The Adirondack Trust Company

2015 ANNUAL REPORT

THE ADIRONDACK TRUST COMPANY® BANKING. INSURANCE. INVESTMENTS.

Directors

WALLACE W. ALLERDICE, JR.

GUY ALONGE, III

SUSAN LAW DAKE

DR. PHILIP A. GLOTZBACH

JOHN T. HEDBRING

DOUGLASS M. MABEE

DOUGLASS T. MABEE

CHRISTEL A. MACLEAN

STEPHEN F. SULLIVAN

STEPHAN R. von SCHENK

CHARLES V. WAIT

CHARLES V. WAIT, JR.

Senior Management Team

CHARLES V. WAIT
Chairman of the Board & CEO

STEPHAN R. von SCHENK
President

CHARLES V. WAIT, JR. ESQ.
Executive Vice President

KATHIE L. DUNCAN
Regional President - North Country Region

DAVID W. BROWN
Senior Vice President & Chief Operating Officer

EUGENE G. QUIRK
Senior Vice President - Insurance

MICHAEL J. O'CONNELL
Senior Vice President

BRYAN M. BOOTH
Vice President

JOHN D. CONROE
Vice President

ANDREW R. FERRERA
Vice President

EDWARD P. HART, III
Vice President

EDWARD M. LENZ
Vice President

MICHAEL D. MURRAY
Vice President

DAVID W. ROBERTSON
Vice President

CHRISTOPHER J. ROSE
Vice President

MAUREEN A. VEDDER
Vice President

ANDREW J. WISE
Vice President

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

JOHN M. FULLERTON
Senior Vice President & Trust Officer

KATHLEEN M. MacAREVEY
Corporate Secretary & Executive Assistant

JOHN J. BOYD
Vice President & Chief of Security

MICHAEL S. BRODT
Vice President

MATTHEW P. D'ABATE
Vice President

MATTHEW C. HARRISON
Vice President

ANGELA M. KEDIK
Vice President

LUCILE M. LUCAS
Vice President

KELLEY H. PELUSO
Vice President

SUSANNE M. ROGAN
Vice President

MEREDITH L. RUMPF
Vice President

ROBERT E. WARD, JR.
Vice President

* * * * * * * * * * * *

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:

Happy Birthday Saratoga!

In 1819, the town of Saratoga Springs, with a population of less than 2,000, was detached from the town of Saratoga. In 1826, the upper settlement near the Old Bryan Inn and the lower settlement near Congress Park were incorporated as the village of Saratoga Springs, distinct from the town of Saratoga Springs, and not to be confused with the separate town of Saratoga and village of Schuylerville. By 1830, the population of the village of Saratoga Springs had grown to 2,204. Even so, there were more sheep in the village than people. In 1871, a new town hall was built which still stands and which cost $110 thousand at the time, or the equivalent of $2.2 million today. This was a bargain considering that the city will spend more than that to build a substation for the fire department on the east side of the city in 2016.

There were significant double digit growth spurts in the village's population in the 1880's and 1890's, but by the turn-of-the-century, anti-gambling sentiment began to stifle economic activity. In 1911, Canfield's Casino, originally called the Saratoga Club and in whose kitchen the "club sandwich" originated, was sold to the village in a transaction made possible by Senator Edgar Truman Brackett, President of The Adirondack Trust Company. The thoroughbred racetrack was closed during 1911 and 1912, causing the failure of the Congress Hall Hotel, which was also sold to the village. Spencer Trask, Saratoga's Warren Buffet, had died in a train accident in 1909 and his widow, Katrina, had been searching for a suitable way to memorialize Saratoga's greatest benefactor. The series of unfortunate events which led the village to purchase Congress Hall and Canfield's Casino presented the perfect opportunity for Trask's widow. The expanded park now had new property upon which a memorial could be built. In a letter to her close friend, Senator Brackett, Katrina told him that two winters at Lake George where she had retired in an effort to heal her ailing eyesight had given her a vision of what should be done. She hired Daniel Chester French to design "The Spirit of Life", which stands as one of our nation's finest examples of memorial sculpture. The statue was dedicated June 26th, 1915, just less than two months after the village of Saratoga Springs had become the City of Saratoga Springs. While the city was struggling, and would continue to


Photo courtesy of Rumara Jewett

struggle, with the challenges of a rapidly changing nation, it now had a symbol of spirit and courage which would inspire future generations to meet those challenges.

