

The Adirondack Trust Company



2006 ANNUAL REPORT



Directors

WALLACE W. ALLERDICE, JR.

SUSAN LAW DAKE

MICHAEL T. DENNIS

PHILIP A. GLOTZBACH

WILLARD E. GRANDE

THOMAS J. HEALY

JOHN T. HEDBRING

DOUGLASS M. MABEE

J. THOMAS ROOHAN, JR.

HARRY D. SNYDER

STEPHEN F. SULLIVAN

STEPHAN R. von SCHENK

CHARLES V. WAIT

JANE A. WAIT

Officers

CHARLES V. WAIT
Chairman, President & CEO

STEPHAN R. von SCHENK
Executive Vice President

DAVID W. BROWN
Senior Vice President & Chief Operating Officer

EUGENE G. QUIRK
Senior Vice President - Insurance

KATHLEEN M. STEVENS
Corporate Secretary & Executive Assistant

MICHAEL S. BRODT
Vice President

RICHARD J. FERGUSON
Vice President

LUCILE M. LUCAS
Vice President

KELLEY H. PELUSO
Vice President

DAVID W. ROBERTSON
Vice President

NORMAN J. SMITH
Vice President - Human Resources

ANDREW J. WISE
Vice President

CAROL A. CATONE
Assistant Vice President

JOHN D. CONROE
Assistant Vice President

JAMES FLYNN
Assistant Vice President

STEWART J. HATCH
Assistant Vice President

PHILIP W. KLEIN
Assistant Vice President

MEREDITH L. RUMPF
Assistant Vice President

ROSEANNE ANTOLICK
Assistant Treasurer

JUDITH CASSIER
Assistant Treasurer

LISA M. LENGYEL
Assistant Treasurer

MARY B. McLAUGHLIN
Assistant Treasurer

JO-ANN M. O'REILLY
Assistant Treasurer

LINDA A. WATTERS
Assistant Treasurer

JOHN M. FULLERTON
Senior Vice President & Trust Officer

JOHN ARNOLD, CPA
Treasurer

JOHN J. BOYD
Vice President & Chief of Security

VIRGINIA A. CLARK
Vice President

GEORGE T. HATHAWAY
Vice President

DOUGLASS M. MABEE
Vice President

THOMAS E. RATSEP
Vice President

D. ROBERT SCRIBNER
Vice President

ROBERT E. WARD, JR.
Vice President

JOHN P. BARRY
Assistant Vice President

SHARON L. CHARBONNEAU
Assistant Vice President & Compliance Officer

MATTHEW P. D'ABATE
Assistant Vice President

EDWARD P. HART, III
Assistant Vice President

ANGELA M. KEDIK
Assistant Vice President

LYNN A. POHL
Assistant Vice President

NEWMAN E. WAIT, III
Assistant Vice President

DOUGLAS R. BLEYL
Assistant Treasurer

GLENDALL C. LARKIN, III
Assistant Treasurer

TAMRA L. LYNCH
Assistant Treasurer

CHARLENE S. MUSOLFF
Assistant Treasurer

MARCY J. THOMPSON
Assistant Treasurer

SUSAN I. WELCH
Assistant Treasurer

JUDITH M. ZANELLA
Assistant Treasurer

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RICHARD F. CARMAN, JR.
Vice President - Audit

A Note to Our Stockholders:

Ice Storms and Inversions

As I write to you, I am comfortably ensconced in the warm confines of my office. Outside, the world is encased in ice, in the grips of a rare and beautiful ice storm.

Ice storms have always fascinated us. John Adams, when he was nearly 85 years of age, wrote this beautiful description of an ice storm that was in the process of destroying his beloved apple orchard:

“A rain had fallen from some warmer region in the skies when the cold here below was intense to an extreme. Every drop was frozen wherever it fell in the trees, and clung to the limbs and sprigs as if it had been fastened by hooks of steel. The earth was never more universally covered with snow, and the rain had frozen upon a crust on the surface which shone with the brightness of burnished silver. The icicles on every sprig glowed in all the luster of diamonds. Every tree was a chandelier of cut glass. I have seen a Queen of France with eighteen millions of livres of diamonds upon her person and I declare that all the charms of her face and figure added to all the glitter of her jewels did not make an impression on me equal to that presented by every shrub. The whole world was glittering with precious stones.”¹

In 1994, Rick Moody, published a novel he had written at least partially at Yaddo in Saratoga Springs. Titled “The Ice Storm” it focuses on the difficulties of the Hood and Carver families and around a tragedy set in motion by the after effects of this natural phenomenon.

