BSNB
Ballston Spa Bancorp, Inc.

2022 Annual Report

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,	2022	2021
FOR THE YEAR ENDED		
Net income	$ 6,093	$ 5,154
Basic earnings per share	8.20	6.94
Dividends declared per share	1.32	1.32
AT YEAR-END		
Total assets	$ 755,783	$ 768,371
Loans	627,646	533,021
Deposits	657,557	684,545
Shareholders' equity	52,730	49,874
Book value per share	71.00	67.16
Tangible book value per share	68.54	64.53
ASSET QUALITY RATIOS		
Nonperforming loans to total loans	0.22%	0.38%
Nonperforming assets to total assets	0.18	0.26
Allowance for loan losses to:		
Total loans	1.33	1.52
Nonperforming loans	609.17	401.63

REGULATORY CAPITAL RATIOS

	December 31, 2022 Actual	December 31, 2021 Actual	Required Ratios: Minimum capital adequacy	Required Ratios: Classified as well capitalized
Tier 1 leverage ratio	7.93%	7.64%	4.00%	5.00%
Tier 1 risk-based capital ratio	10.48	11.22	6.00	8.00
Common equity tier 1 capital	10.48	11.22	4.50	6.50
Total risk-based capital ratio	13.07	14.05	8.00	10.00

"...the Company is well positioned to confidently pursue strategic growth opportunities and to enhance the value we deliver to our shareholders, customers and 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, produced strong financial results in 2022, achieving record earnings performance. The Company also successfully completed a number of strategic initiatives to enhance customer service and support and further develop staffing resources. In light of these factors, the Company is well positioned to confidently pursue strategic growth opportunities and to enhance the value we deliver to our shareholders, customers and community.

Financial Highlights

Net income totaled $6.1 million or $8.20 per share in 2022, up 18.22% from the $5.2 million or $6.94 per share reported in 2021. Income results in 2022 benefited from robust loan portfolio growth and interest margin expansion.

More specifically, following two strong years, residential mortgage lending continued to post notable results in 2022. Balances in the portfolio increased $32.2 million or 13.60% compared to year-end 2021. Commercial and commercial real estate lending also produced strong results during the year. Commercial and commercial real estate loan balances increased $47.5 million or 18.15% ahead of year-end 2021.

As previously reported, the Company entered 2022 with ample funding sources generated from strong deposit growth achieved over recent periods. These resources, in the form of short-term investments and cash holdings, were utilized to primarily fund loan growth achieved during 2022.

The conversion of short-term assets to higher yielding loans, coupled with the aggressive response by the Federal Reserve to inflationary pressure, had a positive impact on the Company's interest margins. More specifically, interest margins expanded from 2.98% in 2021 to 3.09% in 2022. The Federal Reserve, in response to inflationary pressures and other economic factors, increased the federal funds rate seven times during 2022. While additional rate increases by the Federal Reserve are predicted, we anticipate interest margins to remain stable in the months ahead as competition for deposit balances heats up.

As an additional measure of success, the Company's balance sheet at year-end 2022 remained in a strong position, with credit quality indicators holding at historic lows. In fact, nonperforming loan balances as a percentage of total loans are at a record low level of 0.22%, down 0.16% from the 0.38% recorded at year-end 2021. Balance sheet strength is further demonstrated in our capital levels, as the Bank's Tier 1 capital ratio stood at 11.51% as of December 31, 2022 – well above regulatory minimums and providing ample foundation for future growth.

Building for the Future

Beyond our strong financial results, management completed several key strategic initiatives throughout 2022 designed to enhance the value and support we provide to customers and to better position the Company for future success.

- The Company made several enhancements within the branch system in 2022. Most notably, we opened our new Latham office. The facility offers upgraded drive thru banking service and expanded banking hours while also providing customers with access to a wider range of seasoned banking professionals. Next, we implemented changes to our branch staffing model, expanding the capabilities of all branch staff to more universally support customers. We also expanded banking hours across our branch network, including early morning drive thru service.