One hundred years later, the city has grown up. More than 27,000 people call Saratoga Springs home and there aren't very many sheep left. The city is affluent and expanding. The racetrack is prosperous, an unusual condition in an industry that is suffering. New hotel rooms, apartments and restaurants are being added and the unemployment rate is among the lowest in the State of New York. But after 100 years, "The Spirit of Life" was showing her age and looking a bit worse for wear. She needed a spa treatment. And boy, did she get one! The community of Saratoga raised almost $700,000 to restore the lady to her original splendor, an amount only slightly more than French's statue originally cost in today's dollars. Katrina's vision has been realized again and her memorial to her husband has become the symbol of his community's rebirth - a grand birthday present for Saratoga from Saratoga.

Another very famous couple, Saratoga's first couple, has endowed a new park within Congress Park and a new statue to celebrate Saratoga's centennial. Marylou Whitney and John Hendrickson commissioned Gwen Reardon to create a sculpture of the famous thoroughbred racehorse, Native Dancer. "The Spirit of Life" celebrates the famous waters of Saratoga, the wellspring of our city's original prosperity. The Whitney/Hendrickson Centennial Park honors the history of thoroughbred racing in the spa city which has extended that prosperity long after government regulations suffocated mineral cures. Happy Birthday indeed and many happy returns!


Photo courtesy of Tom Stock

And as the city of Saratoga Springs has regained its position as one of the great places in this country to live and to relax, so too has your bank prospered. Deposits grew this year by almost 8 percent, well above the rate of inflation of less than one percent. Loans increased 3 percent. Other real estate owned fell by 93 percent to an insignificant $216 thousand and loan delinquencies were less than one percent of total outstandings. Trust assets and revenues and insurance revenues all reached new records and as promised in last year's letter, net income after taxes resumed its upward trajectory, increasing 23 percent from the prior year.

As 2015 drew to a close, a few of your bank's long serving employees retired. We wish John Boyd, John Priest, Sr., Mary Duxbury and John Fullerton well in their well-earned escape from the daily grind.

We lost two close friends in 2015. Ruth Robbins was a stockholder for 62 years. Her father, Spencer Eddy, was on the board of directors for 43 years and represented the founding family's interests. Ruth loved her association with the bank almost as much as she enjoyed her annual visits to the racetrack. Ruth knew my grandfather, my father, and my son as well as myself. She charmed four generations of the Wait family. Willard E. Grande, first elected to the board in 1974, served 36 years as a director. Bill was a good friend and a director valued for his sparse but valuable advice and direction. Both leave gaps in our minds and hearts and both will be missed.

Looking forward to 2016, we have challenges. The narrow margins on our traditional banking business are problematic, as are the increased overhead costs associated with regulation and compliance. The competition for loans is brisk as new competitors from the cloud crowd the market place. New international capital rules are ridiculously complex and in some cases contradictory and self-defeating. Nonetheless, I am quite sure our talented staff will find opportunities embedded in these challenges.

Thank you again for your continued support and Happy New Year!

Charles V. Wait
Chairman

Financial Narrative:

For the twelve months ended December 31, 2015, total assets of $1.1 billion and deposits of $972 million were up 7.5% and 7.8% respectively.

Gross loans were up 2.7% or $16.7 million to a record $640 million. The growth in loans was primarily in the commercial real estate business. The investment portfolio was up 38.3% or $89.6 million, as we began to reinvest our excess liquidity during the latter part of the fourth quarter. Other real estate owned was down $2.9 million due to the sale of the Roosevelt Motel in the second quarter. Other comprehensive loss increased $848 thousand, primarily due to the decline in the market value of our investment portfolio.

