The Adirondack Trust Company

2013 ANNUAL REPORT

THE ADIRONDACK TRUST COMPANY® BANKING. INSURANCE. INVESTMENTS.

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DOUGLASS T. MABEE

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STEPHAN R. von SCHENK

CHARLES V. WAIT

CHARLES V. WAIT, JR.

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Executive Vice President

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Regional President - North Country Region

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Senior Vice President & Trust Officer

JACK ARNOLD, CPA
SVP, Chief Administrative Officer
Chief Financial Officer & Treasurer

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Vice President & Chief of Security

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Assistant Treasurer

PATRICIA M. HUDSON
Assistant Treasurer

MARY B. McLAUGHLIN
Assistant Treasurer

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Assistant Treasurer

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Senior Vice President &
Chief Operating Officer

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Senior Vice President - Insurance

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Corporate Secretary & Executive Assistant

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Senior Vice President

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Assistant Vice President

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Assistant Vice President

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Assistant Treasurer

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Assistant Treasurer

SALLY HARRISON
Assistant Treasurer

TAMRA L. LYNCH
Assistant Treasurer

JO-ANN M. O'REILLY
Assistant Treasurer

MARCY J. THOMPSON
Assistant Treasurer

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RICHARD F. CARMAN, JR.
Vice President - Audit

SHARON L. CHARBONNEAU
Vice President & Compliance Officer

A Note to Our Stockholders:

In my letter to you summarizing the results for 2011, I predicted that the challenges posed by continued low interest rates and shrinking gains in our securities portfolio would probably cause the following year to be a "reset" year concerning net income. I was off by a year. Good fortune last year only postponed the inevitable and 2013 turned out to be our reset. Net gains from residential loan sales declined by 40 percent, or $1.2 million, as a direct result of a 60 percent decline in the amount of refinanced residential mortgages. This was a trend nationally as well as locally and a direct result of the early stages of what we believe to be a cyclical, if not a secular, rise in interest rates. Securities sales also diminished as a direct result of rising rates and we realized $2.7 million less in gains as compared to last year.

Combined, these two factors accounted for the entire reduction in net income of slightly more than $2 million. Despite this decline, the level and quality of earnings at your bank remained strong. Operating earnings adjusted for these two factors actually grew by 5.2 percent. Return on assets of .73 percent and return on equity of 7.03 percent are above average for banks in New York State.

Also at year's end, a single account moved $45 million from cash in a custody account to investments in the stock market. This had been anticipated and caused a slight decline in total assets when compared to year-end numbers from 2012. Nevertheless, core deposits, not including custody accounts held by our trust department, grew by $10 million or 1.3 percent. Average deposits for the year increased a very strong $60 million or 7.3 percent.

Other developments at your bank were uniformly positive. Loan balances grew substantially during the year. Commercial loan balances grew by 7.4 percent, residential loans by 11.1 percent, and consumer loans by an astounding 90.6 percent. For an unprecedented 13th year in a row, your bank was named the top Small Community Bank Lender by the Small Business Administration (SBA) for our region.

At the same time, credit quality improved as net loan losses were an insignificant $76 thousand and delinquent loans declined from 1.53 to 1.33 as a percentage of total loans outstanding.

Stockholders equity grew by 5.9 percent to $109 million or 11 percent of total assets.

Our insurance and trust divisions both produced record net income this year. Insurance commissions rose 2.5 percent to $11.3 million and trust service fees grew by 9 percent to just over $2 million.

We are pleased that Saratoga area residents continue to vote us as the best bank, the best mortgage company, the best insurance agency and the best financial planner in the region, as published by *The Saratogian* newspaper in their Reader's Choice Awards. Finally, the *American Banker Magazine* listed your bank as one of the top 200 community banks in the country.

Looking ahead we see more challenges which, of course, will also present opportunity. We expect mortgage refinancing to remain subdued in a rising rate environment. Similarly, we do not expect securities gains to be a significant contributor to net income in the next few years. Compliance issues generated by a plethora of new and complicated regulations will require additional resources. We will convert our core information technology to a new platform this year and additional resources will be allocated to that endeavor as well. All in all, there is plenty of work to be done and we are confident that we will continue to provide you with satisfactory results.

This year also saw the celebration of the sesquicentennial of thoroughbred racing in Saratoga. There were so many great events that I can't possibly single out individuals for commendation without doing a disservice to all those who gave so generously of their time and their money to make sure that this past year's celebration was the best in our history. But I would also be remiss if I didn't mention the Floral Fete Promenade. It was inspired by and funded by Marylou Whitney and John Hendrickson, organized by Maureen Lewi and Marlene Okby and attended by nearly 40,000 people (according to the local police). One of our senior citizens told me he hadn't seen that many people in downtown Saratoga since VE Day.

