

PRESIDENT'S MESSAGE

To our shareholders:

Ballston Spa Bancorp, Inc., parent company of BSNB, generated strong financial results in the first quarter of 2017. Net income for the three-month period ending March 31, 2017 totaled \$773 thousand, or \$1.04 per share, up 33.5% from the \$579 thousand, or \$0.78 per share, reported for the same period in 2016. Further growth in the company's lending portfolios and core deposits contributed to improved net interest margins and earnings performance.

Focus on the commercial banking market segment continues to yield positive results for the company. Balances in the commercial and commercial real estate portfolios grew by \$5.6 million, or 4.1% from December 31, 2016. Balances in the residential lending portfolio grew as well, generating an increase of \$4.0 million, or 2.6% during the first quarter of 2017. The loan growth was supported this period by an increase in total deposits of \$14.4 million, or 3.6%, up from \$401 million as of December 31, 2016.

Combined growth in earning assets and deposits and a reduction in long term borrowings resulted in an increase of \$356 thousand, or 10.6% in net interest income for the three-month period ending March 31, 2017 as compared to the same period a year earlier. Similarly, the company's net interest margin increased from 3.24% for the three months ended March 31, 2016 to 3.50% for the three months ended March 31, 2017. Anticipated increases in salary and overhead expense prevented further increases in income performance.

In addition to our financial achievements, the company also completed projects to enhance the service we provide to customers. In February of 2017, we introduced an enhanced website and online banking platform. We also made plans to open two new branch offices in 2017, expanding the company's footprint in Albany County. An office in Guilderland, NY opened at the beginning of May and an office in Voorheesville, NY is scheduled to open sometime early this summer. The addition of these two offices should serve to enhance the support we provide to customers in these markets while broadening the company's market reach.

I am pleased to report that the company remains in a financially strong position as we embark on this expansion. Nonperforming loans as a percentage of total loans are at very manageable levels and in fact decreased from 1.75% at March 31, 2016 to 0.83% as of the end of the first quar-

PRESIDENT'S MESSAGE CONTINUED

ter in 2017. The company's balance sheet remains strong and well-positioned to support future growth opportunities, as our Tier 1 capital ratio stood at 11.76% at March 31, 2017, a level well above regulatory minimums.

We are excited about the opportunities ahead as we enter new markets. With a strong and focused team of banking professionals and ongoing commitment to the highest level of customer service and community support, we are confident we will continue to build 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

(In thousands)

	March 31, 2017	December 31, 2016
Assets		
Cash and due from banks	\$ 1,651	\$ 2,181
Short-term investments	18,117	11,271
Securities available for sale, at fair value	77,229	78,773
FHLB of NY & FRB stock, at cost	2,014	2,050
Loans	339,862	330,173
Allowance for loan losses	(4,155)	(4,040)
Net loans	335,707	326,133
Premises and equipment, net	9,882	9,918
Other assets	12,857	12,938
Total Assets	\$ 457,457	\$ 443,264
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	\$ 415,385	\$ 401,010
Junior subordinated debentures	5,155	5,155
Other liabilities	4,910	5,686
Total liabilities	\$ 425,450	\$ 411,851
Shareholders' Equity		
Common stock	\$ 9,642	\$ 9,642
Treasury stock, at cost	(991)	(991)
Retained earnings	25,748	25,205
Accumulated other comprehensive loss	(2,392)	(2,443)
Total shareholders' equity	\$ 32,007	\$ 31,413
Total Liabilities & Shareholders' Equity	\$ 457,457	\$ 443,264

CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share data)

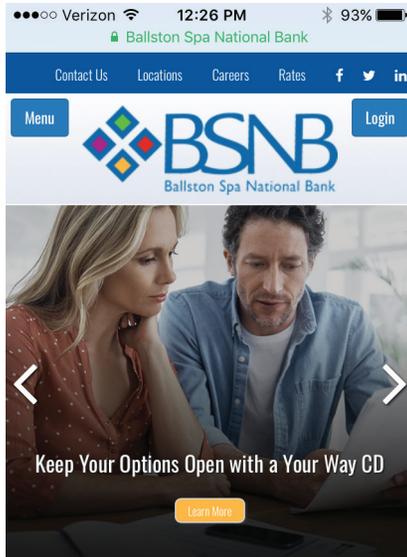
For the three months ended
March 31,

	2017	2016
Interest and fee income		
Loans, including fees	\$ 3,404	\$ 3,079
Securities available for sale	435	455
FHLB of NY & FRB stock	30	33
Short-term investments	25	51
Total interest and fee income	\$ 3,894	\$ 3,618
Interest expense		
Deposits	\$ 131	\$ 123
FHLB borrowings	-	96
Junior subordinated debentures	56	48
Total interest expense	\$ 187	\$ 267
Net interest income	3,707	3,351
Provision for loan losses	75	30
Net interest income after provision for loan losses	\$ 3,632	\$ 3,321
Noninterest income		
Service charges on deposit accounts	\$ 138	\$ 102
Trust and investment services income	246	231
Other	243	233
Total noninterest income	\$ 627	\$ 566
Noninterest expense		
Compensation and benefits	\$ 2,083	\$ 1,952
Occupancy and equipment	339	330
FDIC and OCC assessment	98	110
Advertising and public relations	76	69
Legal and professional fees	101	110
Debit Card processing	83	81
Data processing	185	161
Other	348	302
Total noninterest expense	\$ 3,313	\$ 3,115
Income before income tax expense	\$ 946	\$ 772
Income tax expense	173	193
Net income	\$ 773	\$ 579
Basic earnings per share	\$ 1.04	\$ 0.78

A Closer Look

BSNB Introduces New Website

As BSNB continues to invest in technology infrastructure, the bank's website was redesigned earlier this year to feature a modern design, enhanced navigation and improved content. The site was also optimized for better functionality and viewing on mobile devices, an important feature given the ongoing growth of smart phone usage.



SUMMIT Employee of the Year

BSNB recently announced that Paulina Grinnell, relationship manager at the Malta office, has received the 2017 SUMMIT Employee of the Year award. At a recent employee meeting, BSNB President and CEO Chris Dowd recognized Grinnell for her exceptional commitment to her customers and her dedication to the bank's core values of teamwork, respect, accountability, integrity and leadership. The SUMMIT recognition program has been a cornerstone of BSNB's commitment to service excellence since its inception in 2011.



Paulina Grinnell, right, with BSNB President and CEO Chris Dowd after being named 2017 SUMMIT Employee of the Year.

A Closer Look

Student Checking Accounts Now Available

Designed specifically for students, BSNB's newest checking account combines up to \$20 in ATM rebates per statement cycle with the convenience of online and mobile banking services so that busy students can bank anywhere and anytime. For complete details, please visit <https://www.bsnb.com/personal/checking-accounts.php>



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

Guilderland
1973 Western Avenue

Latham
1207 Troy Schenectady Road

Malta
124 Dunning Street

Milton Crest
344 Rowland Street

Stillwater
428 Hudson Avenue

Voorheesville - COMING SOON!
13 Maple Road

Wilton
625 Maple Avenue

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BALLSTON SPA BANCORP, INC.



Better.

Consolidated Interim Financial Information

March 31, 2017