The Adirondack Trust Company

2012 ANNUAL REPORT

THE ADIRONDACK TRUST COMPANY® BANKING. INSURANCE. INVESTMENTS.

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Chief Financial Officer & Treasurer

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PATRICIA M. HUDSON
Assistant Treasurer

MARY B. McLAUGHLIN
Assistant Treasurer

JENIFER L. RIGGI
Assistant Treasurer

MARCY J. THOMPSON
Assistant Treasurer

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RICHARD F. CARMAN, JR.
Vice President - Audit

A Note to Our Stockholders:

Saratoga's long history as a resort is well documented.

Less well publicized is our history as a center of manufacturing.

In 1838 a newly married young man by the name of B.W. Amsden moved to Saratoga Springs from Vermont to start the manufacture of custom target and hunting rifles. At that time Saratoga Springs had five grist mills, five saw mills, a trip hammer, 2,438 people, 2,536 sheep, a post office and not a single bank. He set up shop on Lake Avenue and continued to manufacture high quality rifles for more than 40 years. His percussion cap rifles are in many private collections and a particularly fine example of his work can be seen at the New York State Museum. They are still regarded as among the most accurate rifles of their type ever made.

In 1862 George West refurbished an unused mill, named it the Empire Mill and began making paper bags. By 1880 he was the largest specialty paper bag manufacturer in the world and proceeds from the sale of the business in 1899 helped to found The Adirondack Trust Company two years later.

In 1890 the G. F. Harvey Company was founded. G. F. Harvey Company manufactured drugs from its inception until the mid-20th century. The manufacturing facility is now the administrative headquarters of the Saratoga Springs City School District, but at one time they made a wide assortment of medicines that were shipped across the country. You can still buy one of their products, "*Saratoga Ointment*", now manufactured elsewhere.

In 1901 your bank made its first loan to the Baker and Shevlin Foundry which made equipment for the paper industry. They were located in a facility now occupied by ESPEY Manufacturing, a designer and manufacturer of custom magnetic components and power supplies for both military and industrial applications (AMEX:ESP). ESPEY employs 170 people at their plant on Ballston Avenue.

Tarrant Manufacturing Company, Inc. was incorporated in 1910 in Saratoga Springs. The company started as a minor business of Tarrant & Company which was founded in 1883 and operated as a heating and plumbing contracting business. In an age of horseless carriages and new road building, the company produced road maintenance equipment, and developed and patented sheet metal asphalt pouring pots and melting kettles. Other early products of the firm included street cleaning can carriers, asphalt sprayers and agricultural dryers. Tarrant products are still being manufactured by Loughberry Manufacturing under the TARCO brand.

The Joseph H. Clarke Textile Company was enticed to build a plant in

Saratoga in 1906. Clarke and successor companies VanRaalte and Saratoga Knitting manufactured a variety of garments and textiles into the early 1980s at the factory on High Rock Avenue.

Stewart's Ice Cream Company was founded in 1945 and has since grown to more than 4,000 employees, making it one of the largest employers and privately held companies in the Capital Region.

In 1959 land on Geyser Road became Saratoga's first industrial park. Originally called the Cady Hill Industrial Park, it has since been renamed after its principal benefactor, W. J. Grande. The General Foods Company was the first to move in and provided a few hundred badly needed year round jobs. The park now is home to over a dozen companies including Quad/Graphics, Ball Manufacturing, Guyson Corporation, Logistics One and Saratoga Eagle Sales and Service which together provide close to 2,000 jobs.

The most recent and largest manufacturer to locate in Saratoga has been GLOBALFOUNDRIES. There have been some questions concerning the amount of state taxpayer money used to convince them to locate in upstate New York. The original estimates were that the plant would cost $4 billion and the State of New York would invest $1.2 billion to create 1,400 well paid manufacturing jobs. With the recent announcement of a new $2 billion research facility to be built by GLOBALFOUNDRIES there will be total employment nearing 3,000 jobs within a year from now. GLOBALFOUNDRIES will have invested nearly $8 billion of their own money by the time the research facility is completed. New York State's return on its investment from payroll alone will be considerable and it is worth noting that virtually every other industry mentioned in this report received some sort of inducement to locate or expand their operations.

The pursuit of stable year-round manufacturing jobs for Saratoga has been an intentional policy of private and public institutions in Saratoga for well more than 100 years and has been at least as important as the reinvigoration of the racing, resort, and convention businesses to the economic wellbeing of our area. You can be proud of the fact that your bank has played a support role and occasionally a leading role in almost all of these efforts. As a result Saratoga has weathered the recent economic difficulties relatively well with an unemployment rate well below the national average and among the best in the state.

It is no surprise then that your bank has also fared relatively well. It took from 1901 until 1981 for your bank to grow to $100 million. This year alone we grew by more than $107 million. I will leave most of the financial details for our Chief Financial Officer, Jack Arnold to discuss but we are pleased to report that your company achieved a number of important records this year. Total assets exceeded $1 billion for the first time, insurance revenue exceeded $11 million for the first time, trust assets reached a new record of just under $453 million. We closed 832 new residential mortgages worth more than $154 million, a new record, and total loans exceeded $500 million for the first time. Net Income of almost $9.5 million, also a new record, was a modest but pleasant surprise. Last year I warned that 2012 would be a "reset" year, but stronger than anticipated results from loan sales and contingent income from our Insurance Agency business more than offset increased expenses and reduced gains from securities sales.

