

PRESIDENT'S MESSAGE

To our shareholders:

Ballston Spa Bancorp, Inc., parent company of BSNB, reported strong financial results for the third quarter of 2020. Net income for the nine-month period ending September 30, 2020 totaled \$3.7 million, or \$4.96 per share, up 18.6% from the \$3.1 million, or \$4.19 per share reported for the same period in 2019. Growth in income is primarily attributable to sizable increases in residential mortgage lending and loans extended under the Small Business Administration's Paycheck Protection Program (PPP). While loan origination activity is encouraging, management does anticipate interest margin compression and a protracted low rate environment to impact income performance in future periods.

As reported earlier this year, the sharp drop in interest rates in the first quarter of 2020 combined with the effects of health and safety measures have resulted in substantial economic uncertainty. While economic confidence appears to be strengthening, many families and businesses continue to struggle. As a result of these and other factors, management has adjusted growth expectations and taken steps to better position the Company for further uncertainties ahead.

With this in mind, management has increased provision for loan loss expense to \$825 thousand for the period ending September 30, 2020, an increase of 52.8% over the same period in 2019. Low interest rates have led to increased residential lending activity in the current period. To mitigate the risk of future rate increases, the Company is selling the majority of these loans into the secondary market. As a result, the Company recorded gains of \$946 thousand for the nine-month period ending September 30, 2020 as compared to \$147 thousand for the same period in 2019.

Further evidence of the Company's strength is reflected in continued low levels of problem loans. Despite the economic downturn, nonperforming loans remain low and represent 0.39% of total loans as of September 30, 2020. Likewise, capital levels are well above regulatory minimums with the Bank's Tier 1 Capital Ratio standing at 12.19% as of the end of the third quarter. In light of the prudent steps taken and the strength of our balance sheet, management is confident the Company will successfully weather this period and remains focused on the pursuit of our long-term plan.

This financial strength has also enabled the Company to step up support of the community during this difficult period. Beginning in May 2020, BSNB has partnered with the Regional Food Bank of Northeastern New York to host eight drive-thru food pantries across the Capital Region. Furthermore, and in light of the extraordinary need, BSNB has donated \$40 thousand and raised an additional \$7 thousand through our matching campaigns, for the benefit of the Regional Food Bank. We are proud to be in a position to offer such

PRESIDENT'S MESSAGE CONTINUED

financial and volunteer support in this time of need.

Going forward, we anticipate our strong financial foundation and prudent balance sheet management will enable the Company to successfully emerge from this period in pursuit of growth strategies and opportunities. On behalf of the Board, staff and management, thank you for your continued support.

Christopher R. Dowd
President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2020	December 31, 2019
Assets		
Cash and due from banks	\$ 9,283	\$ 6,837
Short-term investments	66,311	4,575
Securities available for sale, at fair value	65,559	75,325
FHLB of NY & FRB stock, at cost	5,356	6,425
Loans	507,550	477,834
Allowance for loan losses	(7,000)	(6,205)
Net loans	500,550	471,629
Premises and equipment, net	9,976	10,434
Other assets	13,259	12,967
Total Assets	\$ 670,294	\$ 588,192
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	\$ 587,283	\$ 446,026
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	10,439	8,401
Total liabilities	\$ 626,507	\$ 547,422
Shareholders' Equity		
Common stock	\$ 9,642	\$ 9,642
Treasury stock, at cost	(991)	(991)
Retained earnings	37,673	34,722
Accumulated other comprehensive loss	(2,537)	(2,603)
Total shareholders' equity	\$ 43,787	\$ 40,770
Total Liabilities & Shareholders' Equity	\$ 670,294	\$ 588,192

CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share data)

For the nine months ended
September 30,

	2020	2019
Interest and fee income		
Loans, including fees	\$ 15,759	\$ 15,173
Securities available for sale	1,080	1,297
FHLB of NY & FRB stock	171	203
Short-term investments	151	55
Total interest and fee income	\$ 17,161	\$ 16,728
Interest expense		
Deposits	\$ 1,549	\$ 1,455
FHLB borrowings, short-term	226	832
FHLB borrowings, long-term	129	129
Junior subordinated debentures	505	506
Total interest expense	\$ 2,409	\$ 2,922
Net interest income	14,752	13,806
Provision for loan losses	825	540
Net interest income after provision for loan losses	\$ 13,927	\$ 13,266
Noninterest income		
Service charges on deposit accounts	\$ 484	\$ 573
Trust and investment services income	675	753
Net gain on sale of loans	946	147
Other	898	909
Total noninterest income	\$ 3,003	\$ 2,382
Noninterest expense		
Compensation and benefits	\$ 8,046	\$ 7,698
Occupancy and equipment	1,253	1,121
FDIC and OCC assessment	243	231
Advertising and public relations	253	220
Legal and professional fees	371	394
Debit Card processing	327	257
Data processing	737	683
Other	1,205	1,252
Total noninterest expense	\$ 12,435	\$ 11,856
Income before income tax expense	\$ 4,495	\$ 3,792
Income tax expense	809	683
Net income	\$ 3,686	\$ 3,109
Basic earnings per share	\$ 4.96	\$ 4.19



A Closer Look



BSNB Volunteers in Action

The COVID-19 pandemic created unprecedented food insecurity for many in our region this year. BSNB's Volunteers in Action responded by partnering with the Regional Food Bank of Northeastern New York. To date, our volunteers have hosted eight drive-thru food pantries across Albany and Saratoga counties, distributing more than 144,000 pounds of food to thousands of people in need. To further support the Regional Food Bank, BSNB donated \$40 thousand through October 31, 2020 and raised nearly \$7 thousand more through matching campaigns.

Protect your BSNB Debit Card

SecurLOCK Equip is an app that allows you to control, from your mobile device, how your debit card is used. If your card is lost or stolen, turn the card off with the touch of a button. Set location based controls so that your card can only be used in the geographies and on the channels



(online, in-store, ATM, etc.) that you define. You can also set transaction spending limits and receive real-time alerts. To learn more about how this free app can help you combat fraud, search for SecurLOCK Equip in your app store or visit <https://www.bsnb.com/personal/debit-cards.php>.

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



Consolidated Interim Financial Information September 30, 2020



BSNB *Better.*

Digital solutions for banking virtually anywhere.