2013 also brought the return of a movie theatre, a grocery store, and a bookstore to our downtown. Saratoga has become not only the summer place to be, but the upstate hotspot, the city in the country with all of the amenities you might find in a much larger metropolis. Your bank is well poised to take full advantage of the growing strength of Saratoga's economy.

This past year we lost a dear friend and valued colleague. Dennis Dammerman was a director of this bank for only a few short years, but his contributions were many, his advice consistently sound, and his criticisms always to the heart of the matter and given in the spirit of challenging management to be the best they could be. We will miss him.

Thank you for your support.

Charles V. Wait
President

Financial Narrative:

For the twelve months ended December 31, 2013, average assets and deposits were up 6.5% and 7.3%, respectively. At year end, total assets of $992 million and deposits of $856 million were down 2.4% and 3.8% respectively. This decline in total deposits was due to the withdrawal of $45 million of deposits from a custody account in the Trust department. Core deposits excluding those held in short term custody accounts grew 1.3%.

Gross loans were up 12.7% or $63.9 million to a record $568 million. The growth in loans was experienced across all lines of business, especially in the consumer lending area. Other assets were up 41% due to the increase in the value of pension assets. Other liabilities were up 15% due to dividends payable. Last year the dividend declared in November was paid in November due to the pending changes in the tax code effective January 1, 2013. Total equity of $109 million was up 5.9% to a very strong 11% of total assets.

Net income of $7.4 million was down in 2013, although when we adjust for the change in gains from securities and loan sales, our earnings were up 5% compared to last year. Net interest income was up 1.3% primarily due to the significant growth in our loan portfolio.

Non-interest income was down $3.1 million or 14.4%, entirely as a result of reduced loan sales and securities gains. Our insurance agency reported record revenue and earnings in 2013. Revenue of $11.3 million was up $279 thousand or 2.5% compared to last year and earnings were up 3.5%. Trust revenue was also up $173 thousand. Our asset quality improved and net charge offs were only 1 basis point of total loans.

Non-interest expense was down $285 thousand or just under 1%. Compensation and benefits expense was down $622 thousand or 2.9% this year. Occupancy costs were up in 2013 primarily due to the new branch at Exit 11 of the Northway, and extensive renovation work of our main office.

Return on average assets and equity for 2013 was 73 basis points and 7.03% respectively. These results are above the average of all NYS Banks which averaged 58 basis points and 5.15% for return on average assets and equity, respectively.

Highlights of the financial statements are presented on the following pages.

Respectfully submitted,

Jack Arnold, CPA
Senior Vice President, Chief Administrative Officer,
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, 2013	2012
ASSETS		
Cash and due from banks	$63,766,654.33	$192,196,257.21
Securities:		
Obligations of U.S. government	196,223,126.11	165,668,152.02
Obligations of federal agencies	20,049,689.71	25,582,779.12
Obligations of state and municipal subdivisions	45,097,516.50	47,688,303.74
Corporate	34,485,471.03	23,114,990.50
Other securities	311,799.12	310,799.12
Loans:		
Commercial loans	338,907,176.36	313,801,950.67
Residential loans	170,725,300.72	154,561,211.58
Other loans	57,931,644.44	35,932,363.98
Allowance for loan losses	(8,867,996.04)	(8,943,954.21)
Accrued interest receivable	2,575,230.02	2,428,882.72
Bank premises, furniture and fixtures, net	27,168,889.23	26,062,526.05
Other real estate owned	3,215,937.23	3,515,302.70
Goodwill and other intangibles, net	20,723,566.89	20,673,076.72
Other assets	19,289,897.01	13,718,076.19
TOTAL ASSETS	**$991,603,902.66**	**$1,016,310,718.11**

Liabilities and Stockholders' Equity

	As of December 31, 2013	2012
LIABILITIES		
Demand deposits	$198,595,156.28	$227,018,998.93
Savings deposits	457,958,391.36	445,232,706.23
Time deposits	199,411,877.38	217,951,560.73
Total deposits	855,965,425.02	890,203,265.89
Other liabilities	26,287,958.87	22,859,958.93
TOTAL LIABILITIES	**882,253,383.89**	**913,063,224.82**
STOCKHOLDERS' EQUITY		
Common stock ($50 par value per share; 80,000 shares authorized, 76,414 and 76,403 shares issued, respectively)	3,820,700.00	3,820,150.00
Surplus	6,569,598.00	6,552,460.00
Retained earnings	99,788,468.61	96,261,467.40
Accumulated other comprehensive loss	(828,247.84)	(3,386,584.11)
TOTAL STOCKHOLDERS' EQUITY	**109,350,518.77**	**103,247,493.29**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$991,603,902.66**	**$1,016,310,718.11**