We continue to be ranked in the top ten for the capital region in insurance, banking, residential mortgages and commercial mortgages. *The Saratogian's Readers' Choice* has voted us as the best bank for ten consecutive years and the Small Business Administration (SBA) has awarded us the top small community bank lender designation for the 12th consecutive year.

We introduced a new electronic bill payment service this fall which will make our service a more efficient payment delivery system. We also introduced an electronic newsletter, *e-Insight* as well as ATC-TV which you can view at our new branch located just off Exit 11 of the Northway, or at our other branches during 2013. On YouTube, our ATC Channel has local business success stories, such as Saratoga Arms and the Lake George Steamboat Company; these personal stories highlight the success of these outstanding businesses.

We have begun to explore new strategic alliances with select providers of wealth management and life insurance services and look forward to reporting progress in these areas to you at a future date.

Harry D. Snyder retired from the Board in February after 27 years of service. He was a trusted advisor and guiding light to your company and a close friend as well.

As we look forward to next year we anticipate challenges from continued low interest rates and margins and the conversion of our core computer operating system to a new platform. We also look forward to a great summer season as we celebrate 150 years of thoroughbred racing in Saratoga. Please make sure to come and join the whole community for a summer season filled with celebration. You can log onto the website, www.saratoga150.com for information on over 150 events planned from May until September.

As always, we appreciate your continued support and look forward to providing you with superior results.

Charles V. Wait
President

Financial Narrative:

Your company has continued to maintain a strong balance sheet, with many new records obtained in 2012. Total assets were up 11.8% to $1.016 billion and total deposits were up 13.3% to $890 million for 2012. Total loans increased $32 million or 6.8% to $504 million. This growth was weighted in the residential and commercial real estate categories. Cash is up $60.2 million, as we remain liquid and well positioned to address ongoing economic uncertainty. The strength of our investment portfolio is evidenced by the unrealized net gain position at year-end of $4.1 million, after recognizing $2.8 million in gains from securities sales in 2012. Stockholders' equity is up 2.6% to $103.2 million, which includes a 4.3% increase in dividends declared this year over last year.

Net income is up $71 thousand or 75 basis points to just under $9.5 million in 2012. Core earnings, which excludes the after tax effect of securities gains/losses and the provision for loan losses was up $744 thousand or 10.6%. This is in spite of a decline in our net interest income of $58.5 thousand compared to last year, due to the continued decline in interest rates. We did not make a provision for loan losses this year since net charge offs were only 6 basis points of total loans and our allowance for loan losses is sufficient to support our non-performing loans. Earnings continue to be pressured by this low interest rate environment. Helping offset the decline in interest income was a reduction in our cost of funds in 2012 by 17 basis points or $1.3 million. Also contributing to our performance this year was an increase in non-interest income of $1.4 million or just over 7%. This increase includes improved performance by our Insurance Agency, recording just over $11 million in revenue, an increase of just under $500 thousand and an increase in net earnings of 16.1%. Also contributing to this performance was an increase in gains realized from loans sold to FNMA. Net gains from loan sales of $3 million was up $2 million, as we sold $62 million more in loans to FNMA compared to last year. Securities gains realized this year totaled $2.8 million compared to $4 million last year.

Compensation and benefits expense was up 12.1%, which includes an increase in costs associated with our Pension and ESOP plans. Other expenses were down 2.6% due to the reduction in cost from outside professional services, a decline in FDIC insurance premiums and reduced contribution expense. The FDIC changed the calculation in the 2nd quarter of 2011 from a deposit basis to a net asset basis and also reduced the annual rate from 12 basis points per year to 5 basis points per year.

Return on average assets was 1%, down from 1.02% in 2011. Return on average equity is 9.19%, down from 9.51% in 2011.

Highlights of the financial statements are presented on the following pages. Thank you for your continued support of The Adirondack Trust Company.

Jack Arnold, CPA
Chief Financial Officer & Treasurer

THE ADIRONDACK TRUST COMPANY®
BANKING. INSURANCE. INVESTMENTS.

We take banking to heart.®

The Adirondack Trust Company – Main Office
473 Broadway
Saratoga Springs, New York

THE ADIRONDACK TRUST COMPANY®
BANKING. INSURANCE. INVESTMENTS.