An ice storm begins when falling snow passes through a warm layer of air and melts into rain. Subsequently it passes through colder air and the rain becomes super cooled yet remains unfrozen. When this super cooled rain strikes the ground, a tree, the road, or any object colder than itself, it spreads out and freezes instantly.

This inversion of the normal course of rain, snow and ice is one of winter’s wonders creating great beauty as the world becomes encased in crystal, as well as great destruction, as the weight of this ice bears down, snapping trees and power lines.

The banking world’s version of an ice storm is the inverted yield curve. Also a rare event, an inverted yield curve occurs when short term interest rates (i.e. the 90 day Treasury bill) are higher than longer term interest rates (i.e. the ten year Treasury bond). This inversion of the natural course of interest rates has a destructive effect on bank earnings, with none of the beauty of an ice storm.

Normally, banks make a profit on the spread between long term and short term rates. Banks borrow from their depositors on a short term basis, and pay them short term rates, and then lend this money to others for a longer period of time at long term rates. So, for instance, if short term rates are 1%, and long term rates are 6%, the banks’ spread is 5%. This spread should cover the banks’ expenses and provide a profit to the stockholders.

As of this writing, we are experiencing an interest rate inversion in the market. The 90 day Treasury bill rate is 4.92% and the ten year Treasury bond rate is 4.68%. This negative spread is .24% and like the heavy weight of ice that drags down the limbs of trees, the inverted yield curve weighs heavily on bank profits.

Normally this inversion is steeper, of short duration, and almost always anticipates a recession. This current inversion has lasted nearly a year and while there is no sign of a recession ahead, there is also no indication that a normal yield curve will soon return. Consequently, no relief for bank profits is imminent.

Fortunately for your bank, the effect of compressed spreads and margins caused by the above circumstances has been more than offset by an increase in volume of our businesses. We are therefore happy to report the following new records.

Total assets increased this year by \$73 million to \$673,530,304, a gain of 12.2%. Total deposits grew 13.5% while Money Market accounts increased 39.8%. Insurance revenue rose 35.9% to \$4,020,606. 1,876 new customers signed on to WebWi\$e Online Banking, a gain of 29%. Equity increased to a new record of \$74,052,155. Net Income rose 3.0% to \$8,516,522, a new record, and under the circumstances a significant achievement. Accordingly, we have continued with our special dividend, also a new record payout to stockholders.

This past year we were again named the top Community Bank Small Business Administration Lender in the Capital Region and again voted the best bank, the best mortgage company, the best insurance

office, and the best financial planner in *The Saratogian's* annual reader survey. We completed our acquisition of Clients *first* Insurance Agency and the redesign of our website. We introduced a new business express line of credit, which we believe will make the routine credit needs of our small business customers easier to satisfy.

We challenged Wal Mart Stores Inc. to match our incremental charitable contributions dollar for dollar up to \$100,000. We wrote their president, and after receiving no reply we restated the invitation in the local press. Unfortunately, Wal Mart was too busy recording record profits to consider reinvesting in the communities which provide them with their earnings. Shame on them.

At the end of this year we said goodbye to two old friends. Milford D. Lester, a Director of The Adirondack Trust Company for eighteen years, passed away on December 31st. Milford was well known for his faith, integrity, service to others and unfailing humor. We express our condolences to his wife Nancy, with the knowledge that he will be missed.

Thomas J. Healy, after twenty years of faithful service to this board, retired at the end of 2006. Tom's helpful advice guided this bank and we wish him well in his retirement.

We face many challenges in 2007. The upkeep of our new office building, which we will occupy by March, will add considerably to expenses. The yield curve will continue to compress margins and challenge earnings well into the new year. Competition will increase significantly as three new banks have announced intentions to open offices in Saratoga Springs.

