

## PRESIDENT'S MESSAGE

To our shareholders:

Ballston Spa Bancorp, Inc., parent company of BSNB, continued to report very strong financial results in the second quarter of 2018. Net income for the six-month period ending June 30, 2018 totaled \$2.7 million, or \$3.69 per share, up 62.5% from the \$1.7 million, or \$2.27 per share, reported for the same period in 2017. Consistent with plan, the improved earnings performance is primarily a result of growth in the Company's loan and deposit portfolios combined with enhanced noninterest income generation. Three nonrecurring transactions also positively impacted earnings performance in 2018, as management was successful in the collection of two large nonperforming loans and also recognized a gain upon the sale of our former Clifton Park office location.

Following an exceptional year in 2017, commercial and commercial real estate loan growth has slowed in 2018 but remains strong. More specifically, commercial and commercial real estate loan balances increased \$8.7 million, or 4.7%, from December 31, 2017, and \$32.4 million, or 19.9%, from June 30, 2017. Likewise, residential lending portfolios increased \$7.3 million, or 4.2%, from December 31, 2017, and \$14 million, or 8.4% from June 30, 2017.

The robust loan production was supported by an increase of \$15.2 million in total deposits during the first six months of 2018, or 3.85%. Solid increases were recognized during the period in both consumer and commercial deposits of \$6.9 million and \$8.1 million, respectively.

Balance sheet strength is further reflected in loan quality measures and capital ratios. As a result of determined workout efforts, loan quality measures have improved as the Company's percentage of nonperforming loans was reduced to 0.76% of total loans as of June 30, 2018, compared to 0.94% as of December 31, 2017. Recognizing the growth of our loan portfolio, management increased the provision for loan loss expense in 2018. As a result, the allowance for loan and lease losses represented 1.26% of total loans and 167.3% of nonperforming loans as of June 30, 2018. In addition, our Tier 1 risk-based capital ratio stood at 10.6% as of June 30, 2018, a level well above the regulatory minimum necessary to be classified as 'well capitalized'.

We are pleased that recent investments to expand the Company's branch network and to enhance products and services are yielding such positive results. In fact, our newest

## PRESIDENT'S MESSAGE CONTINUED

branches in Albany County are tracking ahead of projections. Service enhancements to our website, mobile banking application, and cash management platform, coupled with product additions, have been well received and have led to an increase in new customers.

Supported by a strong team, the Company remains focused on strategies that enable us to further enhance the service and support provided to our customers, and to deliver value to our 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

## CONSOLIDATED BALANCE SHEETS

(In thousands)

	June 30, 2018	December 31, 2017
<b>Assets</b>		
Cash and due from banks	\$ 6,246	\$ 5,803
Short-term investments	1,809	1,477
Securities available for sale, at fair value	67,220	74,257
FHLB of NY & FRB stock, at cost	3,962	4,310
Loans	407,760	396,456
Allowance for loan losses	(5,158)	(4,839)
Net loans	402,602	391,617
Premises and equipment, net	10,309	10,589
Other assets	12,289	12,856
<b>Total Assets</b>	<b>\$ 504,437</b>	<b>\$ 500,909</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities:</b>		
Deposits	\$ 421,068	\$ 405,842
FHLB borrowings	37,880	50,100
Junior subordinated debentures	5,155	5,155
Other liabilities	4,876	5,766
Total liabilities	\$ 468,979	\$ 466,863
<b>Shareholders' Equity</b>		
Common stock	\$ 9,642	\$ 9,642
Treasury stock, at cost	(991)	(991)
Retained earnings	30,327	28,027
Accumulated other comprehensive loss	(3,520)	(2,632)
Total shareholders' equity	\$ 35,458	\$ 34,046
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 504,437</b>	<b>\$ 500,909</b>

## CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share data)

For the six months ended  
June 30,

	2018	2017
<b>Interest and fee income</b>		
Loans, including fees	\$ 8,939	\$ 7,422
Securities available for sale	823	858
FHLB of NY & FRB stock	117	62
Short-term investments	19	40
Total interest and fee income	\$ 9,898	\$ 8,382
<b>Interest expense</b>		
Deposits	\$ 314	\$ 253
FHLB borrowings	392	52
Junior subordinated debentures	113	113
Total interest expense	\$ 819	\$ 418
Net interest income	9,079	7,964
Provision for loan losses	312	208
Net interest income after provision for loan losses	\$ 8,767	\$ 7,756
<b>Noninterest income</b>		
Service charges on deposit accounts	\$ 344	\$ 290
Trust and investment services income	569	476
Other	1,170	489
Total noninterest income	\$ 2,083	\$ 1,255
<b>Noninterest expense</b>		
Compensation and benefits	\$ 4,722	\$ 4,157
Occupancy and equipment	794	718
FDIC and OCC assessment	252	200
Advertising and public relations	160	160
Legal and professional fees	233	193
Debit Card processing	181	168
Data processing	397	368
Other	792	872
Total noninterest expense	\$ 7,531	\$ 6,836
Income before income tax expense	\$ 3,319	\$ 2,175
Income tax expense	580	489
<b>Net income</b>	<b>\$ 2,739</b>	<b>\$ 1,686</b>
<b>Basic earnings per share</b>	<b>\$ 3.69</b>	<b>\$ 2.27</b>

### Annual Community Service Day

Now in its second year, BSNB's Annual Community Service Day was held on May 8, 2018. All departments and locations closed early for the day, allowing the bank's 140 employees to assist five local non-profits with maintenance, cleaning and landscaping. Projects were completed for Rebuilding Together Saratoga, CAPTAIN Community Human Services, Brookside Museum, Gateway House of Peace, and the Ballston Spa Village Cemetery. Groups of employees also worked to clean-up trash from two area roadsides in Saratoga County – Daniels Road in Greenfield Center and Malta Avenue in Ballston Spa.



### Expanded ATM Network

BSNB is now offering its customers surcharge-free access to cash at 55,000 ATMs worldwide as part of a new partnership with Allpoint, the world's largest surcharge-free ATM network. With ATMs conveniently located at major retail locations throughout the United States and around the world, cash access is quick, easy and fee-free for BSNB customers. Visit [www.bsnb.com/locations/](http://www.bsnb.com/locations/) to find Allpoint ATMs near you and to learn more about this new benefit.



### BSNB LOCATIONS

- |   |   |
|---|---|
| <b>Ballston Spa</b><br>87 Front Street        | <b>Latham</b><br>1207 Troy-Schenectady Road |
| <b>Burnt Hills</b><br>770 Saratoga Road       | <b>Malta</b><br>124 Dunning Street          |
| <b>Clifton Park</b><br>1714 Route 9           | <b>Milton Crest</b><br>344 Rowland Street   |
| <b>Corporate Branch</b><br>990 State Route 67 | <b>Stillwater</b><br>428 Hudson Avenue      |
| <b>Galway</b><br>5091 Sacandaga Road          | <b>Voorheesville</b><br>13 Maple Road       |
| <b>Greenfield Center</b><br>3060 Route 9N     | <b>Wilton</b><br>625 Maple Avenue           |
| <b>Guilderland</b><br>1973 Western Avenue     |   |

[www.bsnb.com](http://www.bsnb.com) | [facebook.com/YourBSNB](https://facebook.com/YourBSNB) | [twitter.com/BSNB](https://twitter.com/BSNB)



**Ballston Spa Bancorp, Inc.**

# Consolidated Interim Financial Information

June 30, 2018