

## PRESIDENT'S MESSAGE

To our shareholders:

Ballston Spa Bancorp, Inc., parent company of BSNB, reported strong financial results in the first quarter of 2018. Net income for the three-month period ending March 31, 2018 totaled \$1.2 million, or \$1.65 per share, up 58.3% from the \$773 thousand, or \$1.04 per share, reported for the same period in 2017. Consistent with plan, the improved earnings performance was fueled by growth in the company's loan portfolios and core deposits. It is important to also note that results were positively impacted by income recognition associated with the collection of two large nonperforming loans.

After record loan growth in 2017, the first quarter of 2018 brought more modest increases in the commercial and commercial real estate lending portfolios. Balances increased \$2.1 million from December 31, 2017 and are up 31.5% from March 31, 2017. The residential loan portfolio also contributed to earnings growth, with balances increasing \$1.7 million during the quarter.

Supporting our loan production, total deposits increased \$25.2 million during the first three months of 2018, or 6.2%, up from \$406 million as of December 31, 2017. While seasonal fluctuations in municipal deposits were the primary driver of deposit growth, the company's decision to expand branches in Albany County in 2017 contributed to a \$6.5 million or 2.2% increase in non-municipal deposits during the first quarter. To date, both the Guilderland office, which opened on May 1, 2017 and the Voorheesville office, which opened on July 17, 2017 are generating deposits at levels higher than anticipated. This growth has also reduced at least temporarily our reliance on borrowings from the Federal Home Loan Bank.

Complementing our earnings performance, the company's balance sheet remains strong. Non-performing loans remain at manageable levels and our Tier 1 risk-based capital ratio is well above the regulatory minimum, standing at 10.81% as of the end of the quarter.

Beyond the positive financial results, I am also pleased to report that construction of the new Clifton Park branch was completed during the first quarter of 2018 and opened in late February. The office, located within the Clifton Park central business district and immediately adjacent to the Town of Halfmoon, replaces an existing branch office and

## PRESIDENT'S MESSAGE CONTINUED

provides customers with a more convenient and modern facility. In a similar move to enhance service, we have relocated our Wealth Management Solutions division to our corporate headquarters at 990 State Route 67 in Ballston Spa. In addition to the improved space, the move to this location will provide customers easier access to other product and service lines.

While pleased with our progress, we are also encouraged by the growth opportunities we are seeing in the regional markets. As such, we remain focused on plans to further enhance the service and support provided to 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

## CONSOLIDATED BALANCE SHEETS

(In thousands)

	March 31, 2018	December 31, 2017
<b>Assets</b>		
Cash and due from banks	\$ 4,350	\$ 5,803
Short-term investments	7,385	1,477
Securities available for sale, at fair value	72,408	74,257
FHLB of NY & FRB stock, at cost	3,412	4,310
Loans	400,047	396,456
Allowance for loan losses	(5,002)	(4,839)
Net loans	395,045	391,617
Premises and equipment, net	10,620	10,589
Other assets	12,805	12,856
<b>Total Assets</b>	<b>\$ 506,025</b>	<b>\$ 500,909</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities:</b>		
Deposits	\$ 430,993	\$ 405,842
FHLB borrowings	30,300	50,100
Junior subordinated debentures	5,155	5,155
Other liabilities	5,162	5,766
Total liabilities	\$ 471,610	\$ 466,863
<b>Shareholders' Equity</b>		
Common stock	\$ 9,642	\$ 9,642
Treasury stock, at cost	(991)	(991)
Retained earnings	29,006	28,027
Accumulated other comprehensive loss	(3,242)	(2,632)
Total shareholders' equity	\$ 34,415	\$ 34,046
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 506,025</b>	<b>\$ 500,909</b>

## CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share data)

For the three months ended  
March 31,

	2018	2017
<b>Interest and fee income</b>		
Loans, including fees	\$ 4,488	\$ 3,404
Securities available for sale	413	433
FHLB of NY & FRB stock	59	30
Short-term investments	8	27
Total interest and fee income	\$ 4,968	\$ 3,894
<b>Interest expense</b>		
Deposits	\$ 151	\$ 131
FHLB borrowings	181	-
Junior subordinated debentures	57	56
Total interest expense	\$ 389	\$ 187
Net interest income	4,579	3,707
Provision for loan losses	156	75
Net interest income after provision for loan losses	\$ 4,423	\$ 3,632
<b>Noninterest income</b>		
Service charges on deposit accounts	\$ 167	\$ 138
Trust and investment services income	261	246
Other	469	243
Total noninterest income	\$ 897	\$ 627
<b>Noninterest expense</b>		
Compensation and benefits	\$ 2,395	\$ 2,083
Occupancy and equipment	422	339
FDIC and OCC assessment	122	98
Advertising and public relations	78	76
Legal and professional fees	142	101
Debit Card processing	89	83
Data processing	198	184
Other	387	349
Total noninterest expense	\$ 3,833	\$ 3,313
Income before income tax expense	\$ 1,487	\$ 946
Income tax expense	263	173
<b>Net income</b>	<b>\$ 1,224</b>	<b>\$ 773</b>
<b>Basic earnings per share</b>	<b>\$ 1.65</b>	<b>\$ 1.04</b>

## A Closer Look

### BSNB Relocates Ushers Road Office

Realizing plans to move BSNB's 256 Ushers Road Office to a more convenient location, the bank built a new facility at 1714 Route 9 within the attractive Clifton Park/Halfmoon business district. We are confident that the new location will provide customers with a better banking experience including, ease of access, modern amenities and friendly staff. The new location opened for business on February 26.



