



2021 Annual Report

Ballston Spa Bancorp, Inc.



BSNB

Ballston Spa Bancorp, Inc.

Here to make a difference.

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, **2021** 2020

FOR THE YEAR ENDED

Net income	\$	5,154	\$	4,989
Basic earnings per share		6.94		6.72
Dividends declared per share		1.32		1.32

AT YEAR-END

Total assets	\$	768,371	\$	689,752
Loans		533,021		510,248
Deposits		684,545		605,462
Shareholders' equity		49,874		45,210
Book value per share		67.16		60.88
Tangible book value per share		64.53		58.20

ASSET QUALITY RATIOS

Nonperforming loans to total loans	0.38%	0.39%
Nonperforming assets to total assets	0.26	0.29
Allowance for loan losses to:		
Total loans	1.52	1.45
Nonperforming loans	401.63	369.09

REGULATORY CAPITAL RATIOS

	December 31, 2021 Actual	December 31, 2020 Actual	Required Ratios	
			Minimum capital adequacy	Classified as well capitalized
Tier 1 leverage ratio	7.64%	7.94%	4.00%	5.00%
Tier 1 risk-based capital ratio	11.22	10.63	6.00	8.00
Common equity tier 1 capital	11.22	10.63	4.50	6.50
Total risk-based capital ratio	14.05	13.49	8.00	10.00



“Thanks to the support of our team, we have successfully managed through this difficult period, refined our business model and approach, and ultimately delivered critical support to customers and the community.”

Christopher R. Dowd

President and Chief Executive Officer

TO OUR SHAREHOLDERS,

I am pleased to report that Ballston Spa Bancorp, Inc., parent company of Ballston Spa National Bank, achieved success on many fronts in 2021 including record earnings performance. Despite the challenges posed by the pandemic and associated economic uncertainties, the Company is financially strong and well-positioned to pursue growth opportunities and to further enhance the value delivered to shareholders, customers and our community.

Financial Highlights

Net income totaled \$5.2 million or \$6.94 per share in 2021, up 3.31% from the \$5.0 million or \$6.72 per share reported in 2020. The improved earnings performance during this year is attributable to growth in the Company's loan and deposit portfolios, increased trust and financial services income, and also two non-recurring income items. Specifically, management successfully recovered expenses associated with a prior period environmental cleanup, and also recognized a sizeable income gain upon the sale of undeveloped property located behind the Company's headquarters in Ballston Spa. Income growth was offset by a protracted low rate environment and the resulting impact of compression in the Company's interest margins over the last several months.

Following an exceptional year in 2020, production in residential mortgage lending was again strong in 2021. As a result, balances in the residential mortgage portfolio increased \$20.0 million, or 9.19%, compared to year-end 2020. The Company also recognized \$325 thousand in income gains on the sale of residential mortgages during the period

as management continued to utilize secondary market outlets to properly manage the Company's balance sheet and interest rate risk.

Similar success was achieved during the year in the business banking arena. Early in 2021, the Company again dedicated our experienced team to processing and funding another round of the SBA's Paycheck Protection Program (PPP), providing vital financial relief to local businesses. Encompassing all rounds of the program, BSNB funded \$46.8 million in PPP loans to hundreds of local businesses helping to preserve thousands of jobs. In addition to this effort, the Company was also able to achieve solid growth in the loan portfolios. Commercial and commercial real estate loans, without the benefit of the SBA's PPP loan balances, increased a very healthy \$17.0 million, or 7.16%, as compared to year-end 2020.

Loan growth was again supported by a sizeable increase in total deposits during 2021 as balances increased \$79.1 million or 13.06%. Efforts to further penetrate the southern portion of our market and to expand existing customer relationships appear to be achieving some success. The Company has also benefited from increased market liquidity resulting from pandemic related economic stimulus programs. While economic conditions remain fluid and somewhat uncertain, confidence in the stability of these deposits has grown.

As an additional measure of success, the Company's balance sheet at year-end 2021 remained in a strong position. Nonperforming loan balances as a percentage of total loans is at a historically low

level of 0.38%, slightly less than the 0.39% recorded at year-end 2020. Also, the Bank's Tier 1 capital ratio stood at 12.45% as of December 31, 2021, up from 11.99% at year-end 2020.

Building for the Future

Recognizing our solid financial performance and foundation, management has undertaken certain strategies and initiatives during the year designed to enhance service to customers.

