The Adirondack Trust Company

2014 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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President

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Regional President - North Country Region

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Senior Vice President &
Chief Operating Officer

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Senior Vice President - Insurance

MICHAEL J. O'CONNELL
Senior Vice President

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Vice President

MATTHEW P. D'ABATE
Vice President

GEORGE T. HATHAWAY
Vice President

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Vice President

MARK NAGELSMITH
Vice President

DAVID W. ROBERTSON
Vice President

MEREDITH L. RUMPF
Vice President

ROBERT E. WARD, JR.
Vice President

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

JOHN M. FULLERTON
Senior Vice President & Trust Officer

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Corporate Secretary & Executive Assistant

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Vice President & Chief of Security

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Vice President

EDWARD P. HART, III
Vice President

ANGELA M. KEDIK
Vice President

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Vice President

JASPER A.D. SHUPE, III
Vice President

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Vice President

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RICHARD F. CARMAN, JR.
Vice President - Audit

NATALIE I. WAIT, ESQ.
Vice President - Regulatory Affairs

SHARON L. CHARBONNEAU
Vice President & Compliance Officer

A Note to Our Stockholders:

Transition. Change.

I had the opportunity this September to trace the warpaths that my father followed in Europe in World War II and that my grandfather followed in World War I. I traveled from Omaha Beach in Normandy through France to Soissons and Chateau Thierry. I stood on Omaha Beach, drove by the infamous hedgerows of Normandy, walked through the remnants of first world war trenches, and visited the town of Ypres, completely destroyed by the Germans and completely rebuilt by Belgium after the war. I visited Jouainges, a small town where my grandfather enlisted in the French army in 1917. I visited museums and graveyards. Many, many graveyards.

We talk quite a bit these days about the speed of change and the difficulty in managing it. But how much faster was change in those days of war, when in a few moments the work of generations upon generations could be obliterated with a few bombs or artillery shells? My travels made me appreciate the hardship and sacrifices our ancestors made, but they also made me think about the change they must have had to deal with coming home. The change in their youth from frat boys to seasoned warriors, the change in their lives from killers to family men, the change from having a job to looking for one, the change in their country from war time production to a peacetime economy. This is the harsh reality for all veterans of all wars.

So, the pace of our technological change from phones to smartphones, from computers to iPads, credit cards to debit cards, and branch banking to web banking, while brisk to be sure, seems pretty modest and manageable compared to the changes of 70 years ago.

2014 was a year of transition and change at your bank.

Stephan von Schenk became the first president of The Adirondack Trust Company without a last name of Wait in 76 years. We also converted our core data processing system from "Banker 80", 1980 that is, to the best available technology. We made a significant investment in people and software to make sure that our compliance efforts are equal to the challenge of the flood of new law and regulation streaming forth from Washington and New York. And at the very end of the year we were presented with an opportunity to invest in one of our subsidiaries which will be accretive to earnings beginning next year. As Jack Arnold mentions in his remarks, if all of the one time adjustments were to be backed out of our income statement for the year, net income would have been slightly better in 2014 than it was in 2013. Total equity capital declined slightly by 1.8 percent as a result of a revaluation of our net pension plan assets. In spite of the decline in the recorded value, our pension plan remains considerably overfunded, a very unusual and positive condition for a defined benefit plan.

Your bank reached a number of important milestones during the year. The Trust division reached an all time high of $500 million in total assets and record net income for the year. Loans increased 10 percent, deposits 5.3 percent, both new records. Consumer loans increased a remarkable 64 percent above last year's numbers, thanks to a strong effort by Jenifer Riggi and her indirect car loan department. This helped to offset a market decline in home mortgage refinancing. In spite of the growth in our loan portfolio, delinquent loans declined for the third year in a row to less than 1 percent of loans outstanding. Our insurance subsidiary reported record revenue for the year.

Because of the investments made in 2014, net income will begin an upward trajectory next year in spite of increased compliance costs and continued pressures on our net interest margin. We thank you for your continued support and look forward to the new year.

Charles V. Wait
Chairman

2014

In Memoriam

Michael T. Dennis
1946 - 2014

Director 1990 - 2011

Financial Narrative:

For the twelve months ended December 31, 2014, total assets of $1.03 billion and deposits of $901 million were up 4.2% and 5.3% respectively.

Gross loans were up 10% or $56 million to a record $624 million. The growth in loans was primarily in the commercial real estate and consumer lines of business. The investment portfolio was down 21% or $62 million, as we allowed the portfolio to run off to help fund loan growth, increase the yield on earning assets and maintain a strong liquidity position. Other assets were down 5.7% due to the decrease in the value of our pension asset, although it still maintains a healthy funded status. The decline in equity of 1.8% is also due in part to the decline in the value of our pension asset, net of taxes.

Net income of $4.8 million was down in 2014, primarily due to a one-time pretax expense of $2.25 million, associated with our continued initiative to grow one of our subsidiary companies. We are confident that this investment will further strengthen our company and should provide continued high yields. Net interest income was up 1.9% primarily due to the significant growth in our loan portfolio. We have provided $750 thousand to the loan loss reserve this year.

Non-interest income was down $881 thousand or 4.7%, due primarily to lower net gains from loan sales. Our Insurance Agency reported record revenue of $11.4 million, up $78 thousand or 70 basis points compared to last year. Trust revenue was also up $156 thousand. Check processing continues to decline as electronic payment processing continues to increase.

Non-interest expense was up $3 million, due primarily to the one-time expense mentioned above. We also increased our contribution to our ESOP plan this year by $700 thousand to $1 million. Compensation and benefits expense was down slightly compared to last year. Data processing cost were up due to cost associated with the implementation of our new core operating system. Consulting costs were up $582 thousand as we have engaged outside professional services for assistance with auditing and regulatory compliance support in response to the growing regulatory environment in our industry.