Statements of Income

	For the years ended December 31, 2013	2012
Interest and dividend income:		
Interest and fees on loans	$23,414,386.41	$23,138,271.25
Interest and dividends on securities	4,190,906.81	5,067,678.68
Other interest income	259,288.93	321,225.07
Total interest and dividend income	**27,864,582.15**	**28,527,175.00**
Interest expense:		
Deposits and escrow accounts	1,477,374.98	2,489,297.77
Net interest income	**26,387,207.17**	**26,037,877.23**
Provision for loan losses	0.00	0.00
Net interest income after provision for loan losses	**26,387,207.17**	**26,037,877.23**
Non-interest income:		
Commissions and fees from insurance sales	11,281,902.98	11,002,811.76
Trust service fees	2,057,991.91	1,884,851.01
Service charges on deposits	1,545,647.88	1,566,618.09
Net gains from loan sales	1,777,592.62	2,971,480.43
Net gains from securities transactions	60,744.71	2,765,969.57
Other income	1,936,493.43	1,607,760.10
Total non-interest income	**18,660,373.53**	**21,799,490.96**
Non-interest expense:		
Compensation and benefits	20,980,486.21	21,602,849.32
Premises and equipment, net	4,021,577.35	3,582,562.82
Other expenses	9,677,448.76	9,778,698.21
Total non-interest expense	**34,679,512.32**	**34,964,110.35**
Income before income tax expense	10,368,068.38	12,873,257.84
Income tax expense	2,982,435.17	3,405,148.88
Net Income	**$7,385,633.21**	**$9,468,108.96**
Net Income per common share	**$96.67**	**$123.94**

Changes In Loan Reserves

	For the years ended December 31, 2013	2012
Balance at beginning of year	$8,943,954.21	$9,258,434.70
Recoveries credited	64,732.16	249,022.15
Provision	0.00	0.00
Losses charged	(140,690.33)	(563,502.64)
Balance at end of year	$8,867,996.04	$8,943,954.21

Changes In Stockholders' Equity

	For the years ended December 31, 2013	2012
Balance at beginning of year	$103,247,493.29	$100,639,438.85
Net Income	7,385,633.21	9,468,108.96
Issued 11 and 10 shares common stock, respectively	17,688.00	16,205.00
Cash dividends declared	(3,858,632.00)	(3,743,257.00)
Change in unrealized gain on securities available for sale, net of tax	(1,333,976.35)	(1,851,437.57)
Change in pension and post retirement benefit plans funded status, net of tax	3,892,312,62	(1,281,564.95)
Balance at end of year	$109,350,518.77	$103,247,493.29

Photograph taken by Tom Stock
of The Adirondack Trust Company staff
in front of the Main Office on December 3, 2013.

ADIRONDACK TRUST INVESTMENTS
TRUST & ESTATE SERVICES • INVESTMENTS • RETIREMENT

(518) 584-5844

Investment Offices

Main Office
31 Church Street • Saratoga Springs

Glens Falls
24 Maple Street • Glens Falls

Adirondack Trust Investments takes pride in providing financial solutions to individuals, families, corporations and nonprofit institutions. As trusted advisers, our financial planning, investment management and trust and estate professionals are committed to helping our clients build wealth and achieve their financial goals. It is our philosophy that the delivery of financial planning and investment management services begins and ends with the client. We believe that highly personalized communication with each of our clients is paramount to providing financial solutions and having a successful long-term relationship.

ADIRONDACK TRUST INSURANCE
PERSONAL. BUSINESS. EMPLOYEE BENEFITS.

(518) 584-5300

Insurance Offices

Main Office
31 Church Street • Saratoga Springs

Amsure
(A Division of Adirondack Trust Insurance)
12 Computer Drive West • Albany

Cambridge
5 Washington Street • Cambridge

For over a half century Adirondack Trust Insurance Agency has developed customized insurance solutions for a diverse range of business clients, nonprofit organizations, individuals and families. As a local company Adirondack Trust Insurance Agency takes the time to develop insurance solutions that are based on the relationship with our clients. We work to understand their needs and tailor an insurance program that protects each client while managing their cost.

THE ADIRONDACK TRUST COMPANY®
BANKING. INSURANCE. INVESTMENTS.

www.adirondacktrust.com

Main Office

473 Broadway
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(518) 584-5844

Branch Offices

Ballston Spa
224 Church Avenue
Ballston Spa

Exit 15
3017 Route 50
Wilton

Glens Falls
24 Maple Street
Glens Falls

Milton
162 Northline Road
Milton

Queensbury
376 Bay Road
Queensbury

Exit 11
322 Ruhle Road
Ballston Lake

Malta
2510 Route 9
Malta

Prestwick Chase
100 Saratoga Boulevard
Saratoga Springs

South Broadway
112 South Broadway
Saratoga Springs

Wilton
650 Maple Avenue
Wilton

West Church
315 Church Street
Saratoga Springs