- Consistent with the goal of achieving greater penetration in our southern market, the Company announced plans in 2021 to relocate the Latham branch to a new facility. The new location is close in proximity to our current branch and will offer new drive-thru service, easier access and an enhanced banking experience. Renovations are underway with the transition to the new location anticipated later this spring;
- Taking advantage of new capabilities, our Wealth Management team offered a series of four free webinars over the course of the year on retirement topics ranging from social security to IRAs to estate planning for both individuals and business owners;
- In February, our BSNB debit card was enhanced to utilize contactless 'tap-to-pay' technology. As new cards are issued or existing cards are replaced, customers will have access to this convenient feature;
- As consumers rely more heavily on technology for their banking needs, we introduced updates to BSNB's mobile banking app in June. The modern new design offers an improved user experience along with new security features;
- In October, our Online Banking service was enhanced with a new look and feel plus the opportunity to customize the overview page to better suit individual needs.

Community Support

At BSNB we are making a positive difference not only for customers but for our community as a whole. Throughout the year, our company and the BSNB Charitable Foundation provide sponsorship and donation dollars to support local organizations who are also dedicated to making a difference in our communities. The homeless and economically disadvantaged, area youth, veterans, and other worthy groups benefit from these efforts.

In addition to financial support, we are very proud of the positive impact our employees make by participating in our Volunteers in Action Program. Since the start of the pandemic in 2020, BSNB has partnered with the Regional Food Bank of Northeastern New York to hold drive-thru food pantries that provide healthy food to families in need. Over the course of 18 events in the past two years, our employees donated more than 1,600 volunteer hours, distributed 324,000 pounds of food and served nearly 17,000 people across the Capital Region.

As food insecurity continued to be a challenge in our communities, BSNB provided not only volunteers but also financial support to the Regional Food Bank. Expanding on our successful fundraising efforts in 2020, BSNB launched additional matching donation campaigns in 2021. Over the two year period, these efforts resulted in BSNB donations totaling \$90,000 with another \$35,000 donated by generous community members.

Building on these accomplishments, we are excited to be planning another bank-wide community service day for later this spring. During this day of giving back, the bank will close early and employees will volunteer with local organizations providing essential services in our region.

Moving Forward

While the pandemic has certainly been uniquely challenging, the period has also revealed much about the capabilities of our staff and company. Thanks to the support of our team, we have successfully managed through this difficult period, refined our business model and approach, and ultimately delivered critical support to customers and the community. We believe the protracted low rate environment will continue to negatively impact income performance in the months ahead however, given the strength of our financial position, the Company is focused on the pursuit of strategies and opportunities to further enhance the value we deliver to customers, shareholders, and community.

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



Christopher R. Dowd
President and Chief Executive Officer



At or for the years ended December 31, **2021** 2020 2019 2018 2017
(In thousands, except per share amounts)

EARNINGS

Interest income	\$ 22,908	\$ 23,089	\$ 22,438	\$ 20,342	\$ 17,307
Interest expense	1,918	2,968	4,072	1,994	1,080
Net interest income	20,990	20,121	18,366	18,348	16,227
Provision for loan losses	756	1,167	725	803	799
Non-interest income	4,471	4,282	3,215	3,625	2,799
Non-interest expense	18,037	17,252	16,146	15,389	14,348
Income before tax expense	6,668	5,984	4,710	5,781	3,879
Tax expense	1,514	995	805	1,031	601
Net income	5,154	4,989	3,905	4,750	3,278

PER SHARE DATA

Basic earnings	\$ 6.94	\$ 6.72	\$ 5.26	\$ 6.40	\$ 4.41
Cash dividends declared	1.32	1.32	1.32	1.32	1.24
Book value at year-end	67.16	60.88	54.90	48.53	45.84
Tangible book value at year-end	64.53	58.20	52.62	46.30	43.63
Closing market price	48.00	45.00	57.00	49.01	43.00

AVERAGE BALANCES

Total assets	\$ 726,750	\$ 646,346	\$ 553,477	\$ 510,771	\$ 468,497
Earning assets	704,313	623,646	531,667	487,371	446,737
Loans	524,022	497,512	451,979	412,669	363,510
Securities available for sale	70,623	70,660	72,132	68,494	73,651
Deposits	643,532	564,722	448,747	424,408	401,119
Borrowings	25,862	29,211	60,533	45,781	29,395
Shareholders' equity	47,616	43,159	38,682	35,812	32,940



Introducing "Here to Make a Difference"

As a locally focused company that values relationships and is committed to creating a lasting impact for our customers, employees and community, BSNB recently launched a new slogan that communicates our mission.



