

A Closer Look

BUILDING TRUST IN UNCERTAIN TIMES

By now, you may have viewed the billboards, or surveyed the newspaper or web site advertisements or watched the BSNB commercial televised on cable television. The message?

“BSNB sees things your way.”



The new advertising is part of a comprehensive, multi-media marketing plan emphasizing the bank's products and services and our commitment to building long-term relationships centered on the customer's point of view.

At BSNB it's all about providing access to qualified professionals, developing customized solutions and providing products and services that deliver convenience and rewards.

BSNB will soon be celebrating 170 years of continuous community banking. For five generations of families, BSNB has been the local community bank – a safe place to entrust their deposits and a partner to help them achieve their goals. For the families and individuals that we serve now and in the future, our goal is to demonstrate that we are “Your bank. Your way.”

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

Galway
5091 Sacandaga Road

Greenfield Center
3060 Route 9N

Malta
124 Dunning Street

Milton Crest
344 Rowland Street

Stillwater
159 River Road

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.

www.bsnb.com

Your bank. Your way.



Ballston Spa Bancorp, Inc.

Member FDIC 



Since 1838...

170 YEARS STRONG

BALLSTON SPA BANCORP, INC.
Consolidated Interim Financial Information

September 30, 2008

To our shareholders:

In the face of the tumultuous and uncertain economic environment, we are very pleased to report to you that the Company's financial performance is strong and continues to improve. Net Income for the nine month period ending September 30, 2008 increased \$497 thousand to \$2.0 million or \$2.72 per share, up 33% from the \$1.5 million or \$2.05 per share reported for the same period in 2007. While several financial institutions, particularly the larger money center banks and investment banks, have suffered historic setbacks and are seeking federal government support, we remain focused on our long-term plan to enhance shareholder value. We strongly believe that a disciplined growth strategy that relies on fundamental banking principles will lead to continued financial success.

The solid earnings results for the nine months ended September 30, 2008 reflect significant improvement in net interest income as our balance sheet was positioned well for the rate movements that have taken place this year. We have also benefited from strong commercial loan growth, improved expense and efficiency measures, and modest increases in our other revenue sources. We continue to maintain strong loan quality and capital positions that provide the Company with a solid foundation upon which to grow.

Unfortunately, we are not immune to the economic challenges impacting our industry and other regions of our country. The aggressive strategies undertaken by several financial institutions have weakened the banking system and our economy. While we are still evaluating the overall impact of the government's bailout plan, we fully anticipate higher deposit insurance premiums, ongoing volatility in the markets, and increased regulation in the near term. We also increased our provision for loan loss expense for the first nine months of 2008 to \$845 thousand from \$295 thousand for the same period in 2007 in light of economic conditions. These additional loan loss reserves, while negatively impacting earnings for the current period, have further strengthened our balance sheet and prepare us well to ride out this economic period.

As a result of your support and our financial strength, we continue to offer our customers and communities a strong and reliable resource to meet their financial needs. Consistent with the goals expressed in our long-term plan, we will continue to evaluate opportunities to expand our market presence and enhance shareholder value as we move forward into 2009 and beyond. On behalf of the Board of Directors and our employees, we appreciate your continued support.

Christopher R. Dowd
President and Chief Executive Officer

(In thousands)

	<u>September 30, 2008</u>	December 31, 2007
Assets		
Cash and due from banks	\$ 15,681	\$ 6,038
Securities, at fair value	72,824	69,924
FHLB of NY & FRB stock, at cost	4,343	2,967
Loans	272,974	254,052
Allowance for loan losses	<u>(3,439)</u>	<u>(2,936)</u>
Net loans	<u>269,535</u>	<u>251,116</u>
Premises and equipment, net	4,082	4,189
Accrued interest receivable	1,552	1,418
Goodwill	1,595	1,595
Other assets	<u>2,592</u>	<u>2,951</u>
Total Assets	\$ <u>372,204</u>	\$ <u>340,198</u>
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	\$ 264,582	\$ 266,334
Short-term FHLB advances	37,300	14,500
Long-term FHLB borrowings	40,500	30,500
Junior subordinated debentures	5,155	5,155
Other liabilities	<u>2,989</u>	<u>2,605</u>
Total liabilities	<u>\$ 350,526</u>	<u>\$ 319,094</u>
Shareholders' Equity:		
Common stock	\$ 9,600	\$ 9,600
Additional paid-in capital	42	42
Treasury stock, at cost	(991)	(991)
Retained earnings	13,863	12,483
Accumulated other comprehensive loss	<u>(836)</u>	<u>(30)</u>
Total shareholders' equity	<u>\$ 21,678</u>	<u>\$ 21,104</u>
Total Liabilities & Shareholders' Equity	\$ <u>372,204</u>	\$ <u>340,198</u>

(In thousands, except per share data)

	For the nine months ended September 30,	
	<u>2008</u>	<u>2007</u>
Interest and fee income		
Loans, including fees	\$ 12,216	\$ 11,540
Securities available for sale	2,294	1,965
FHLB of NY & FRB stock	148	90
Due from banks	5	9
Federal funds sold	<u>3</u>	<u>56</u>
Total interest and fee income	<u>\$ 14,666</u>	<u>\$ 13,660</u>
Interest expense		
Deposits	\$ 3,121	\$ 4,142
Short-term FHLB advances	337	429
Long-term FHLB advances	1,307	712
Junior subordinated debentures	<u>256</u>	<u>330</u>
Total interest expense	<u>\$ 5,021</u>	<u>\$ 5,613</u>
Net interest income	9,645	8,047
Provision for loan losses	<u>845</u>	<u>295</u>
Net interest income after provision for loan losses	<u>\$ 8,800</u>	<u>\$ 7,752</u>
Noninterest income		
Service charges on deposit accounts	\$ 516	\$ 513
Trust and investment services income	643	604
Net securities transactions	52	-
Other	<u>353</u>	<u>384</u>
Total noninterest income	<u>\$ 1,564</u>	<u>\$ 1,501</u>
Noninterest expense		
Compensation and benefits	\$ 4,445	\$ 4,031
Occupancy and equipment	898	866
Advertising and public relations	167	183
Legal and professional fees	242	228
Data processing fees	510	498
Other	<u>1,150</u>	<u>1,221</u>
Total noninterest expense	<u>\$ 7,412</u>	<u>\$ 7,027</u>
Income before income tax expense	\$ 2,952	\$ 2,226
Income tax expense	<u>930</u>	<u>701</u>
Net income	\$ <u>2,022</u>	\$ <u>1,525</u>
Basic earnings per share	\$ <u>2.72</u>	\$ <u>2.05</u>