



## A Closer Look

### Cash Management Services

As part of our continued focus on deposit growth, BSNB's cash management services play an integral part in developing new customer relationships and increasing the value we provide to existing clients. Our state-of-the-art online tools make collecting, concentrating, disbursing and managing funds straightforward and efficient. Plus we offer additional services for specialized needs.

### New - Lockbox Services



BSNB now offers lockbox services to clients that have a high volume of accounts receivables. Whether you process consumer-to-business or business-to-business payments, lockbox services make the process more efficient and help accelerate working capital.

### New - Lease Security Accounts



Landlords or managing agents for multi-tenant properties can now benefit from BSNB's lease security account which eases the burden of tracking and maintaining tenant security deposits. BSNB will manage interest disbursements and any tax reporting while the landlord controls access to

the account and authorizes all withdrawals.

**To learn more** about BSNB's cash management services, please contact Deborah O'Connor, Vice President, Cash Management Advisor at 518.363.8119 or visit [www.bsnb.com](http://www.bsnb.com).



## 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

**Latham**  
1207 Troy Schenectady Road

**Malta**  
124 Dunning Street

**Milton Crest**  
344 Rowland Street

**Stillwater**  
428 Hudson Avenue

**Wilton**  
625 Maple Avenue

| 518.885.6781 |

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Member FDIC



## Consolidated Interim Financial Information

September 30, 2016



## PRESIDENT'S MESSAGE

To our shareholders:

Ballston Spa Bancorp, Inc., parent company of BSNB, continued to produce sound financial results in the third quarter of 2016. Net income for the nine-month period ending September 30, 2016 totaled \$1.6 million, or \$2.13 per share, essentially on par with the \$1.6 million, or \$2.14 per share, reported for the same period in 2015. Continued growth in the company's lending portfolios and core deposits contributed to improved net interest margins and strong earnings performance.

The company continues to capitalize on long-term growth opportunities in the commercial banking market segment. Balances in the commercial and commercial real estate portfolios increased \$17.9 million, or 15.8% as compared to December 31, 2015 and are up \$25 million or 23.5% compared to September 30, 2015. We also experienced renewed demand for residential lending products after a period of relatively flat activity. Balances in the residential lending portfolio increased \$3.9 million, or 2.7%, from December 31, 2015. During the quarter, we enhanced our product offerings for homebuyers by adding the Home Possible® mortgage, a low down-payment mortgage program available through Freddie Mac.

The company has developed new products and services aimed at growing deposits. During the quarter we made lockbox services available to aid clients in processing their customer payments. We also added lease security accounts to assist landlords and property managers with maintaining and tracking security deposits. These new services as well as other initiatives contributed towards an increase of \$18.7 million, or 4.9%, in total deposits since September 30, 2015. In addition to the positive impact on earnings, our strategic focus on core deposit growth has provided the opportunity to pay-off higher cost long-term borrowings with the Federal Home Loan Bank.

Together, growth in earning assets and deposits and the reduction in borrowings led to an increase of \$1 million, or 11.0%, in net interest income for the nine-month period ending September 30, 2016 as compared to the same period in 2015. This growth helped to offset anticipated increases in salaries and benefits as well as a one-time write-down on other real estate owned. We continue to look at opportunities to expand our market position due to recent bank merger activity.

As a result of ongoing loan workout efforts, the company's percentage of nonperforming loans was reduced to 0.80% of total loans as of September 30, 2016 compared

## PRESIDENT'S MESSAGE CONTINUED

to 1.91% as of September 30, 2015. Likewise, our allowance for loan losses to nonperforming loans is a healthy 156.9% as of September 30, 2016 compared to 76.9% a year earlier and 1.26% to total loans, a level in line with our peers. Furthermore, the company's balance sheet remains strong and well-positioned for future growth opportunities, as our Tier 1 capital ratio stood at 12.35% at September 30, 2016, a level well above regulatory minimums.