UNAUDITED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

December 31,

2021

2020

ASSETS

Cash and due from banks	\$ 5,881	\$ 6,188
Short-term investments	137,884	84,154
Securities available for sale, at fair value	70,889	68,332
FHLB of NY & FRB stock, at cost	5,206	5,518
Loans	533,021	510,248
Allowance for loan losses	(8,081)	(7,374)
Net loans	524,940	502,874
Premises and equipment, net	9,125	9,819
Accrued interest receivable	1,725	1,820
Goodwill	1,595	1,595
Bank owned life insurance	5,372	5,236
Other assets	5,754	4,216
Total assets	\$ 768,371	\$ 689,752

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Demand Deposits	\$ 140,809	\$ 124,610
Savings	107,834	93,828
NOW and money markets	375,847	330,140
Time Deposits	60,055	56,884
Total Deposits	684,545	605,462
FHLB borrowings, short-term	10,000	10,000
FHLB borrowings, long-term	-	5,880
Junior subordinated debentures	12,905	12,905
Other liabilities	11,047	10,295
Total liabilities	718,497	644,542

Shareholders' Equity:

Common stock \$12.50 par value. Authorized 10,000,000 shares; issued 768,000 shares at December 31, 2021 and 2020	9,600	9,600
Preferred stock \$12.50 par value. Authorized 2,000,000 shares; none issued at December 31, 2021 and 2020	-	-
Additional paid-in-capital	42	42
Treasury stock, at cost (25,337 shares at December 31, 2021 and 2020)	(991)	(991)
Retained earnings	42,905	38,731
Accumulated other comprehensive loss	(1,682)	(2,172)
Total shareholders' equity	49,874	45,210
Total liabilities and shareholders' equity	\$ 768,371	\$ 689,752

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME



(In thousands, except share and per share amounts)

Years ended December 31,

2021

2020

INTEREST AND FEE INCOME

Loans, including fees	\$ 21,183	\$ 21,262
Securities available for sale	1,313	1,416
FHLB of NY & FRB stock	276	249
Short-term investments	136	162
Total interest and fee income	<u>22,908</u>	<u>23,089</u>

INTEREST EXPENSE

Deposits	855	1,819
FHLB borrowings, short-term	320	304
FHLB borrowings, long-term	87	172
Junior subordinated debentures	656	673
Total interest expense	<u>1,918</u>	<u>2,968</u>
Net interest income	20,990	20,121
Provision for loan losses	756	1,167
Net interest income after provision for loan losses	<u>20,234</u>	<u>18,954</u>

NON-INTEREST INCOME

Service charges on deposit accounts	664	643
Trust and investment services income	1,191	935
Net gain on sale of loans	325	1,472
Net gain on sale and writedown of other real estate	-	6
Net gain on sale of fixed assets	485	-
Debit card interchange income	844	716
Earnings on bank owned life insurance	136	133
Other	826	377
Total non-interest income	<u>4,471</u>	<u>4,282</u>

NON-INTEREST EXPENSE

Compensation and benefits	11,363	10,992
Occupancy and equipment	1,712	1,771
FDIC and OCC assessment	519	412
Advertising and public relations	355	294
Legal and professional fees	603	613
Data processing	958	977
Debit card processing	452	418
Other	2,075	1,775
Total non-interest expense	<u>18,037</u>	<u>17,252</u>

INCOME BEFORE INCOME TAX EXPENSE

Income tax expense	6,668	5,984
	<u>1,514</u>	<u>995</u>

NET INCOME

	\$ 5,154	\$ 4,989
Basic earnings per share	\$ 6.94	\$ 6.72
Weighted average common shares outstanding	742,663	742,663



UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Years ended December 31,	
	2021	2020
NET INCOME	\$ 5,154	\$ 4,989
Other comprehensive income, net of tax:		
Unrealized holding losses on other-than-temporary impaired securities arising during period, net of tax	(7)	(10)
Unrealized holding (loss) gain on securities arising during period, net of tax	(826)	938
Unrealized holding gain (loss) on cash flow hedges, net of tax	690	(802)
Changes in funded status of pension plan, net of tax	633	305
Total other comprehensive income	490	431
TOTAL COMPREHENSIVE INCOME	\$ 5,644	\$ 5,420

See accompanying notes to unaudited consolidated financial statements.



UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2021 and 2020
(In thousands, except per share amounts)

	Common stock	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance at January 1, 2020	\$ 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
Comprehensive income:						
Net income				5,154		5,154
Other comprehensive income, net of tax					490	490
Cash dividends declared (\$1.32 per share)				(980)		(980)
Balance at December 31, 2021	\$ 9,600	\$ 42	\$ (991)	\$ 42,905	\$ (1,682)	\$ 49,874