• To better support our growing customer base, the Company introduced several improvements to our digital tools and resources in 2022. After considering input from customers and staff, the Company launched a new and enhanced web site – www.bsnb.com – that capitalizes on recent technology advances to provide more intuitive navigation capabilities and expanded information on banking products and services. For commercial banking customers, we enhanced the mobile banking experience by introducing the ability to deposit checks via BSNB's mobile banking app. In addition, cash management customers can now approve batches via the app.

• In the Wealth Management arena, we completed a conversion to a more modern and capable operating platform. The new system provides for an enhanced customer experience and greater operational efficiency. It is also worth noting that the Company celebrated 100 years of Wealth Management and Trust Services in 2022. Wealth management offerings, including fiduciary trust and estate administration services, help set BSNB apart from other financial services providers and contribute to a diversified income stream.

• As previously reported, the Company took steps in 2022 to broaden and strengthen our senior leadership team with the addition of the Chief Customer Officer position. We were also successful in recruiting several experienced professionals for key positions within the Company.

Finally, we are also proud to report that BSNB was recognized as one of the "Best Places to Work" by the Albany Business Review in 2022. This recognition is especially meaningful given the challenges posed by the current labor market and the high value we place on the development and retention of highly qualified staffing resources.

Community Support

While proud of our financial and strategic accomplishments, we are equally focused on giving back to support local organizations who make a positive difference in the communities we serve. The Company and BSNB Charitable Foundation contribute sponsorship and donation dollars throughout the year to support local community organizations. These groups are dedicated to helping those in need and improving the quality of life in the region.

In addition to financial support, our employees make a positive impact by participating in our Volunteers in Action Program. At our annual Community Service Day in May of 2022, the bank closed early to enable the entire BSNB team to gather and fill backpacks for students in need at area schools. And in the fall, BSNB worked with the Lifeworks Community Action organization to provide Thanksgiving baskets to families in Saratoga County.

Also noteworthy, since the start of the pandemic in early 2020, BSNB has partnered with the Regional Food Bank of Northeastern New York to hold 21 drive-thru food pantries providing vital supplies to people in need in the region. Three of these events were held in 2022, adding to the more than 20,000 people who have benefitted from these efforts. In addition to the volunteer hours, the Company, with generous contributions from our customers, provided more than $140 thousand of financial support to the Food Bank during this period to secure additional food supplies.

Moving Forward

The Company begins 2023 in a strong and capable financial position and supported by a talented team of banking professionals. While our industry has and will continue to be impacted by Federal Reserve efforts to combat inflation, increasing competition for deposit balances and a tight labor market, we remain confident in our plan and ability to deliver long-term value to our 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, (In thousands, except per share amounts)	2022	2021	2020	2019	2018
EARNINGS					
Interest income	$ 25,611	$ 22,908	$ 23,089	$ 22,438	$ 20,342
Interest expense	2,708	1,918	2,968	4,072	1,994
Net interest income	22,903	20,990	20,121	18,366	18,348
Provision for loan losses	360	756	1,167	725	803
Non-interest income	2,672	4,471	4,282	3,215	3,625
Non-interest expense	18,014	18,037	17,252	16,146	15,389
Income before tax expense	7,201	6,668	5,984	4,710	5,781
Tax expense	1,108	1,514	995	805	1,031
Net income	6,093	5,154	4,989	3,905	4,750
PER SHARE DATA					
Basic earnings	$ 8.20	$ 6.94	$ 6.72	$ 5.26	$ 6.40
Cash dividends declared	1.32	1.32	1.32	1.32	1.32
Book value at year-end	71.00	67.16	60.88	54.90	48.53
Tangible book value at year-end	68.54	64.53	58.20	52.62	46.30
Closing market price	60.00	48.00	45.00	57.00	49.01
AVERAGE BALANCES					
Total assets	$ 763,813	$ 726,750	$ 646,346	$ 553,477	$ 510,771
Earning assets	740,680	704,313	623,646	531,667	487,371
Loans	570,249	524,022	497,512	451,979	412,699
Securities available for sale	77,448	70,623	70,660	72,132	68,494
Deposits	680,470	643,532	564,722	448,747	424,408
Borrowings	22,982	25,862	29,211	60,533	45,781
Shareholders' equity	51,015	47,616	43,159	38,682	35,812