Consolidated Statements of Condition

Assets

	As of December 31, 2012	2011
ASSETS		
Cash and due from banks	$192,196,257.21	$131,949,136.31
Securities:		
Obligations of U.S. government	165,668,152.02	130,815,011.54
Obligations of federal agencies	25,582,779.12	31,231,412.72
Obligations of state and municipal subdivisions	47,688,303.74	52,572,594.93
Corporate	23,114,990.50	34,585,596.50
Other securities	310,799.12	310,249.12
Loans:		
Commercial loans	313,801,950.67	300,294,273.24
Residential loans	154,561,211.58	139,658,680.90
Other loans	35,932,363.98	32,397,612.42
Allowance for loan losses	(8,943,954.21)	(9,258,434.70)
Accrued interest receivable	2,428,882.72	2,730,174.28
Bank premises, furniture and fixtures, net	26,062,526.05	23,953,443.74
Other real estate owned	3,515,302.70	3,171,800.42
Goodwill and other intangibles, net	20,673,076.72	20,747,273.26
Other assets	13,718,076.19	13,904,286.69
TOTAL ASSETS	**$1,016,310,718.11**	**$909,063,111.37**

Liabilities and Stockholders' Equity

	As of December 31, 2012	2011
LIABILITIES		
Demand deposits	$227,018,998.93	$162,241,925.53
Savings deposits	445,232,706.23	393,906,859.68
Time deposits	217,951,560.73	229,813,025.37
Total deposits	890,203,265.89	785,961,810.58
Other liabilities	22,859,958.93	22,461,861.94
TOTAL LIABILITIES	**913,063,224.82**	**808,423,672.52**
STOCKHOLDERS' EQUITY		
Common stock ($50 par value per share; 80,000 shares authorized, 76,403 and 76,393 shares issued, respectively)	3,820,150.00	3,819,650.00
Surplus	6,552,460.00	6,536,755.00
Retained earnings	96,261,467.40	90,536,615.44
Accumulated other comprehensive loss	(3,386,584.11)	(253,581.59)
TOTAL STOCKHOLDERS' EQUITY	**103,247,493.29**	**100,639,438.85**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$1,016,310,718.11**	**$909,063,111.37**

Statements of Income

	For the years ended December 31, 2012	2011
Interest and dividend income:		
Interest and fees on loans	$23,138,271.25	$23,528,254.36
Interest and dividends on securities	5,067,678.68	6,065,810.87
Other interest income	321,225.07	267,644.78
Total interest and dividend income	**28,527,175.00**	**29,861,710.01**
Interest expense:		
Deposits and escrow accounts	2,489,297.77	3,765,331.49
Net interest income	**26,037,877.23**	**26,096,378.52**
Provision for loan losses	0.00	220,000.00
Net interest income after provision for loan losses	**26,037,877.23**	**25,876,378.52**
Non-interest income:		
Commissions and fees from insurance sales	11,002,811.76	10,503,902.52
Trust service fees	1,884,851.01	1,888,490.67
Service charges on deposits	1,566,618.09	1,503,601.39
Net gains from loan sales	2,971,480.43	983,537.85
Net gains from securities transactions	2,765,969.57	4,084,394.02
Other income	1,607,760.10	1,401,713.46
Total non-interest income	**21,799,490.96**	**20,365,639.91**
Non-interest expense:		
Compensation and benefits	21,602,849.32	19,274,369.25
Premises and equipment, net	3,582,562.82	3,890,135.15
Other expenses	9,778,698.21	10,039,201.19
Total non-interest expense	**34,964,110.35**	**33,203,705.59**
Income before income tax expense	12,873,257.84	13,038,312.84
Income tax expense	3,405,148.88	3,640,826.18
Net Income	**$9,468,108.96**	**$9,397,486.66**
Net Income per common share	**$123.94**	**$123.03**

Changes In Loan Reserves

	For the years ended December 31, 2012	2011
Balance at beginning of year	$9,258,434.70	$9,258,275.80
Recoveries credited	249,022.15	152,186.92
Provision	0.00	220,000.00
Losses charged	(563,502.64)	(372,028.02)
Balance at end of year	$8,943,954.21	$9,258,434.70

Changes In Stockholders' Equity

	For the years ended December 31, 2012	2011
Balance at beginning of year	$100,639,438.85	$94,122,701.62
Net Income	9,468,108.96	9,397,486.66
Issued 10 and 11 shares common stock, respectively	16,205.00	17,556.00
Cash dividends declared	(3,743,257.00)	(3,590,218.00)
Change in unrealized gain on securities available for sale, net of tax	(1,851,437.57)	2,382,285.25
Change in pension and post retirement benefit plans funded status, net of tax	(1,281,564.95)	(1,690,372.68)
Balance at end of year	$103,247,493.29	$100,639,438.85

Photograph taken by Tom Stock
of The Adirondack Trust Company staff
in front of the Main Office on November 27, 2012.

ADIRONDACK TRUST INVESTMENTS®
TRUST & ESTATE SERVICES • INVESTMENTS • RETIREMENT

(518) 584-5844

Investment Offices

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31 Church Street
Saratoga Springs

Glens Falls
24 Maple Street
Glens Falls

ADIRONDACK TRUST INSURANCE®
PERSONAL. BUSINESS. EMPLOYEE BENEFITS.

(518) 584-5300

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Amsure
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12 Computer Drive West
Albany

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24 Maple Street
Glens Falls

Milton
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Milton

Queensbury
376 Bay Road
Queensbury

Exit 11
322 Ruhle Road
Ballston Lake

Malta
2510 Route 9
Malta

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Saratoga Springs

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650 Maple Avenue
Wilton

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