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS



(In thousands)	Years ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,154	\$ 4,989
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	705	711
Provision for loan losses	756	1,167
Net premium amortization on securities	558	594
Deferred tax benefit	(99)	(531)
Net gain on sale and call of securities	-	(1)
Net gain on sale of loans	(325)	(1,472)
Proceeds from sale of loans held for sale	11,217	51,569
Loans originated for sale	(10,892)	(50,097)
Earnings on bank-owned life insurance	(136)	(133)
Net (gain) loss on sale and disposal of premises and equipment	(486)	5
Net gain on sale of other real estate owned	-	(6)
Net decrease (increase) in accrued interest receivable	95	(122)
Net (increase) decrease in other assets	(681)	1,035
Net increase in other liabilities	1,611	789
Net cash provided by operating activities	7,477	8,497
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities, calls and paydowns of securities available for sale	22,051	21,055
Purchases of securities available for sale	(26,296)	(13,403)
Net redemptions of FHLB stock	312	907
Net loans made to customers	(22,822)	(32,412)
Proceeds from sale of other real estate owned	-	141
Proceeds from sale of premises and equipment	586	-
Purchases of premises and equipment	(108)	(101)
Net cash used in investing activities	(26,277)	(23,813)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	79,083	159,436
Net decrease in short-term FHLB advances	-	(64,210)
Repayment of long-term FHLB borrowings	(5,880)	-
Dividends paid	(980)	(980)
Net cash provided by financing activities	72,223	94,246
NET CHANGE IN CASH AND CASH EQUIVALENTS	53,423	78,930
Cash and cash equivalents at beginning of year	90,342	11,412
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 143,765	\$ 90,342

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 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, 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 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, 2021, the interest rate swap had an estimated market value of (\$359 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. As of December 31, 2021, the interest rate swap had an estimated market value of (\$201 thousand).

2. Securities

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

2021				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. treasury securities	\$ 4,511	\$ -	\$ (52)	\$ 4,459
State and political subdivisions	32,831	481	(78)	33,234
Mortgage-backed securities - residential	25,268	887	(40)	26,115
Collateralized mortgage obligations	118	34	(8)	144
Corporate securities	6,931	6	-	6,937
Total securities available for sale	<u>\$ 69,659</u>	<u>\$ 1,408</u>	<u>\$ (178)</u>	<u>\$ 70,889</u>
2020				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. treasury securities	\$ 200	\$ -	\$ -	\$ 200
State and political subdivisions	26,330	817	(15)	27,132
Mortgage-backed securities - residential	33,803	1,571	-	35,374
Collateralized mortgage obligations	222	43	(8)	257
Corporate securities	5,418	-	(49)	5,369
Total securities available for sale	<u>\$ 65,973</u>	<u>\$ 2,431</u>	<u>\$ (72)</u>	<u>\$ 68,332</u>



3. Loans

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

(In thousands)	2021	2020
Residential real estate	\$ 236,579	\$ 216,674
Commercial real estate	229,584	207,888
Commercial & industrial	36,857	56,178
Consumer	30,001	29,508
Loans	533,021	510,248
Allowance for loan losses	(8,081)	(7,374)
Net loans	\$ 524,940	\$ 502,874

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

(In thousands)	2021	2020
Allowance for loan losses at beginning of year	\$ 7,374	\$ 6,205
Loan charge-offs:		
Residential real estate	3	-
Commercial real estate	-	-
Commercial & industrial	-	46
Consumer	65	43
Total charge-offs	68	89
Loan recoveries:		
Residential real estate	-	1
Commercial real estate	-	-
Commercial & industrial	-	84
Consumer	19	6
Total recoveries	19	91
Net loan charge-offs (recoveries)	49	(2)
Provision charged to operations	756	1,167
Allowance for loan losses at end of year	\$ 8,081	\$ 7,374

Nonperforming loans as of December 31, were as follows:

(In thousands)	2021	2020
Nonaccrual loans		
Residential real estate	\$ 759	\$ 815
Commercial real estate	145	471
Commercial & industrial	449	380
Consumer	-	-
Total nonaccrual loans	1,353	1,666
Loans past due 90 days or more and still accruing interest		
Residential real estate	607	110
Commercial real estate	-	160
Commercial & industrial	-	-
Consumer	52	62
Total loans past due 90 days or more and still accruing interest	659	332
Total nonperforming loans	\$ 2,012	\$ 1,998



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, 2021 and 2020, short-term FHLB advances amounted to \$10 million, with a weighted average rate of 3.20% and 2.92%, 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, 2021 and 2020, the bank had long-term borrowing balances of \$0 and \$5.9 million, respectively. During the years then ended, long-term borrowings averaged \$3.0 million and \$5.9 million, respectively, 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)	2021	2020
Current tax expense:		
Federal	\$ 1,505	\$ 1,442
State	108	84
Deferred tax benefit	(99)	(531)
Total income tax expense	\$ 1,514	\$ 995

The actual tax expense for the years ended December 31, 2021 and 2020 differs from the statutory Federal tax rate due principally to New York State taxes and tax-exempt investment income.

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