

A Closer Look

Ballston Spa National Bank remains committed to supporting the ideals of a true community bank. We actively support local charitable organizations, provide funding for community events, and devote considerable hours on a volunteer basis supporting groups that make our communities a great place to live, work and raise a family.



Recent community initiatives include:

Hands on Capitaland As part of an event sponsored by the United Way, BSNB volunteers planted flowers and tended gardens at the Saratoga Center for the Family.

Ballston Spa National Bank Concert Series BSNB supports family entertainment as the title sponsor of the summer concert series organized by the Ballston Spa Business and Professional Association in the Village's Wiswall Park.

YMCA of Saratoga Assisting the YMCA in building strong communities, BSNB made a monetary donation to the YMCA *Capital Campaign* for a new facility. The bank also contributed to the *We Build People Campaign* that helps ensure that the YMCA will never have to turn away any young person who wants to benefit from their programs, services and activities.

Ballston Spa National Bank
is a subsidiary of Ballston Spa Bancorp, Inc.

Office Locations

Ballston Spa
87 Front Street
518-363-8150

Burnt Hills
770 Saratoga Road
518-399-8144

Clifton Park
256 Ushers Road
518-877-6667

Galway
5091 Sacandaga Road
518-882-1225

Greenfield Center
3060 Route 9N
518-893-2265

Malta
124 Dunning Street
518-899-2912

Milton Crest
344 Rowland Street
518-885-4346

Stillwater
159 River Road
518-664-3200

Wilton
625 Maple Avenue
518-583-6608

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Consolidated Interim Financial Information



June 30, 2006

BALLSTON SPA BANCORP, INC.

To our shareholders:

As we enter the second half of 2006, we believe it is important to look back at our goals for this year and assess our progress to date. In our 2005 Annual Report, we noted that our primary focus is centered on continued loan and core deposit growth, expense control, revenue enhancement, and customer service. We maintain that the pursuit of these goals will result in higher levels of performance and position the Company for a strong financial future.

The most significant indication of our success is our bottom line – net income. Net income for the six months ended June 30, 2006 was \$775 thousand, up over 6% from \$728 thousand for the same period of 2005. This growth was achieved in spite of the continued increases in short term interest rates during the first half of the year. These increases have placed significant pressure on community banks as rates on liabilities are repricing faster than what can be achieved on the asset side of the balance sheet. The yield curve has continued to be very flat, and in some cases, has been inverted during the first half of 2006. As a result, the Bank's net interest margin fell from 3.62% in the first half of 2005, to 3.51% for 2006 year to date. We anticipate that our margin will further compress in the second half of 2006.

The pursuit and achievement of our objectives during the first half of 2006 has enabled the Bank to mitigate the impact of rising interest rates and its impact on our net interest income. Loans grew \$22.3 million, or an annualized 22%, while retail and commercial deposits increased \$7.4 million, or an annualized 7% since December 31, 2005. Although total assets have increased 5% since December 31, 2005 to \$324.9 million, non-interest expenses have actually declined and our efficiency ratio has improved to 81.2%, down from 83.1% in the comparable period from 2005. Non-interest income is up slightly after adjusting for the loss on sale of securities experienced during 2005. Efforts to control expenses and evaluate new sources of revenue continue to be a high priority for the Company and we expect to have additional success in these areas during the remainder of 2006.

I am very pleased with the success we have achieved toward our goals and I am optimistic for continued improvements in spite of the challenges we face in the current interest rate environment. On behalf of our board of directors and employees, I would like to thank you for your continued support.

Christopher R. Dowd
President and Chief Executive Officer

(In thousands)

	<u>June 30, 2006</u>	December 31, 2005
Assets		
Cash and due from banks	\$ 6,219	\$ 6,256
Securities, at fair value	82,487	89,032
Loans	226,466	204,193
Allowance for loan losses	<u>(2,361)</u>	<u>(2,326)</u>
Net loans	224,105	201,867
Accrued interest receivable	1,315	1,210
Premises and equipment, net	4,067	4,338
Goodwill	1,595	1,595
Other assets	<u>5,160</u>	<u>4,771</u>
Total Assets	\$ 324,948	\$ 309,069
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	\$ 257,786	\$ 266,766
Short-term FHLB advances	29,100	750
Long-term FHLB borrowings	13,000	16,000
Trust preferred securities	5,155	5,155
Other liabilities	<u>2,226</u>	<u>2,630</u>
Total liabilities	\$ 307,267	\$ 291,301
Shareholders' Equity:		
Common stock	\$ 9,600	\$ 9,600
Additional paid-in capital	42	42
Treasury stock, at cost	(991)	(991)
Retained earnings	10,802	10,399
Accumulated other comprehensive loss	<u>(1,772)</u>	<u>(1,282)</u>
Total shareholders' equity	\$ 17,681	\$ 17,768
Total Liabilities & Shareholders' Equity	\$ 324,948	\$ 309,069

(In thousands, except per share data)

	For the six months ended June 30,	
	<u>2006</u>	<u>2005</u>
Interest and fee income		
Loans, including fees	\$ 6,750	\$ 5,282
Securities at fair value	1,673	1,943
Fed funds sold	-	8
Due from banks	<u>4</u>	<u>2</u>
Total interest and fee income	\$ 8,427	\$ 7,235
Interest expense		
Deposits	\$ 2,176	\$ 1,569
Short-term FHLB advances	514	115
Long-term FHLB borrowings	266	212
Trust preferred securities	<u>204</u>	<u>154</u>
Total interest expense	\$ 3,160	\$ 2,050
Net interest income	5,267	5,185
Provision for loan losses	<u>90</u>	<u>-</u>
Net interest income after provision for loan losses	\$ 5,177	\$ 5,185
Non-interest income		
Service charges on deposit accounts	\$ 342	\$ 270
Trust and investment services income	322	267
Net securities transactions	3	(133)
Other	<u>245</u>	<u>340</u>
Total non-interest income	\$ 912	\$ 744
Non-interest expense		
Compensation and benefits	\$ 2,827	\$ 2,686
Occupancy and equipment	634	714
Advertising	114	123
Legal and professional fees	286	272
Data processing fees	342	372
Other	<u>813</u>	<u>873</u>
Total non-interest expense	\$ 5,016	\$ 5,040
Income before income tax expense	\$ 1,073	\$ 889
Income tax expense	<u>298</u>	<u>161</u>
Net income	\$ 775	\$ 728
Basic earnings per share	\$ 1.04	\$ 0.98