



## A Closer Look



BSNB employees have delivered more than 850 meals to area home-bound seniors since March of 2012.

### BSNB Volunteers in Action

Supporting the community is an essential part of BSNB's corporate culture. The *BSNB Volunteers in Action* program provides an opportunity for employees to participate in a variety of initiatives, including:

#### Helping the Environment

BSNB volunteers in Ballston Spa accepted 2,800 pounds of paper and more than 27,000 pounds of old technology items for recycling. This free service to the community helps keep waste out of landfills and also collected 300 pounds of non-perishable food items donated by the public for area food pantries.

#### Feeding the Hungry

BSNB volunteers deliver meals to shut-ins in Burnt Hills and Ballston Spa four days each month while additional volunteers help distribute food at the Christ Church Episcopal Food Pantry every third Wednesday. The Wilton Food Pantry benefits from food donations collected at our Wilton Office each month.

#### Rebuilding

Earlier this year, a group of BSNB employees joined with Rebuilding Together Saratoga to make improvements to a residential facility in Ballston Spa operated by AIM Services Inc. When completed, the house, yard and patio all contributed to a bright and cheerful home for the residents.

#### Helping our Neighbors

Volunteers also assisted at the Wilton Wildlife Preserve's Open House and the Town of Milton's Fishing Derby, painted walls at the Mother Teresa Academy in Clifton Park, and collected worn and faded flags throughout Saratoga County and ensured they were properly retired.

## 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.

### BSNB 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

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Member FDIC

# Consolidated Interim Financial Information

June 30, 2013

## STRENGTHENING OUR COMMUNITIES



## PRESIDENT'S MESSAGE

To our shareholders:

The financial performance of Ballston Spa Bancorp, Inc., parent company of BSNB, remains strong. Net income for the six-month period ending June 30, 2013 totaled \$1.6 million or \$2.12 per share, up 36% from the \$1.2 million or \$1.56 per share reported for the same period in 2012. The improved earnings performance is attributable to several factors including growth in the commercial and residential lending portfolios, an increase in retail brokerage income and most notably a first quarter gain on the sale of the Company's former operations center.

In keeping with our long-term plan, the Company continues to focus attention on growth opportunities in the commercial banking market segment. With a qualified team of banking professionals and robust online cash management and deposit services, we are able to deliver customized solutions to our commercial banking clients. To date, market reception has been very positive as commercial and commercial real estate loan balances increased \$8 million, or 9.2% as of June 30, 2013 up from \$87.6 million at June 30, 2012. We are pleased with these results and plan to further enhance our business model in the coming months.

While the residential mortgage market continues to evolve due to the impact of economic and regulatory factors, we are nevertheless achieving success. Residential mortgage loans increased by \$5.5 million, or 4.3%, as of June 30, 2013, up from \$130.1 million at June 30, 2012. We also recognized \$220 thousand in pretax income from the gain on sale of loans during the first six months of 2013. While tempering further loan growth, the sale of these low-rate long-term residential mortgages to the secondary market helps protect our balance sheet from the risk of rising interest rates. As a result of these and other factors, our balance sheet remains strong. Capital levels are well in excess of regulatory minimums and the Company maintains ample levels of liquidity to fund anticipated loan growth.

In addition to our financial achievements, we continue to build for the future by enhancing our infrastructure. During the second quarter we completed renovations at five branch offices. Each of these offices now provides an enhanced customer experience while maintaining a professional work environment for our staff.

With a strong and focused team, we remain committed to our long-term plan of building value for our customers, shareholders 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 \$13.1M or 5.4% from June 2012. Residential mortgage loans grew \$5.5M and commercial loans grew \$8M;
- Deposit balances grew \$13.7M from June 2012;
- Net interest margin was 3.11% for the period ending June 30, 2013, down from 3.18% for the same period in 2012;
- Noninterest income increased 31% from the same period in 2012 due to increases in retail brokerage fees and a one-time gain on sale of bank premises;
- The bank's Tier 1 Capital ratio is 12.46% at June 30, 2013.

## CONSOLIDATED BALANCE SHEETS

<i>(In thousands)</i>	June 30, 2013	December 31, 2012
<b>Assets</b>		
Cash and due from banks	\$ 1,021	\$ 950
Short-term investments	45,554	59,504
Securities available for sale, at fair value	71,146	81,373
FHLB of NY & FRB stock, at cost	4,025	4,392
Loans	255,371	257,802
Allowance for loan losses	(4,360)	(4,294)
Net loans	251,011	253,508
Premises and equipment, net	10,504	10,587
Other assets	12,362	11,038
<b>Total Assets</b>	<b>\$ 395,623</b>	<b>\$ 421,352</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities:</b>		
Deposits	\$ 324,843	\$ 340,624
Long-term FHLB borrowings	35,500	45,500
Junior subordinated debentures	5,155	5,155
Other liabilities	3,473	3,525
Total liabilities	\$ 368,971	\$ 394,804
<b>Shareholders' Equity</b>		
Common stock	\$ 9,600	\$ 9,600
Additional paid-in capital	42	42
Treasury stock, at cost	(991)	(991)
Retained earnings	20,458	19,344
Accumulated other comprehensive loss	(2,457)	(1,447)
Total shareholders' equity	\$ 26,652	\$ 26,548
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 395,623</b>	<b>\$ 421,352</b>

## CONSOLIDATED INCOME STATEMENTS

<i>(In thousands, except per share data)</i>	For the six months ended June 30,	
	2013	2012
<b>Interest and fee income</b>		
Loans, including fees	\$ 5,959	\$ 6,063
Securities available for sale	946	1,043
FHLB of NY & FRB stock	81	90
Short term investments	63	69
Total interest and fee income	\$ 7,049	\$ 7,265
<b>Interest expense</b>		
Deposits	\$ 293	\$ 462
Long-term FHLB borrowings	675	802
Junior subordinated debentures	88	94
Total interest expense	\$ 1,056	\$ 1,358
Net interest income	5,993	5,907
Provision for loan losses	60	240
Net interest income after provision for loan losses	\$ 5,933	\$ 5,667
<b>Noninterest income</b>		
Service charges on deposit accounts	\$ 241	\$ 238
Trust and investment income	469	383
Gain on sale of loans	220	293
Other	922	505
Total noninterest income	\$ 1,852	\$ 1,419
<b>Noninterest expense</b>		
Compensation and benefits	\$ 3,386	\$ 3,378
Occupancy and equipment	708	633
FDIC and OCC assessment	206	225
Advertising and public relations	150	136
Legal and professional fees	164	190
Debit Card processing	131	123
Data processing	331	328
Other	567	570
Total noninterest expense	\$ 5,643	\$ 5,583
Income before income tax expense	\$ 2,142	\$ 1,503
Income tax expense	568	345
<b>Net income</b>	<b>\$ 1,574</b>	<b>\$ 1,158</b>
<b>Basic earnings per share</b>	<b>\$ 2.12</b>	<b>\$ 1.56</b>