

A Closer Look



BSNB Volunteers in Action

To strengthen our community support and further solidify our corporate culture, we introduced BSNB Volunteers in Action in 2011, an employee-based program designed to encourage efforts among all staff members. BSNB volunteers have participated in a variety of initiatives over the past quarter:

Ballston Area Community Center – Ballston Spa

Our volunteers removed landscaping in front of the building and helped prepare the space to become more maintenance-free, saving the community center both time and expense.

“Community Fun Day” – Greenfield Center

BSNB organized a “Community Fun Day” to benefit EquAbility, Inc. – a therapeutic riding program for children with disabilities. The event included a petting zoo, a search and rescue K9 demonstration, face painting and other fun games for children.

SHELLSTRONG “Be Strong Stroll” – Burnt Hills

Walking in the “Be Strong Stroll” at Burnt Hills-Ballston Lake High School, our volunteers helped to support the SHELLSTRONG Foundation and their mission of making a difference in the lives of local children.

CAPTAIN Youth and Family Services – Malta

Our volunteers mowed the lawn, raked leaves, weeded flower beds, spread mulch, power washed lawn furniture and tables and swept the deck and driveway.

Jenkins Park – Burnt Hills

Teaming up with local residents and community volunteers for a cleanup day at Jenkins Park, our volunteers spent time helping rake leaves, clean out ponds and refurbish walking trails.

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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Ballston Spa Bancorp, Inc.

Consolidated Interim Financial Information

June 30, 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 six-month period ending June 30, 2012 totaled \$1.2 million or \$1.56 per share, essentially on par with the \$1.2 million or \$1.63 per share reported for the same period in 2011. Earnings performance in 2012 was impacted by carrying costs for our new sales and operations center and a further compression in net interest margin. Increased levels of noninterest income and continued growth in the commercial loan portfolio and core deposits served to offset these factors.

For the six-month period ending June 30, 2012, non-interest income increased 34% or \$361 thousand from the same period last year. In light of the historically low interest rate environment, the Company continues to utilize secondary market resources to control the growth of long-term, low-rate residential mortgages in the portfolio. Gains on the sale of these assets have increased in the current period due to an uptick in the level of origination activity and the healthy premiums derived in the current market.

In addition to increased residential mortgage origination activity, the Company is experiencing solid growth in our commercial loan portfolios. In fact, commercial and commercial real estate loan balances increased by \$11.8 million or 17% during the first six months of 2012. Growth in total loans was tempered by the above mentioned sale of new long-term, low-rate residential mortgages.

While remaining elevated, loan quality measures also improved during the period. Nonperforming loans represent 3.49% of total loans at June 30, 2012, down from 4.09% at December 31, 2011. Notwithstanding the improved performance, our provision for loan loss expense is \$240 thousand for the first six months of 2012, an increase of \$60 thousand from the same period in 2011. As a result, the allowance for loan losses as of June 30, 2012 represents 1.75% of total loans and 50% of nonperforming loans, an improvement from year-end 2011 ratios. In addition, capital levels remain strong as our Tier 1 capital ratio totaled 12.94% at June 30, 2012, a level well above regulatory minimums.

In view of our solid financial position, the Company continues to pursue rational growth opportunities as outlined in our long-term plan. Furthermore, we have initiated specific strategies in 2012 to further enhance customer service, strengthen community support, and improve our operating efficiency.

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 \$3.8M or 1.6% from year end 2011;
- Net interest margin was 3.18% for the period ending June 30, 2012, down from 3.25% for the same period in 2011;
- Noninterest income increased 34% from the same period in 2011 driven by an increase in gain on sale of loans;
- The allowance for loan losses represents 1.75% of total loans and 50.1% of nonperforming loans, an improvement from year end 2011 ratios;
- The bank's Tier 1 Capital ratio is 12.94% at June 30, 2012.

CONSOLIDATED BALANCE SHEETS

<i>(In thousands)</i>	June 30, 2012	December 31, 2011
Assets		
Cash and due from banks	\$ 793	\$ 1,331
Short term investments	56,301	51,130
Securities available for sale, at fair value	69,546	73,707
FHLB of NY & FRB stock, at cost	4,146	3,956
Loans	242,258	238,487
Allowance for loan losses	(4,230)	(3,902)
Net loans	238,028	234,585
Premises and equipment, net	10,741	10,833
Other assets	11,430	12,517
Total Assets	\$ 390,985	\$ 388,059
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	\$ 311,124	\$ 308,334
Long-term FHLB borrowings	45,500	45,500
Junior subordinated debentures	5,155	5,155
Other liabilities	3,247	3,761
Total liabilities	\$ 365,026	\$ 362,750
Shareholders' Equity		
Common stock	\$ 9,600	\$ 9,600
Additional paid-in capital	42	42
Treasury stock, at cost	(991)	(991)
Retained earnings	18,756	18,060
Accumulated other comprehensive loss	(1,448)	(1,402)
Total shareholders' equity	\$ 25,959	\$ 25,309
Total Liabilities & Shareholders' Equity	\$ 390,985	\$ 388,059

CONSOLIDATED INCOME STATEMENTS

<i>(In thousands, except per share data)</i>	For the six months ended June 30,	
	2012	2011
Interest and fee income		
Loans, including fees	\$ 6,063	\$ 6,429
Securities available for sale	1,043	1,365
FHLB of NY & FRB stock	90	104
Short term investments	69	82
Total interest and fee income	\$ 7,265	\$ 7,980
Interest expense		
Deposits	\$ 462	\$ 828
Long-term FHLB borrowings	802	801
Junior subordinated debentures	94	88
Total interest expense	\$ 1,358	\$ 1,717
Net interest income	5,907	6,263
Provision for loan losses	240	180
Net interest income after provision for loan losses	\$ 5,667	\$ 6,083
Noninterest income		
Service charges on deposit accounts	\$ 238	\$ 268
Trust and investment income	383	401
Gain on sale of loans	293	25
Other	505	364
Total noninterest income	\$ 1,419	\$ 1,058
Noninterest expense		
Compensation and benefits	\$ 3,378	\$ 3,290
Occupancy and equipment	633	506
FDIC and OCC assessment	225	317
Advertising and public relations	136	214
Legal and professional fees	190	209
Debit Card processing	123	86
Data processing	328	304
Other	570	595
Total noninterest expense	\$ 5,583	\$ 5,521
Income before income tax expense	\$ 1,503	\$ 1,620
Income tax expense	345	413
Net income	\$ 1,158	\$ 1,207
Basic earnings per share	\$ 1.56	\$ 1.63