New Latham Office
1202 Troy Schenectady Road, Building #2

UNAUDITED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts) December 31,	2022	2021
ASSETS		
Cash and due from banks	$ 5,827	$ 5,881
Short-term investments	16,061	137,884
Securities available for sale, at fair value	81,970	70,889
FHLB of NY & FRB stock, at cost	5,472	5,206
Loans	627,646	533,021
Allowance for loan losses	(8,346)	(8,081)
Net loans	619,300	524,940
Premises and equipment, net	10,181	9,125
Accrued interest receivable	2,372	1,725
Goodwill	1,595	1,595
Bank owned life insurance	5,185	5,372
Other assets	7,820	5,754
Total assets	$ 755,783	$ 768,371
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand Deposits	$ 147,399	$ 140,809
Savings	113,633	107,834
NOW and money markets	355,693	375,847
Time Deposits	40,832	60,055
Total Deposits	657,557	684,545
FHLB borrowings, short-term	22,000	10,000
Junior subordinated debentures	12,905	12,905
Other liabilities	10,591	11,047
Total liabilities	703,053	718,497
Shareholders' Equity:		
Common stock $12.50 par value. Authorized 10,000,000 shares; issued 768,000 shares at December 31, 2022 and 2021	9,600	9,600
Preferred stock $12.50 par value. Authorized 2,000,000 shares; none issued at December 31, 2022 and 2021	-	-
Additional paid-in-capital	42	42
Treasury stock, at cost (25,337 shares at December 31, 2022 and 2021)	(991)	(991)
Retained earnings	48,018	42,905
Accumulated other comprehensive loss	(3,939)	(1,682)
Total shareholders' equity	52,730	49,874
Total liabilities and shareholders' equity	$ 755,783	$ 768,371

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,	2022	2021
INTEREST AND FEE INCOME		
Loans, including fees	$ 22,482	$ 21,183
Securities available for sale	1,843	1,314
FHLB of NY & FRB stock	282	276
Short-term investments	1,004	135
Total interest and fee income	25,611	22,908
INTEREST EXPENSE		
Deposits	1,688	855
FHLB borrowings, short-term	316	320
FHLB borrowings, long-term	-	87
Junior subordinated debentures	704	656
Total interest expense	2,708	1,918
Net interest income	22,903	20,990
Provision for loan losses	360	756
Net interest income after provision for loan losses	22,543	20,234
NON-INTEREST INCOME		
Service charges on deposit accounts	676	664
Trust and investment services income	1,103	1,192
Net loss on sale and call of securities	(1,132)	-
Net gain on sale of loans	-	325
Net gain on sale of fixed assets	-	486
Debit card interchange income	819	844
Earnings on bank owned life insurance	139	136
Other	1,067	824
Total non-interest income	2,672	4,471
NON-INTEREST EXPENSE		
Compensation and benefits	10,706	11,363
Occupancy and equipment	1,801	1,712
FDIC and OCC assessment	519	519
Advertising and public relations	373	355
Legal and professional fees	918	603
Data processing	1,047	958
Debit card processing	443	452
Other	2,207	2,075
Total non-interest expense	18,014	18,037
INCOME BEFORE INCOME TAX EXPENSE	7,201	6,668
Income tax expense	1,108	1,514
NET INCOME	$ 6,093	$ 5,154
Basic earnings per share	$ 8.20	$ 6.94
Weighted average common shares outstanding	742,663	742,663

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands) Years ended December 31,	2022	2021
NET INCOME	$ 6,093	$ 5,154
Other comprehensive (loss) income, net of tax:		
Unrealized holding losses on other-than-temporary impaired securities arising during period, net of tax	(42)	(7)
Unrealized holding loss on securities arising during period, net of tax	(3,380)	(826)
Unrealized holding gain on cash flow hedges, net of tax	478	690
Changes in funded status of pension plan, net of tax	687	633
Other comprehensive (loss) income, net of tax	(2,257)	490
TOTAL COMPREHENSIVE INCOME	$ 3,836	$ 5,644

