

## A Closer Look

### Main Office Renovations Provide New Home for the Trust and Financial Services Division



BSNB's Trust and Financial Services Division now resides within the bank's Main Office located at 87 Front Street in the Village of Ballston Spa. The Main Office was recently renovated with new ceilings, wall coverings and flooring as well as energy efficient lighting and new office spaces.

### Recent Recognition

BSNB began 2012 with two new honors. The bank was recognized as a Top Workplace in the Capital Region by the Times Union newspaper. In addition, the Chamber of Southern Saratoga County presented the bank with their Education & Business Partnership Award. The Chamber award recognized BSNB for a shared mission of educational excellence for students in grades K-12 and for contributions to the quality of life in the Southern Saratoga County Region.



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

### OFFICE LOCATIONS

**Ballston Spa**  
87 Front Street

**Burnt Hills**  
770 Saratoga Road

**Clifton Park**  
256 Ushers Road

**Corporate Branch**  
990 State Route 67

**Galway**  
5091 Sacandaga Road

**Greenfield Center**  
3060 Route 9N

**Malta**  
124 Dunning Street

**Milton Crest**  
344 Rowland Street

**Stillwater**  
428 Hudson Avenue

**Wilton**  
625 Maple Avenue

**General Information: (518) 885-6781**

**BANKLINK24: (518) 885-6782**

Bank by phone, transfer funds, make BSNB loan payments,  
or access account information anytime.

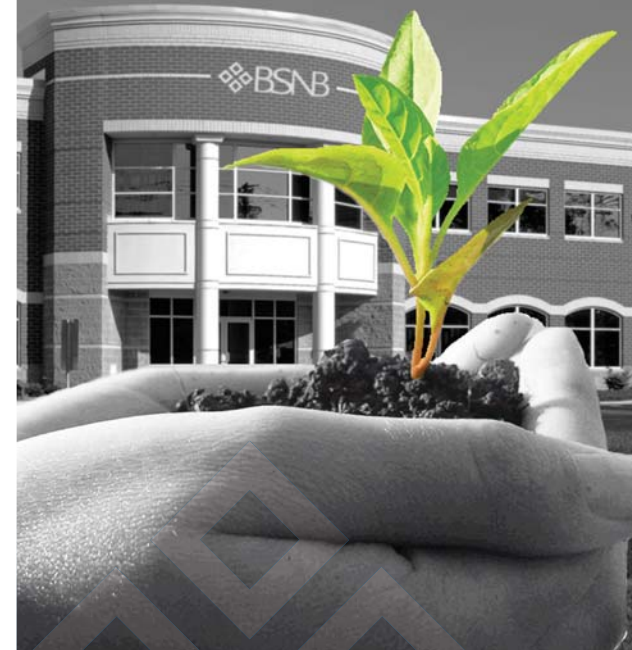
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## Consolidated Interim Financial Information

March 31, 2012

**BALLSTON SPA BANCORP, INC.**



Growing with  
our community

## PRESIDENT'S MESSAGE

To our shareholders:

Ballston Spa Bancorp, Inc., parent company of BSNB, continues to deliver solid financial performance in the current year. Net income for the three-month period ending March 31, 2012 totaled \$529 thousand or \$0.71 per share, down from the \$611 thousand or \$0.82 per share reported for the same period in 2011. The modest reduction was not unexpected considering the Federal Reserve's decision to keep interest rates at historically low levels and the resulting compression of the Company's net interest margin. Earnings were also impacted by carrying costs for our new sales and operations center and by increased pension plan expense. The decline was offset by continued growth in core deposits, the commercial loan portfolio, and in noninterest income. In fact, for the three-month period ending March 31, 2012, noninterest income increased 46%, or \$225 thousand, from the same period last year. Trust and investment income and gains on the sale of residential mortgages to the secondary market were the primary contributors to the increased noninterest income. To mitigate interest rate risk, the Company continues to utilize secondary market resources to control the growth of long-term, low-rate residential mortgages in the portfolio.

Earnings performance was also impacted by the level of nonperforming loans in the portfolio. While down from year-end 2011, nonperforming loans are at higher than desired levels and represent 3.71% of total loans at March 31, 2012. On a related note, the allowance for loan losses as of March 31, 2012 represents 1.72% of total loans and 46.24% of nonperforming loans, an improvement from year-end 2011 ratios. In addition, capital levels remain strong as our Tier 1 capital ratio totaled 13.26% at March 31, 2012, a level well above regulatory minimums.