BSNB executives, staff and guests prior to the ribbon-cutting ceremony on March 21, 2018.

### SUMMIT Employee of the Year

BSNB recently announced that Jaime Griffen, Training Coordinator, has received the 2018 SUMMIT Employee of the Year award. CEO Chris Dowd recognized Griffen at a recent employee meeting, applauding her positive attitude, infectious smile and dedication to helping others develop and enhance customer service skills. The SUMMIT award is given annually to an employee that demonstrates the bank's core values of teamwork, respect, accountability, integrity and leadership.



Jaime Griffen, right, with BSNB President and CEO Chris Dowd after being named 2018 SUMMIT Employee of the Year.

## A Closer Look

### Wealth Management Solutions

Earlier this quarter, the Trust and Financial Services Division announced a comprehensive package of banking benefits for qualifying investment management clients, an expanded range of services including 401(k) plans and pensions, and a physical move to improved accommodations at the company's corporate headquarters location. To highlight the enhanced range of service and the value delivered to clients, the division was also renamed and is now BSNB Wealth Management Solutions.

### BSNB LOCATIONS

**Ballston Spa**  
87 Front Street

**Burnt Hills**  
770 Saratoga Road

**Clifton Park**  
1714 Route 9

**Corporate Branch**  
990 State Route 67

**Galway**  
5091 Sacandaga Road

**Greenfield Center**  
3060 Route 9N

**Guilderland**  
1973 Western Avenue

**Latham**  
1207 Troy Schenectady Road

**Malta**  
124 Dunning Street

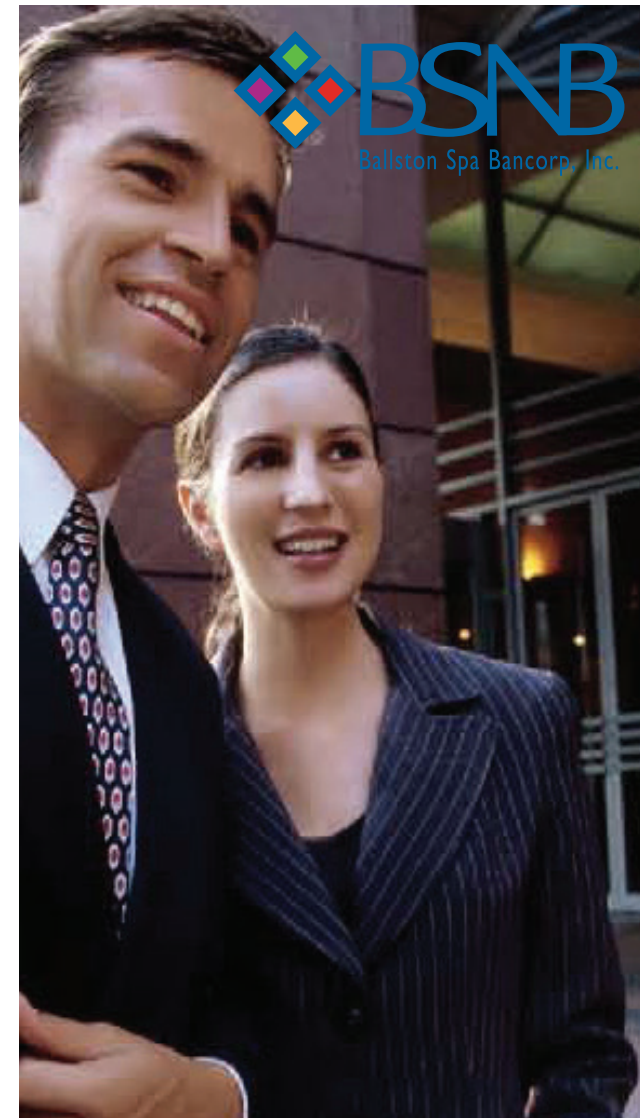
**Milton Crest**  
344 Rowland Street

**Stillwater**  
428 Hudson Avenue

**Voorheesville**  
13 Maple Road

**Wilton**  
625 Maple Avenue

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**Ballston Spa Bancorp, Inc.**

**Consolidated Interim  
Financial Information**

March 31, 2018