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2022 and 2021 (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, 2021	$ 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
Comprehensive income:						
Net income				6,093		6,093
Other comprehensive (loss), net of tax:					(2,257)	(2,257)
Cash dividends declared ($1.32 per share)				(980)		(980)
Balance at December 31, 2022	$ 9,600	$ 42	$ (991)	$ 48,018	$ (3,939)	$ 52,730

See accompanying notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) Years ended December 31,	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,093	$ 5,154
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	578	702
Provision for loan losses	360	756
Net premium amortization on securities	115	559
Deferred tax benefit	(134)	(330)
Net loss on sale and call of securities	1,132	-
Net gain on sale of loans	-	(325)
Proceeds from sale of loans held for sale	-	11,217
Loans originated for sale	-	(10,892)
Earnings on bank-owned life insurance	(139)	(136)
Net gain on sale and disposal of premises and equipment	-	(486)
Net (increase) decrease in accrued interest receivable	(647)	95
Net increase in other assets	(179)	(681)
Net increase in other liabilities	177	1,844
Net cash provided by operating activities	7,356	7,477
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities, calls and paydowns of securities available for sale	16,982	22,051
Proceeds from sale of securites available for sale	27,613	-
Purchases of securities available for sale	(61,567)	(26,296)
Net (purchases) redemptions of FHLB stock	(266)	312
Net loans made to customers	(94,719)	(22,822)
Proceeds from sale of premises and equipment	-	586
Proceeds from bank-owned life insurance	326	-
Purchases of premises and equipment	(1,634)	(108)
Net cash used in investing activities	(113,265)	(26,277)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(26,988)	79,083
Net increase in short-term FHLB borrowings	12,000	-
Repayment of long-term FHLB borrowings	-	(5,880)
Dividends paid	(980)	(980)
Net cash provided by financing activities	(15,968)	72,223
NET CHANGE IN CASH AND CASH EQUIVALENTS	(121,877)	53,423
Cash and cash equivalents at beginning of year	143,765	90,342
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 21,888	$ 143,765

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 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 $10 million notional associated with short-term FHLB borrowings, to a fixed rate for five years to provide protection against rising rates. The swap contract expires on May 1, 2023. At December 31, 2022 and 2021, the interest rate swap had an estimated market value of $87 thousand and ($359 thousand), respectively.

The Company previously entered into an interest rate swap that swapped its 3-month LIBOR floating rate interest payments on a $20 million notional associated with a brokered CD, to a fixed rate for four years to provide protection against rising rates. In June 2022, it was decided to not renew the brokered CD and the swap was discontinued. At 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:

	2022			
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Approx. fair value
U.S. Government agency obligations	**$ 3,951**	**$ -**	**$ (120)**	**$ 3,831**
U.S. treasury securities	**24,204**	**97**	**(355)**	**23,946**
State and political subdivisions	**25,303**	**-**	**(1,500)**	**23,803**
Mortgage-backed securities - residential	**24,879**	**11**	**(1,400)**	**23,490**
Collateralized mortgage obligations	**102**	**2**	**(32)**	**72**
Corporate securities	**6,945**	**-**	**(117)**	**6,828**
Total securities available for sale	**$ 85,384**	**$ 110**	**$ (3,524)**	**$ 81,970**

	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	$ 69,659	$ 1,408	$ (178)	$ 70,889

3. Loans

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

(In thousands)	2022	2021
Residential real estate	$ 268,747	$ 236,579
Commercial real estate	282,619	229,584
Commercial & industrial	40,039	36,857
Consumer	36,241	30,001
Loans	627,646	533,021
Allowance for loan losses	(8,346)	(8,081)
Net loans	$ 619,300	$ 524,940

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

(In thousands)	2022	2021
Allowance for loan losses at beginning of year	$ 8,081	$ 7,374
Loan charge-offs:		
Residential real estate	-	3
Commercial real estate	-	-
Commercial & industrial	49	-
Consumer	87	65
Total charge-offs	136	68
Loan recoveries:		
Residential real estate	32	-
Commercial real estate	-	-
Commercial & industrial	-	-
Consumer	9	19
Total recoveries	41	19
Net loan charge-offs (recoveries)	95	49
Provision charged to operations	360	756
Allowance for loan losses at end of year	$ 8,346	$ 8,081

