

A Closer Look

Exciting New Benefits for Customers

As part of our continued focus on enhancing customer value and convenience, we recently introduced two new programs. The **BSNB Perks Program** rewards debit cardholders with money-saving discounts at area restaurants, hotels and retailers. Visit bsnb.com/site/perks_program.php for all of the details!



In a new agreement with Rite Aid, BSNB customers enjoy a significantly expanded **surcharge-free ATM network**. With 44 participating Rite Aid ATMs, customers have convenient access to cash across Albany, Rensselaer, Saratoga, Schenectady and Warren counties.



Celebrating 175 years

Kicking off our year-long celebration of the 175th anniversary of the bank, we made a \$75,000 contribution to the bank's charitable foundation that will help fund future community support. In May, customers were treated to anniversary celebrations at each of the bank's branches and offered special pricing on bank products and services.

To learn more about our history, watch the anniversary video at bsnb.com/site/175_anniversary.php!



Corporate Plaza staff pose with BSNB President and CEO Christopher Dowd, center, to commemorate the bank's 175th anniversary.

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



BSNB's building at 87 Front Street in 1910.



BSNB opens its first drive-up teller in 1970.



BSNB President Thomas Kerley in his office in the early 1920s.



A look behind the teller windows in 1952.

Consolidated
Interim Financial
Information

June 30, 2014



Ballston Spa Bancorp, Inc.

PRESIDENT'S MESSAGE

To our shareholders:

Ballston Spa Bancorp, Inc., parent company of BSNB, continued to produce strong financial results in the second quarter of 2014. Net income for the six-month period ending June 30, 2014 totaled \$1.3 million or \$1.79 per share, down from the \$1.6 million, or \$2.12 per share, reported for the same period in 2013. It is important to note that earnings performance in 2013 was positively impacted by a large one-time gain on the sale of the bank's former operations center during the first quarter. Absent this transaction, results for 2014 compare favorably to 2013 performance and were positively impacted by a 23% increase in trust and investment income, loan growth, and a corresponding 2% increase in net interest income.

Given the fluctuations in economic activity over recent periods, we are especially encouraged by the sustained growth achieved in commercial and residential loans. More specifically, the average balance of commercial and commercial real estate loans for the six-month period ended June 30, 2014 increased \$6.3 million, or 7.6%, as compared to the same period in 2013. Likewise, the average balance of residential mortgage loans for the six-month period ended June 30, 2014 increased \$3.5 million, or 2.6%, as compared to the same period in 2013.

The growth experienced in loans was funded in part by a more modest increase of 1.8% in the average balance of deposits in the six-month period ended June 30, 2014 as compared to the same period in 2013. Cash on hand was also utilized to fund a portion of the growth. The company continues to utilize the secondary mortgage market and other tools to mitigate risk. As a result of this strategy, our balance sheet remains strong and well positioned for a rising interest rate environment. Capital levels are well above the regulatory minimums as our Tier 1 capital ratio totaled 13.35% at June 30, 2014. Nonperforming loans declined during the period and remain at manageable levels. In addition, we maintain ample sources of liquidity to meet present and projected cash needs.

We are very pleased with these financial results and remain firmly committed to a growth strategy focused on the commercial banking market segment. Consistent with this plan and recognizing economic opportunities in the region, we further strengthened our commercial banking team during the second quarter of 2014 with the additions of a new commercial lender and a credit analyst. Additional prudent investments are anticipated to support this business initiative in the months ahead.

In addition to these financial accomplishments, BSNB realized a significant milestone on May 15, 2014 as we marked the 175th anniversary of the date our bank first opened its doors to the community. We recognized this special occasion and thanked our customers with celebrations held at each of our ten branch locations.

In additional efforts aimed at enhancing customer convenience and value, we recently introduced two new programs.

PRESIDENT'S MESSAGE CONTINUED

Through the BSNB Perks Program, debit cardholders who present their card at the time of purchase are eligible to receive attractive savings on products and services offered by participating merchants. Furthermore, through an agreement with Rite Aid Pharmacy, BSNB significantly expanded customer access to surcharge-free ATMs. BSNB customers can now access their cash at all 44 Rite Aid locations in Albany, Rensselaer, Saratoga, Schenectady and Warren counties.

At BSNB, we remain focused on building long-term relationships and enhancing value for our shareholders, customers, and community. As we embark on the second half of this anniversary year, the Board, staff and management, thank you for your continued support.

Christopher R. Dowd
President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS

<i>(In thousands)</i>	June 30, 2014	December 31, 2013
Assets		
Cash and due from banks	\$ 1,117	\$ 1,165
Short-term investments	28,769	43,303
Securities available for sale, at fair value	74,415	75,884
FHLB of NY & FRB stock, at cost	3,760	3,806
Loans	264,550	261,877
Allowance for loan losses	(4,144)	(4,275)
Net loans	260,406	257,602
Premises and equipment, net	10,633	10,410
Other assets	15,651	14,827
Total Assets	\$ 394,751	\$ 406,997
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	\$ 322,410	\$ 335,942
Long-term FHLB borrowings	31,500	31,500
Junior subordinated debentures	5,155	5,155
Other liabilities	5,258	5,371
Total liabilities	\$ 364,323	\$ 377,968
Shareholders' Equity		
Common stock	\$ 9,600	\$ 9,600
Additional paid-in capital	42	42
Treasury stock, at cost	(991)	(991)
Retained earnings	21,907	21,042
Accumulated other comprehensive loss	(130)	(664)
Total shareholders' equity	\$ 30,428	\$ 29,029
Total Liabilities & Shareholders' Equity	\$ 394,751	\$ 406,997

CONSOLIDATED INCOME STATEMENTS

<i>(In thousands, except per share data)</i>	For the six months ended June 30,	
	2014	2013
Interest and fee income		
Loans, including fees	\$ 5,859	\$ 5,959
Securities available for sale	1,009	946
FHLB of NY & FRB stock	75	81
Short-term investments	53	63
Total interest and fee income	\$ 6,996	\$ 7,049
Interest expense		
Deposits	\$ 256	\$ 293
Long-term FHLB borrowings	537	675
Junior subordinated debentures	87	88
Total interest expense	\$ 880	\$ 1,056
Net interest income	6,116	5,993
Provision for loan losses	60	60
Net interest income after provision for loan losses	\$ 6,056	\$ 5,933
Noninterest income		
Service charges on deposit accounts	\$ 225	\$ 241
Trust and investment income	577	469
Gain on sale of loans	-	220
Other	572	922
Total noninterest income	\$ 1,374	\$ 1,852
Noninterest expense		
Compensation and benefits	\$ 3,429	\$ 3,386
Occupancy and equipment	648	708
FDIC and OCC assessment	215	206
Advertising and public relations	120	148
Legal and professional fees	181	164
Debit Card processing	141	131
Data processing	299	331
Other	629	569
Total noninterest expense	\$ 5,662	\$ 5,643
Income before income tax expense	\$ 1,768	\$ 2,142
Income tax expense	442	568
Net income	\$ 1,326	\$ 1,574
Basic earnings per share	\$ 1.79	\$ 2.12