



A Closer Look

BSNB: Your Business Banking Partner

BSNB recently introduced a new television commercial featuring a testimonial from Excelsior Springs Banquet and Conference Center in Saratoga Springs. The television campaign is designed to enhance our brand awareness in the commercial banking market and to support growth in this area.

To see the new television commercial, please visit: www.bsnb.com/site/building-a-better-bank.asp



J. Eric King and Chris Dowd pose in front of the new Excelsior Springs Banquet and Conference Center.

Introducing Health Savings Accounts

BSNB is pleased to offer the Health Savings Account (HSA), a personal bank account used to save for, and pay for, eligible medical expenses.

Used in combination with a High Deductible Health Plan, HSA contributions are tax-free as are withdrawals to cover qualified healthcare costs. Furthermore, the BSNB HSA is easy to manage with secure online access and support, mobile apps for information on the go and a BSNB HSA debit card accepted by millions of healthcare providers and merchants.

To learn more, please visit: www.bsnb.com/documents/HSAFAQs.pdf

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

September 30, 2013

STRENGTHENING OUR COMMUNITIES



PRESIDENT'S MESSAGE

To our shareholders:

Ballston Spa Bancorp, Inc., parent company of BSNB, continues to deliver strong financial results. Net income for the nine-month period ending September 30, 2013 totaled \$2.3 million or \$3.10 per share, up 20% from the \$1.9 million or \$2.59 per share reported for the same period in 2012. The improved earnings performance is attributable to several factors including an increase in trust and investment income, growth in the commercial and residential lending portfolios, and a sizeable gain on the sale of the company's former operations center during the first quarter of this year.

As reported previously, the company is achieving solid growth in the commercial and commercial real estate loan portfolios. This trend continued in 2013 as commercial and commercial real estate balances increased \$7 million, or 9% from September 30, 2012. Given the experience of our lending and credit teams and the relative strength of the local economy, we remain focused on this market as an opportunity for future expansion. In keeping with this strategy, we are in the process of expanding our product offerings to include a Health Savings Account. These accounts will provide commercial clients with an effective and efficient solution to help manage increasing healthcare costs.

Growth in the residential loan portfolio was also a positive contributor to improved earnings in 2013. Residential mortgage loans increased by \$1.5 million, or 1%, as of September 30, 2013, up from \$135.6 million at September 30, 2012. While pleased with the performance, activity in this market slowed somewhat during the first nine months of 2013 as compared to the prior year due to an increase in longer-term rates and the corresponding softening in the refinance market. We anticipate further uncertainty in the coming year with the imminent implementation of the Qualified Mortgage standards and other pending regulatory changes.

Complementing our earnings performance, the company's balance sheet remains strong. Our Tier 1 capital ratio stood at 12.35% as of September 30, 2013, a level well above regulatory minimums. Nonperforming loans remained at manageable levels and represented 2.69% of total loans as of September 30, 2013. These assets are well protected by supporting collateral as well as our reserve for loan losses, which stood at a healthy 1.69% of total loans as of September 30, 2013.

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 \$1.6M from December 2012, primarily in Commercial loans which grew \$4M or 4%;
- Deposit balances grew \$4.9M compared to December 2012, with a \$7M increase in Demand Deposits;
- Allowance for loan loss to total loans of 1.69% remained consistent from year end December, while nonperforming loans increased slightly during the same period;
- Noninterest income increased 14% from the same period in 2012 due to increases in retail brokerage fees and a one-time gain on sale of fixed assets;
- The bank's Tier 1 Capital ratio is 12.35% at September 30, 2013.

CONSOLIDATED BALANCE SHEETS

<i>(In thousands)</i>	September 30, 2013	December 31, 2012
Assets		
Cash and due from banks	\$ 1,222	\$ 950
Short-term investments	55,757	59,504
Securities available for sale, at fair value	78,679	81,373
FHLB of NY & FRB stock, at cost	4,005	4,392
Loans	259,353	257,802
Allowance for loan losses	(4,373)	(4,294)
Net loans	254,980	253,508
Premises and equipment, net	10,405	10,587
Other assets	12,334	11,038
Total Assets	\$ 417,382	\$ 421,352
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	\$ 345,563	\$ 340,624
Long-term FHLB borrowings	35,500	45,500
Junior subordinated debentures	5,155	5,155
Other liabilities	3,903	3,525
Total liabilities	\$ 390,121	\$ 394,804
Shareholders' Equity		
Common stock	\$ 9,600	\$ 9,600
Additional paid-in capital	42	42
Treasury stock, at cost	(991)	(991)
Retained earnings	20,955	19,344
Accumulated other comprehensive loss	(2,345)	(1,447)
Total shareholders' equity	\$ 27,261	\$ 26,548
Total Liabilities & Shareholders' Equity	\$ 417,382	\$ 421,352

CONSOLIDATED INCOME STATEMENTS

<i>(In thousands, except per share data)</i>	For the nine months ended September 30,	
	2013	2012
Interest and fee income		
Loans, including fees	\$ 9,104	\$ 9,163
Securities available for sale	1,393	1,532
FHLB of NY & FRB stock	122	130
Short-term investments	88	94
Total interest and fee income	\$ 10,707	\$ 10,919
Interest expense		
Deposits	\$ 419	\$ 649
Long-term FHLB borrowings	985	1,207
Junior subordinated debentures	132	141
Total interest expense	\$ 1,536	\$ 1,997
Net interest income	9,171	8,922
Provision for loan losses	90	270
Net interest income after provision for loan losses	\$ 9,081	\$ 8,652
Noninterest income		
Service charges on deposit accounts	\$ 367	\$ 365
Trust and investment income	685	610
Gain on sale of loans	250	497
Other	1,201	722
Total noninterest income	\$ 2,503	\$ 2,194
Noninterest expense		
Compensation and benefits	\$ 5,155	\$ 5,045
Occupancy and equipment	1,026	925
FDIC and OCC assessment	313	332
Advertising and public relations	225	206
Legal and professional fees	226	273
Debit Card processing	203	187
Data processing	483	489
Other	873	856
Total noninterest expense	\$ 8,504	\$ 8,313
Income before income tax expense	\$ 3,080	\$ 2,533
Income tax expense	778	608
Net income	\$ 2,302	\$ 1,925
Basic earnings per share	\$ 3.10	\$ 2.59