With a strong and focused team of banking professionals, we remain committed to our long-term growth strategy and to 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

## CONSOLIDATED BALANCE SHEETS

| <i>(In thousands)</i>                               | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
| <b>Assets</b>                                       |                       |                      |
| Cash and due from banks                             | \$ 1,370              | \$ 1,128             |
| Short-term investments                              | 19,974                | 45,065               |
| Securities available for sale, at fair value        | 82,462                | 81,731               |
| FHLB of NY & FRB stock, at cost                     | 2,104                 | 2,662                |
| Loans   | 316,025               | 293,037              |
| Allowance for loan losses                           | (3,981)               | (4,188)              |
| Net loans   | 312,044               | 288,849              |
| Premises and equipment, net                         | 10,044                | 10,319               |
| Other assets  | 12,017                | 12,681               |
| <b>Total Assets</b>                                 | <b>\$ 440,015</b>     | <b>\$ 442,435</b>    |
| <b>Liabilities and Shareholders' Equity</b>         |                       |                      |
| <b>Liabilities:</b>                                 |                       |                      |
| Deposits  | \$ 398,671            | \$ 391,810           |
| FHLB borrowings                                     | -                     | 10,500               |
| Junior subordinated debentures                      | 5,155                 | 5,155                |
| Other liabilities                                   | 4,809                 | 4,797                |
| Total liabilities                                   | \$ 408,635            | \$ 412,262           |
| <b>Shareholders' Equity</b>                         |                       |                      |
| Common stock  | \$ 9,642              | \$ 9,642             |
| Treasury stock, at cost                             | (991)                 | (991)                |
| Retained earnings                                   | 24,642                | 23,748               |
| Accumulated other comprehensive loss                | (1,913)               | (2,226)              |
| Total shareholders' equity                          | \$ 31,380             | \$ 30,173            |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>\$ 440,015</b>     | <b>\$ 442,435</b>    |

## CONSOLIDATED INCOME STATEMENTS

*(In thousands, except per share data)*

For the nine months ended  
September 30,

|   | 2016            | 2015            |
|---|-----------------|-----------------|
| <b>Interest and fee income</b>                      |                 |                 |
| Loans, including fees                               | \$ 9,551        | \$ 8,789        |
| Securities available for sale                       | 1,326           | 1,336           |
| FHLB of NY & FRB stock                              | 98              | 92              |
| Short-term investments                              | 89              | 68              |
| Total interest and fee income                       | \$ 11,064       | \$ 10,285       |
| <b>Interest expense</b>                             |                 |                 |
| Deposits  | \$ 352          | \$ 361          |
| FHLB borrowings                                     | 232             | 481             |
| Junior subordinated debentures                      | 146             | 132             |
| Total interest expense                              | \$ 730          | \$ 974          |
| Net interest income                                 | 10,334          | 9,311           |
| Provision for loan losses                           | 120             | 90              |
| Net interest income after provision for loan losses | \$ 10,214       | \$ 9,221        |
| <b>Noninterest income</b>                           |                 |                 |
| Service charges on deposit accounts                 | \$ 307          | \$ 307          |
| Trust and investment income                         | 741             | 738             |
| Net securities transactions                         | 59              | -               |
| Gain on sale of loans                               | -               | 31              |
| Gain (loss) on ORE transactions                     | (632)           | 7               |
| Other   | 732             | 690             |
| Total noninterest income                            | \$ 1,207        | \$ 1,773        |
| <b>Noninterest expense</b>                          |                 |                 |
| Compensation and benefits                           | \$ 5,863        | \$ 5,577        |
| Occupancy and equipment                             | 942             | 973             |
| FDIC and OCC assessment                             | 329             | 335             |
| Advertising and public relations                    | 213             | 207             |
| Legal and professional fees                         | 325             | 283             |
| Debit Card processing                               | 247             | 243             |
| Data processing                                     | 474             | 452             |
| Other   | 943             | 902             |
| Total noninterest expense                           | \$ 9,336        | \$ 8,972        |
| Income before income tax expense                    | \$ 2,085        | \$ 2,022        |
| Income tax expense                                  | 501             | 435             |
| <b>Net income</b>                                   | <b>\$ 1,584</b> | <b>\$ 1,587</b> |
| <b>Basic earnings per share</b>                     | <b>\$ 2.13</b>  | <b>\$ 2.14</b>  |