHLB advances amounted to $10 million and $74.2 million, respectively. During the years then ended, short-term advances averaged $10.4 million and $41.7 million with a weighted average rate of 2.92% and 2.53%, 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

As of December 31, 2020 and 2019, long-term borrowings amounted to $5.9 million. During the years then ended, long-term borrowings averaged $5.9 million with a weighted average rate of 2.93% in each year. Long-term 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.

5. Income Taxes

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

(Dollars in thousands)	**2020**	2019
Current tax expense:		
Federal	**$ 1,442**	$ 935
State	**84**	39
Deferred tax benefit	**(531)**	(169)
Total income tax expense	**$ 995**	$ 805

The actual tax expense for the years ended December 31, 2020 and 2019 differs from the statutory Federal tax rate due principally to New York State taxes and tax-exempt investment income.

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Timothy E. Blow	*Executive Vice President, Corporate Secretary and Chief Financial Officer*
Margaret K. de Koning	*Executive Vice President and Chief Banking Officer*

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SENIOR VICE PRESIDENT

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

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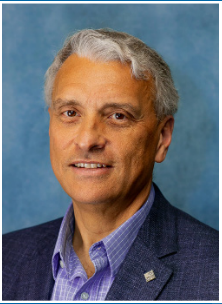
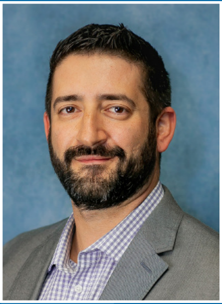
Timothy E. Blow



Following more than fifteen years of exceptional service to the Company, Tim Blow, executive vice president and CFO, has announced his retirement effective December 31, 2021. Since joining BSNB in 2005, Tim's responsibilities included strategic financial planning and oversight of the finance, IT, operations, compliance and facilities functions. Tim's contributions have been instrumental in helping the Company to achieve high levels of fiscal and operational effectiveness, the development of a sophisticated technology infrastructure, market expansion, and record financial performance. Of particular note was Tim's leadership in the development of the Company's new Corporate Headquarters building in 2011. His leadership in community support efforts has helped establish a culture that will benefit the Company and community for years to come. While he will be deeply missed, we are grateful he will be remaining with the Company through the end of the year, working closely with the senior management team and helping to ensure a smooth transition.

James F. Dodd



We are pleased to announce that effective July 1, 2021, James Dodd will be promoted to senior vice president and CFO. James, a certified public accountant, joined the Company in May 2018 as vice president and controller. Prior to joining BSNB, James was a manager for seven years at KPMG, LLP, a worldwide leader in providing audit and advisory services to financial institutions. His experience during his time at KPMG, in conjunction with working closely with Tim Blow over the past several years, has provided James with a strong foundation to take on his new expanded role, and continue the success of BSNB. James will oversee the finance, compliance and facilities functions when he starts in his new position this summer.

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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