

PRESIDENT'S MESSAGE

To our shareholders:

Ballston Spa Bancorp, Inc., parent company of BSNB, continued to report impressive financial results in the third quarter of 2018. Net income for the nine-month period ending September 30, 2018 totaled \$3.9 million, or \$5.26 per share, up 69.0% from the \$2.3 million, or \$3.11 per share, reported for the same period in 2017. While the improved earnings performance is largely a result of growth in the Company's loan and deposit portfolios, four nonrecurring transactions during the 2018 period also made a positive impact. Specifically, management successfully recovered interest on three non-performing loans, and the Company recognized a gain upon the sale of our former Clifton Park office location.

Financial highlights for the nine-month period ending September 30, 2018 include:

- Residential Real Estate loans increased \$15.8 million, or 9.1% from December 31, 2017. While the level of production in 2018 has been at historic highs, we do anticipate rising rates and a limited housing supply in the region to negatively impact volume in 2019;
- Commercial and Commercial Real Estate loans increased \$15.3 million, or 8.2% from December 31, 2017. Production levels are down from 2017 but remain robust;
- Commercial and Retail Deposits increased \$10.1 million, or 3.5% from December 31, 2017;
- Net Interest Margin improved to 3.79%, up from 3.65% for the nine months ended September 30, 2017, aided somewhat by the aforementioned nonrecurring interest recoveries.

In recent years, BSNB has made significant investments in staffing resources and new technology to enhance service and support to clients across the capital region. Combined with the development of new branch locations in Latham, Guilderland, Voorheesville and Clifton Park, these initiatives have led to strong asset and deposit growth and record earnings in 2017 and year to date 2018.

In light of our growth pattern and opportunities we see in the market, the Company recently executed a capital planning strategy to solidify balance sheet strength. More specifically, I am pleased to report that the Company was successful in raising \$7.75 million in additional capital for our subsidiary bank through the issuance of subordinated debt in the third quarter of 2018. The infusion of additional capital at this juncture supports our efforts to deliver enhanced service to customers and also the pursuit of additional growth and expansion opportunities. We are very appreciative of the support of local investors in achieving this goal.

The impact of the capital raise and our prudent growth strategies are reflected in the strength of our balance sheet. Loan quality measures are consistent with our high performing peers. Nonperforming loans as a percentage of total loans

PRESIDENT'S MESSAGE CONTINUED

decreased from 0.89% at September 30, 2017 to 0.85% as of the end of the third quarter in 2018. Likewise, our allowance for loan losses to nonperforming loans is a healthy 149.05% as of September 30, 2018 compared to 130.88% a year earlier. Furthermore, the Bank's Tier 1 risk-based capital ratio stood at 12.73% as of September 30, 2018, up from 10.70% a year earlier. The improved ratio is the result of higher levels of net income and retained earnings and the addition of \$7.75 million in subordinated debt.

With a seasoned and dedicated team of banking professionals, we remain focused on building long-term relationships that enhance value for our shareholders, customers, 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, 2018	December 31, 2017
Assets		
Cash and due from banks	\$ 10,927	\$ 5,803
Short-term investments	1,794	1,477
Securities available for sale, at fair value	63,986	74,257
FHLB of NY & FRB stock, at cost	3,429	4,310
Loans	422,832	396,456
Allowance for loan losses	(5,327)	(4,839)
Net loans	417,505	391,617
Premises and equipment, net	10,230	10,589
Other assets	12,570	12,856
Total Assets	\$ 520,441	\$ 500,909
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	\$ 440,970	\$ 405,842
FHLB borrowings	25,530	50,100
Junior subordinated debentures	12,905	5,155
Other liabilities	4,823	5,766
Total liabilities	\$ 484,228	\$ 466,863
Shareholders' Equity		
Common stock	\$ 9,642	\$ 9,642
Treasury stock, at cost	(991)	(991)
Retained earnings	31,192	28,027
Accumulated other comprehensive loss	(3,630)	(2,632)
Total shareholders' equity	\$ 36,213	\$ 34,046
Total Liabilities & Shareholders' Equity	\$ 520,441	\$ 500,909

CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share data)

For the nine months ended
September 30,

	2018	2017
Interest and fee income		
Loans, including fees	\$ 13,656	\$ 11,385
Securities available for sale	1,203	1,224
FHLB of NY & FRB stock	176	99
Short-term investments	33	38
Total interest and fee income	\$ 15,068	\$ 12,746
Interest expense		
Deposits	\$ 502	\$ 376
FHLB borrowings	663	221
Junior subordinated debentures	193	170
Total interest expense	\$ 1,358	\$ 767
Net interest income	13,710	11,979
Provision for loan losses	483	469
Net interest income after provision for loan losses	\$ 13,227	\$ 11,510
Noninterest income		
Service charges on deposit accounts	\$ 535	\$ 455
Trust and investment services income	847	729
Gain on sale of fixed assets	379	-
Other	1,123	797
Total noninterest income	\$ 2,884	\$ 1,981
Noninterest expense		
Compensation and benefits	\$ 7,055	\$ 6,429
Occupancy and equipment	1,159	1,128
FDIC and OCC assessment	381	308
Advertising and public relations	254	244
Legal and professional fees	367	335
Debit Card processing	264	255
Data processing	602	576
Other	1,221	1,233
Total noninterest expense	\$ 11,303	\$ 10,508
Income before income tax expense	\$ 4,808	\$ 2,983
Income tax expense	902	671
Net income	\$ 3,906	\$ 2,312
Basic earnings per share	\$ 5.26	\$ 3.11



A Closer Look

Commercial Banking Service and Support

Due to our growth and the expanded services in the commercial banking market segment, we are pleased to announce the addition of new staffing members. Dave Omicinski recently joined BSNB as our Commercial Banking Manager. As part of our continued focus on deposit generation, Sean Howley has been promoted to Treasury Management Associate joining Deborah O'Connor on the Treasury Management team.



Left to right: Dave Omicinski, Sean Howley, Deborah O'Connor

Fighting ACH and Check Fraud



Fraud is on the rise but businesses can reduce their risk with BSNB's Positive Pay solutions. We work with you to verify that only the checks you initiated and/or ACH transactions you have authorized will post to your account. Fraudulent items can be identified and returned - before you become a victim. To learn more, contact Deborah O'Connor, VP/Treasury Management at (518) 363-8119 or deborah.oconnor@bsnb.com.

Customized Treasury Management Services

BSNB is proud to welcome Prestige Services, Inc. as another client under the umbrella of Treasury Management services. As a vending, refreshment and dining services provider, Prestige has unique cash handling needs. Working together, BSNB created a custom cash vault service that assists Prestige in managing their cash efficiently and effectively.



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



Member FDIC



Ballston Spa Bancorp, Inc.

Consolidated Interim Financial Information

September 30, 2018