

PRESIDENT'S MESSAGE

To our shareholders:

Ballston Spa Bancorp, Inc., parent company of BSNB, reported strong financial results for the second quarter of 2020. Net income for the six-month period ending June 30, 2020 totaled \$2.4 million, or \$3.23 per share, up 7.8% from the \$2.99 per share reported for the same period in 2019. The improved earnings performance during the period is primarily attributable to income derived from residential lending activity and loans extended under the Small Business Administration's Paycheck Protection Program (PPP). These gains were offset by compression in the Company's net interest margin combined with the economic effects of stay at home orders issued by the state.

As reported previously, the far reaching effects of the COVID-19 pandemic have created a period of great economic uncertainty. Interest rates declined precipitously in the first quarter of the year and have remained at historic lows. Health and safety measures issued by state and federal authorities combined with other factors have led to a sharp drop in economic activity. In light of these factors, management has adjusted growth plans and taken certain steps to better position the Company for the additional uncertainty ahead.

In this regard, management increased the provision for loan loss expense by 34% in the first six months of 2020 as compared to the same period in the prior year. We anticipate this expense will increase further in the second half of the year. Also, the low rate environment has resulted in increased residential mortgage refinancing activity during recent months. To manage interest rate risk, the Company has made greater use of secondary market outlets generating gains on the sale of loans of \$418 thousand during the period. It is important to note that consistent with our strategy, BSNB continues to service these loans to ensure our high standards for service are achieved.

With these and other moves, the Company's balance sheet remains strong and prepared to weather these unprecedented conditions. Loan quality is sound despite the economic downturn with nonperforming loans representing only 0.46% of total loans. Capital levels are also well above regulatory minimums and more than adequate to support the Company's short-term and long-term goals.

This financial strength enabled the Company to continue serving our communities in new ways during these unprecedented times. As noted previously, BSNB has funded nearly \$30 million in PPP loans in recent months, providing critical support to hundreds of businesses and preserving thousands of jobs in the Capital Region. In addition, consistent with our community giving goals, the Company partnered with the Regional Food Bank of Northeastern New York over recent months to host several drive-thru food pantries across the Capital Region. BSNB volunteers have staffed each of these events helping to ensure food supplies were provided to each family seeking assistance. Furthermore, and in light of the extraordinary need, BSNB donated \$20 thousand through June 30, 2020 and raised an additional \$3 thousand through our matching campaigns, for the benefit of the Regional Food Bank.

PRESIDENT'S MESSAGE CONTINUED

While proud of our performance, the decline in interest rates has led to net interest margin compression, dropping 36 basis points from the same period in 2019. Given expectations for an extended low rate environment and economic recovery, we do anticipate these factors to negatively impact our income performance in the foreseeable future.

That said, in light of the strength of our financial position and staff, the Company remains focused on the pursuit of growth opportunities in the greater Capital Region. Furthermore, we will continue to look for additional opportunities to support the communities we serve during this time of need.

Christopher R. Dowd
President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS

<i>(In thousands)</i>	June 30, 2020	December 31, 2019
Assets		
Cash and due from banks	\$ 6,406	\$ 6,837
Short-term investments	39,186	4,575
Securities available for sale, at fair value	69,063	75,325
FHLB of NY & FRB stock, at cost	4,525	6,425
Loans	505,613	477,834
Allowance for loan losses	(6,660)	(6,205)
Net loans	498,953	471,629
Premises and equipment, net	10,094	10,434
Other assets	13,232	12,967
Total Assets	\$ 641,459	\$ 588,192
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	\$ 560,083	\$ 466,026
FHLB borrowings, short-term	10,000	74,210
FHLB borrowings, long-term	5,880	5,880
Junior subordinated debentures	12,905	12,905
Other liabilities	9,942	8,401
Total liabilities	\$ 598,810	\$ 547,422
Shareholders' Equity		
Common stock	\$ 9,642	\$ 9,642
Treasury stock, at cost	(991)	(991)
Retained earnings	36,629	34,722
Accumulated other comprehensive loss	(2,631)	(2,603)
Total shareholders' equity	\$ 42,649	\$ 40,770
Total Liabilities & Shareholders' Equity	\$ 641,459	\$ 588,192

CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share data)

For the six months ended
June 30,

	2020	2019
Interest and fee income		
Loans, including fees	\$ 10,482	\$ 9,978
Securities available for sale	762	872
FHLB of NY & FRB stock	90	135
Short-term investments	141	36
Total interest and fee income	\$ 11,475	\$ 11,021
Interest expense		
Deposits	\$ 1,252	\$ 836
FHLB borrowings, short-term	152	544
FHLB borrowings, long-term	86	86
Junior subordinated debentures	336	336
Total interest expense	\$ 1,826	\$ 1,802
Net interest income	9,649	9,219
Provision for loan losses	483	360
Net interest income after provision for loan losses	\$ 9,166	\$ 8,859
Noninterest income		
Service charges on deposit accounts	\$ 330	\$ 376
Trust and investment services income	439	529
Other	991	682
Total noninterest income	\$ 1,760	\$ 1,587
Noninterest expense		
Compensation and benefits	\$ 5,163	\$ 5,050
Occupancy and equipment	849	742
FDIC and OCC assessment	125	172
Advertising and public relations	160	148
Legal and professional fees	235	241
Debit Card processing	202	162
Data processing	496	447
Other	772	799
Total noninterest expense	\$ 8,002	\$ 7,761
Income before income tax expense	\$ 2,924	\$ 2,685
Income tax expense	527	462
Net income	\$ 2,397	\$ 2,223
Basic earnings per share	\$ 3.23	\$ 2.99



A Closer Look



We're ready to help with the Better U Financial Education Program

BSNB offers free online education modules that can help customers take control of their finances, become more financially prepared

for the future and reach their financial goals! Explore the entire library of education modules at

<https://bsnb.everfi-next.net/welcome/financial-education>.

Digital Wallets Offer Contactless Payments

Make safe and secure contactless purchases in stores, in apps and on the web. Just carry your BSNB Debit Card in your compatible device's digital wallet and you have the option of paying with your smartphone at participating merchants.

BSNB offers both Apple Pay™ and Samsung Pay™. Learn more at <https://www.bsnb.com/mobile-banking/wallets.php>.

BSNB named Top Lender

Independent Banker, the magazine of the Independent Community Bankers of America (ICBA) recently recognized BSNB as an ICBA top loan producer in its July issue. BSNB was honored for its successful Consumer and Mortgage lending programs, placing #16 nationally, and #2 in NY State among banks between \$500 million and \$999 million in assets. The annual list recognizes community banks with strong competitive banking services and operational efficiencies as reflected in FDIC data for the prior year.



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



www.bsnb.com



Member FDIC

Consolidated Interim Financial Information

June 30, 2020



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Ballston Spa Bancorp, Inc.