Net income of $5.9 million was up 23.1% or $1.1 million. Net interest income declined slightly as loan and investment growth occurred substantially in the fourth quarter. Also, $13 million of higher yielding municipal securities were called late in the first quarter and the yield on both loan and investment portfolios migrated downward.

Non-interest income was up $1.8 million or 10.2%, due primarily to a $1.9 million or 16.4% increase in our Insurance Agency's revenue, offset by declines in both service charges on deposit accounts and net gains on security sales. Our Insurance Agency reported record revenue of $13.2 million. Trust revenue was also up $128 thousand.

Non-interest expense was up slightly as higher compensation and benefits expense offset the decline in other expenses. 2014 included a large expense of $2.25 million associated with our continued initiative to grow one of our subsidiary companies. We also incurred another $260 thousand in expense related to the same initiative this year. We increased our contribution to our ESOP plan by $200 thousand to $1.2 million. Compensation expense was up 5% primarily related to growth in our insurance agency production and support staff. Pension and post-retirement benefit expenses were also up by a combined total of $470 thousand, due primarily to the decline in the discount rate used by our actuaries to value these benefit obligations. Data processing fees were up $400 thousand due to the implementation of our new core operating system. Additional expenses of $200 thousand were incurred due primarily to debit card and checking account charge offs and other debit card related charges. Consulting costs were down $160 thousand.

Return on average assets and equity were 55 basis points and 5.3%, respectively.

Respectfully submitted,

Jack Arnold, CPA
SVP, CAO, CFO & Treasurer

THE ADIRONDACK TRUST COMPANY®
BANKING. INSURANCE. INVESTMENTS.

We take banking to heart.®

SOUTH BROADWAY 25 YEARS 1990 - 2015 SILVER ANNIVERSARY

112 South Broadway • Saratoga Springs (518) 584-5844

THE ADIRONDACK TRUST COMPANY®
BANKING. INSURANCE. INVESTMENTS.

Consolidated Statements of Condition

Assets

	As of December 31, 2015	As of December 31, 2014
ASSETS		
Cash and due from banks	$89,693,356.50	$115,174,200.70
Securities:		
Obligations of U.S. government	234,219,557.00	154,364,066.29
Obligations of federal agencies	9,528,919.91	16,241,802.92
Obligations of state and municipal subdivisions	33,555,405.65	35,914,531.34
Corporate	46,001,447.89	27,146,144.99
Other securities	311,799.12	311,799.12
Loans:		
Commercial loans	370,854,543.08	358,077,964.20
Residential loans	171,860,202.67	170,669,738.99
Other loans	97,316,723.42	94,610,157.22
Allowance for loan losses	(9,359,935.63)	(9,338,306.37)
Accrued interest receivable	2,354,055.20	2,306,969.40
Bank premises, furniture and fixtures, net	26,309,297.16	26,596,700.41
Other real estate owned	216,259.00	3,150,541.30
Goodwill and other intangibles, net	20,245,719.35	20,257,737.09
Other assets	18,065,212.92	18,196,490.80
TOTAL ASSETS	**$1,111,172,563.24**	**$1,033,680,538.40**

Liabilities and Stockholders' Equity

	As of December 31, 2015	As of December 31, 2014
LIABILITIES		
Demand deposits	$273,749,950.06	$224,490,202.36
Savings deposits	509,652,959.29	485,327,533.58
Time deposits	188,223,467.68	191,158,579.59
Total deposits	971,626,377.03	900,976,315.53
Other liabilities	31,039,161.69	25,334,028.34
TOTAL LIABILITIES	**1,002,665,538.72**	**926,310,343.87**
STOCKHOLDERS' EQUITY		
Common stock ($50 par value per share; 80,000 shares authorized, 76,437 and 76,425 shares issued, respectively)	3,821,850.00	3,821,250.00
Surplus	6,608,258.00	6,588,518.00
Retained earnings	102,615,592.25	100,651,674.73
Accumulated other comprehensive loss	(4,538,675.73)	(3,691,248.20)
TOTAL STOCKHOLDERS' EQUITY	**108,507,024.52**	**107,370,194.53**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$1,111,172,563.24**	**$1,033,680,538.40**