Return on average assets and equity for 2014 was 47 basis points and 4.1%, respectively. After adjusting for the on-time expenses incurred this year, the return on average assets and equity would be 74 basis points and 6.4%, respectively.

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

Respectfully submitted,

Jack Arnold, CPA
CAO, CFO & 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®
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Consolidated Statements of Condition

Assets

	As of December 31, 2014	As of December 31, 2013
ASSETS		
Cash and due from banks	$115,174,200.70	$63,766,654.33
Securities:		
Obligations of U.S. government	154,364,066.29	196,223,126.11
Obligations of federal agencies	16,241,802.92	20,049,689.71
Obligations of state and municipal subdivisions	35,914,531.34	45,097,516.50
Corporate	27,146,144.99	34,485,471.03
Other securities	311,799.12	311,799.12
Loans:		
Commercial loans	358,077,964.20	338,907,176.36
Residential loans	170,669,738.99	170,725,300.72
Other loans	94,610,157.22	57,931,644.44
Allowance for loan losses	(9,338,306.37)	(8,867,996.04)
Accrued interest receivable	2,306,969.40	2,575,230.02
Bank premises, furniture and fixtures, net	26,596,700.41	27,168,889.23
Other real estate owned	3,150,541.30	3,215,937.23
Goodwill and other intangibles, net	20,257,737.09	20,723,566.89
Other assets	18,196,490.80	19,289,897.01
TOTAL ASSETS	**$1,033,680,538.40**	**$991,603,902.66**

Liabilities and Stockholders' Equity

	As of December 31, 2014	As of December 31, 2013
LIABILITIES		
Demand deposits	$224,490,202.36	$198,595,156.28
Savings deposits	485,327,533.58	457,958,391.36
Time deposits	191,158,579.59	199,411,877.38
Total deposits	900,976,315.53	855,965,425.02
Other liabilities	25,334,028.34	26,287,958.87
TOTAL LIABILITIES	**926,310,343.87**	**882,253,383.89**
STOCKHOLDERS' EQUITY		
Common stock ($50 par value per share; 80,000 shares authorized, 76,425 and 76,414 shares issued, respectively)	3,821,250.00	3,820,700.00
Surplus	6,588,518.00	6,569,598.00
Retained earnings	100,651,674.73	99,788,468.61
Accumulated other comprehensive loss	(3,691,248.20)	(828,247.84)
TOTAL STOCKHOLDERS' EQUITY	**107,370,194.53**	**109,350,518.77**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$1,033,680,538.40**	**$991,603,902.66**

Statements of Income

	For the years ended December 31, 2014	2013
Interest and dividend income:		
Interest and fees on loans	$24,511,934.44	$23,414,386.41
Interest and dividends on securities	3,550,125.85	4,190,906.81
Other interest income	137,806.94	259,288.93
Total interest and dividend income	**28,199,867.23**	**27,864,582.15**
Interest expense:		
Deposits and escrow accounts	1,322,263.25	1,477,374.98
Net interest income	**26,877,603.98**	**26,387,207.17**
Provision for loan losses	750,000.00	0.00
Net interest income after provision for loan losses	**26,127,603.98**	**26,387,207.17**
Non-interest income:		
Commissions and fees from insurance sales	11,359,750.50	11,281,902.98
Trust service fees	2,214,404.25	2,057,991.91
Service charges on deposits	1,355,043.55	1,545,647.88
Net gains from loan sales	405,530.67	1,777,592.62
Net gains from securities transactions	142,081.31	60,744.71
Other income	2,302,803.09	1,936,493.43
Total non-interest income	**17,779,613.37**	**18,660,373.53**
Non-interest expense:		
Compensation and benefits	20,926,554.17	20,980,486.21
Premises and equipment, net	4,101,400.53	4,021,577.35
Other expenses	12,633,226.51	9,677,448.76
Total non-interest expense	**37,661,181.21**	**34,679,512.32**
Income before income tax expense	6,246,036.14	10,368,068.38
Income tax expense	1,485,435.52	2,982,435.17
Net Income	**$4,760,600.62**	**$7,385,633.21**
Net Income per common share	**$62.30**	**$96.67**

Changes In Loan Reserves

	For the years ended December 31, 2014	2013
Balance at beginning of year	$8,867,996.04	$8,943,954.21
Recoveries credited	103,085.80	64,732.16
Provision	750,000.00	0.00
Losses charged	(382,775.47)	(140,690.33)
Balance at end of year	$9,338,306.37	$8,867,996.04

Changes In Stockholders' Equity

	For the years ended December 31, 2014	2013
Balance at beginning of year	$109,350,518.77	$103,247,493.29
Net Income	4,760,600.62	7,385,633.21
Issued 11 and 11 shares common stock, respectively	19,470.00	17,688.00
Cash dividends declared	(3,897,394.50)	(3,858,632.00)
Change in unrealized gain on securities available for sale, net of tax	(324,851.35)	(1,333,976.35)
Change in pension and post retirement benefit plans funded status, net of tax	(2,538,149.01)	3,892,312,62
Balance at end of year	$107,370,194.53	$109,350,518.77

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

THE ADIRONDACK TRUST COMPANY® BANKING. INSURANCE. INVESTMENTS.

www.adirondacktrust.com

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Ballston Lake

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Wilton

Malta
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Malta

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Glens Falls

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Saratoga Springs

Milton
162 Northline Road
Milton

South Broadway
112 South Broadway
Saratoga Springs

Queensbury
376 Bay Road
Queensbury

Wilton
650 Maple Avenue
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Cambridge
5 Washington Street • Cambridge