Nonperforming loans as of December 31, were as follows:

(In thousands)	2022	2021
Nonaccrual loans		
Residential real estate	$ 628	$ 759
Commercial real estate	-	289
Commercial & industrial	178	305
Consumer	-	-
Total nonaccrual loans	806	1,353
Loans past due 90 days or more and still accruing interest		
Residential real estate	398	607
Commercial real estate	-	-
Commercial & industrial	-	-
Consumer	165	52
Total loans past due 90 days or more and still accruing interest	563	659
Total nonperforming loans	$ 1,369	$ 2,012

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, 2022 and 2021, short-term FHLB advances amounted to $22 million and $10 million respectively with a weighted average rate of 4.55% and 3.20%, 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.

5. Income Taxes

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

(Dollars in thousands)	2022	2021
Current tax expense:		
Federal	$ 1,066	$ 1,736
State	176	108
Deferred tax benefit	(134)	(330)
Total income tax expense	$ 1,108	$ 1,514

The actual tax expense for the years ended December 31, 2022 and 2021 differs from the statutory Federal tax rate due principally to New York State taxes and tax-exempt investment income.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Richard P. Sleasman	*Interim Board Chair, President and Managing Director, CBRE-Albany*
Dawn A. Abbuhl, Ph.D.	*President, Repeat Business Systems*
Paul N. DiCaprio	*President, Specialty Silicone Products, Inc.*
Christopher R. Dowd	*President and Chief Executive Officer, BSNB*
Michael S. Dunn	*Chief Technology Officer, Ultra.io*
Beth A. Grasso, CPA	*President, Grasso & Kayser, CPAs PC.*
Stephen J. Obermayer, CPA	*Chief Financial Officer, BBL Construction Services, LLC*
Stephen E. Strader, MD	*Physician*

DIRECTORS EMERITI

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

EXECUTIVE OFFICERS

Christopher R. Dowd	*President and Chief Executive Officer*
James F. Dodd, CPA	*Senior Vice President, Corporate Secretary and Chief Financial Officer*
Margaret K. de Koning	*Executive Vice President and Chief Credit Officer*
Cynthia J. Minuti	*Senior Vice President and Chief Customer Officer*

VICE PRESIDENTS

Brad M. Bentley	*Commercial Lending*
Timothy J. Collins	*Commercial Lending*
Leslie S. Dorsey	*Human Resources*
Andrei Krasnokutski	*Commercial Lending*
Thomas B. Leach	*Retail Lending*
Thomas M. McGrath	*Wealth Management Solutions*
Melissa C. Mewhorter	*Finance*
Deborah JR O'Connor	*Treasury Management*
David J. Omicinski	*Commercial Lending*
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Robert J. Roemer	*Information Technology*
Trudy M. Seeber	*Retail Banking*
Ann M. Sharpe, Esq.	*Wealth Management Solutions*
Susan M. Slovic	*Marketing*
Thomas M. White	*Wealth Management Solutions*

Robert E. Van Vranken, Esq.

The board of directors wishes to announce the retirement of Chairman of the Board Robert E. Van Vranken, Esq. Mr. Van Vranken was elected to the board in 1992 and became chairman in 2004. During his tenure of more than 30 years, he has been a strong and dedicated leader in the board room and an inspiration to the company's growing number of employees.

Drawing on a long career as an attorney in Burnt Hills, New York, Mr. Van Vranken provided sound guidance and leadership that helped propel the company to the thriving independent community bank that it is today. He is well known for his connection with employees and his efforts to encourage excellence in customer service.

We appreciate Mr. Van Vranken's considerable contributions. His legacy will continue to benefit our company and community for years to come.

General Information
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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
1202 Troy Schenectady Road
(518) 640-2800

Malta
124 Dunning Street
(518) 899-2912

Milton Crest
344 Rowland Street
(518) 885-4346

Stillwater
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(518) 664-3200

Voorheesville
13 Maple Road
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Wilton
625 Maple Avenue
(518) 583-6608

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