Statements of Income

	For the years ended December 31, 2015	2014
Interest and dividend income:		
Interest and fees on loans	$24,673,437.83	$24,511,934.44
Interest and dividends on securities	3,252,081.85	3,550,125.85
Other interest income	228,559.63	137,806.94
Total interest and dividend income	**28,154,079.31**	**28,199,867.23**
Interest expense:		
Deposits and escrow accounts	1,286,918.56	1,322,263.25
Net interest income	**26,867,160.75**	**26,877,603.98**
Provision for loan losses	250,000.00	750,000.00
Net interest income after provision for loan losses	**26,617,160.75**	**26,127,603.98**
Non-interest income:		
Commissions and fees from insurance sales	13,221,720.29	11,359,750.50
Trust service fees	2,342,645.18	2,214,404.25
Service charges on deposits	1,209,983.46	1,355,043.55
Net gains from loan sales	502,401.28	405,530.67
Net gains from securities transactions	9,264.97	142,081.31
Other income	2,314,403.91	2,302,803.09
Total non-interest income	**19,600,419.09**	**17,779,613.37**
Non-interest expense:		
Compensation and benefits	22,502,859.97	20,926,554.17
Premises and equipment, net	4,132,755.31	4,101,400.53
Other expenses	11,425,142.93	12,633,226.51
Total non-interest expense	**38,060,758.21**	**37,661,181.21**
Income before income tax expense	8,156,821.63	6,246,036.14
Income tax expense	2,294,923.11	1,485,435.52
Net Income	**$5,861,898.52**	**$4,760,600.62**
Net Income per common share	**$76.70**	**$62.30**

Changes In Loan Reserves

	For the years ended December 31, 2015	2014
Balance at beginning of year	9,338,306.37	$8,867,996.04
Recoveries credited	239,092.13	103,085.80
Provision	250,000.00	750,000.00
Losses charged	(467,462.87)	(382,775.47)
Balance at end of year	$9,359,935.63	$9,338,306.37

Changes In Stockholders' Equity

	For the years ended December 31, 2015	2014
Balance at beginning of year	107,370,194.53	$109,350,518.77
Net Income	5,861,898.52	4,760,600.62
Issued 12 and 11 shares common stock, respectively	20,340.00	19,470.00
Cash dividends declared	(3,897,981.00)	(3,897,394.50)
Change in unrealized (loss) gain on securities available for sale, net of tax	(1,137,346.14)	(324,851.35)
Change in pension and post retirement benefit plans funded status, net of tax	289,918.61	(2,538,149.01)
Balance at end of year	108,507,024.52	$107,370,194.53

Photograph taken by Tom Stock
of The Adirondack Trust Company staff
in front of the Main Office on December 1, 2015.

THE ADIRONDACK TRUST COMPANY®
BANKING. INSURANCE. INVESTMENTS.

www.adirondacktrust.com

Main Office

473 Broadway
Saratoga Springs, New York
(518) 584-5844

Branch Offices

Ballston Spa
224 Church Avenue
Ballston Spa

Exit 11
322 Ruhle Road
Ballston Lake

Exit 15
3017 Route 50
Wilton

Malta
2510 Route 9
Malta

Glens Falls
24 Maple Street
Glens Falls

Prestwick Chase
100 Saratoga Boulevard
Saratoga Springs

Milton
162 Northline Road
Milton

South Broadway
112 South Broadway
Saratoga Springs

Queensbury
376 Bay Road
Queensbury

Wilton
650 Maple Avenue
Wilton

West Church
315 Church Street
Saratoga Springs

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 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