In view of the fragile but improving economy and our solid financial position, the Company continues to move forward with plans to further enhance our facilities, products, services, and technology. A recent example of our progress is the completion of renovations to our Main Office in downtown Ballston Spa. With this investment, we hope to enhance the service and support provided to area customers and the community. Moreover, the renovations provide for a more visible and client-friendly environment for our Trust and Financial Services Division.

At BSNB, we remain focused on building long-term relationships that enhance value for our shareholders, customers, and community. On behalf of the Board, staff and management, we thank you for your continued support.

Christopher R. Dowd  
President and Chief Executive Officer

## FINANCIAL HIGHLIGHTS

- Loan balances increased \$7.1M or 3% from March 2011, primarily in Commercial loans which grew \$12.4M for the same period;
- Net interest margin was 3.16% for the period ending March 31, 2012, down from 3.32% for the same period in 2011;
- Noninterest income increased 46% from the same period in 2011 driven by an increase in gain on sale of loans;
- The allowance for loan losses represents 1.72% of total loans and 46.24% of nonperforming loans, an improvement from year-end 2011 ratios;
- The banks Tier 1 Capital ratio is 13.26% at March 31, 2012.

## CONSOLIDATED BALANCE SHEETS

<i>(In thousands)</i>	March 31, 2012	December 31, 2011
<b>Assets</b>		
Cash and due from banks	\$ 1,032	\$ 1,331
Short term investments	59,254	51,130
Securities available for sale, at fair value	70,998	73,707
FHLB of NY & FRB stock, at cost	4,033	3,956
Loans	240,703	238,487
Allowance for loan losses	(4,132)	(3,902)
Net loans	236,571	234,585
Premises and equipment, net	10,844	10,833
Other assets	12,208	12,517
<b>Total Assets</b>	<b>\$ 394,940</b>	<b>\$ 388,059</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities:</b>		
Deposits	\$ 315,446	\$ 308,334
Long-term FHLB borrowings	45,500	45,500
Junior subordinated debentures	5,155	5,155
Other liabilities	3,196	3,761
Total liabilities	\$ 369,297	\$ 362,750
<b>Shareholders' Equity</b>		
Common stock	\$ 9,600	\$ 9,600
Additional paid-in capital	42	42
Treasury stock, at cost	(991)	(991)
Retained earnings	18,358	18,060
Accumulated other comprehensive loss	(1,366)	(1,402)
Total shareholders' equity	\$ 25,643	\$ 25,309
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 394,940</b>	<b>\$ 388,059</b>

## CONSOLIDATED INCOME STATEMENTS

<i>(In thousands, except per share data)</i>	For the three months ended March 31,	
	2012	2011
<b>Interest and fee income</b>		
Loans, including fees	\$ 3,001	\$ 3,220
Securities available for sale	542	694
FHLB of NY & FRB stock	50	65
Short term investments	32	32
Total interest and fee income	\$ 3,625	\$ 4,011
<b>Interest expense</b>		
Deposits	\$ 249	\$ 433
Long-term FHLB borrowings	401	398
Junior subordinated debentures	48	44
Total interest expense	\$ 698	\$ 875
Net interest income	2,927	3,136
Provision for loan losses	150	90
Net interest income after provision for loan losses	\$ 2,777	\$ 3,046
<b>Noninterest income</b>		
Service charges on deposit accounts	\$ 119	\$ 135
Trust and investment income	192	174
Other	401	178
Total noninterest income	\$ 712	\$ 487
<b>Noninterest expense</b>		
Compensation and benefits	\$ 1,682	\$ 1,632
Occupancy and equipment	332	276
FDIC and OCC assessment	108	171
Advertising and public relations	62	28
Legal and professional fees	118	103
Debit Card processing	62	43
Data processing	170	160
Other	290	300
Total noninterest expense	\$ 2,824	\$ 2,713
Income before income tax expense	\$ 665	\$ 820
Income tax expense	136	209
<b>Net income</b>	<b>\$ 529</b>	<b>\$ 611</b>
<b>Basic earnings per share</b>	<b>\$ 0.71</b>	<b>\$ 0.82</b>