And yet, just as there is always a thaw after an ice storm, the yield curve always reverts to normal. I am confident that our team of employee-stockholders will continue to excel and your bank will continue to be the leading financial service company in Saratoga County.



Charles V. Wait
President



¹ David McCullough. *John Adams*. New York: Simon & Schuster, 2001



Consolidated Statements of Condition

Assets

	As of December 31,	
	2006	2005
ASSETS		
Cash and Due from Banks	\$22,044,052.42	\$22,594,838.17
Securities:		
Obligations of U.S. Government	150,911,755.85	114,549,958.78
Obligations of Federal Agencies	2,437,231.31	6,021,110.24
Obligations of State and Municipal Subdivisions	56,199,943.47	47,103,635.04
Other Securities	275,849.12	766,722.62
Federal Funds sold	28,960,000.00	21,000,000.00
Mortgage loans	98,332,640.56	92,084,430.78
Other loans, net	267,656,270.73	263,348,174.88
Accrued interest receivable	4,058,877.97	2,776,311.91
Bank premises, furniture and fixtures	18,848,028.36	13,132,661.83
Goodwill and other intangibles	4,192,203.92	4,135,947.30
Other Assets	19,613,451.07	12,903,022.79
TOTAL ASSETS	\$673,530,304.78	\$600,416,814.34

Liabilities and Stockholders' Equity

	As of December 31,	
	2006	2005
LIABILITIES		
Demand deposits	\$121,300,529.10	\$113,048,474.57
Savings deposits	276,450,093.57	225,815,728.65
Time deposits	193,233,532.51	182,047,693.01
Total Deposits	590,984,155.18	520,911,896.23
Other Liabilities	8,493,994.25	9,245,490.69
TOTAL LIABILITIES	\$599,478,149.43	\$530,157,386.92
STOCKHOLDERS' EQUITY		
Common stock (\$50 par value per share; 80,000 shares authorized, 75,578 and 75,328 shares issued, respectively)	\$3,778,900.00	\$3,766,400.00
Surplus	5,430,230.00	5,132,730.00
Retained earnings	64,764,462.06	61,386,767.79
Unrealized gain (loss) on securities available for sale, net of tax	78,563.29	(26,470.37)
TOTAL STOCKHOLDERS' EQUITY	\$74,052,155.35	\$70,259,427.42
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$673,530,304.78	\$600,416,814.34

See accompanying note to consolidated financial statements.

Statements of Income

	For the years ended December 31,	
	2006	2005
Interest and Dividend Income:		
Interest and fees on loans	\$25,758,870.31	\$22,748,624.84
Interest and dividends on securities	8,311,979.28	6,008,193.36
Interest on Federal Funds sold and other	1,830,530.08	883,673.59
Total Interest and Dividend Income	\$35,901,379.67	\$29,640,491.79
Interest Expense:		
Deposits and escrow accounts	10,988,979.82	5,204,915.93
Net Interest Income	24,912,399.85	24,435,575.86
Provision for loan losses	0.00	400,000.00
Net Interest Income after provision for Loan Losses	\$24,912,399.85	\$24,035,575.86
Non-Interest Income:		
Commissions and fees from insurance sales	\$4,020,605.76	\$2,958,639.86
Trust service fees	2,169,672.52	2,212,115.65
Service charges on deposits	1,963,141.29	2,047,260.29
Net gains from loan sales	177,729.33	70,341.88
Net (losses) gains from securities transactions	(1,363.96)	18,266.86
Other income	805,789.02	739,555.14
Total Non-Interest Income	\$9,135,573.96	\$8,046,179.68
Non-Interest Expense:		
Compensation and benefits	\$13,114,698.48	\$11,431,309.12
Premises and equipment, net	2,862,005.70	2,851,658.83
Other expenses	6,337,784.83	6,055,524.11
Total Non-Interest Expense	\$22,314,489.01	\$20,338,492.06
Income before income tax expense	11,733,484.80	11,743,263.48
Income tax expense	3,216,962.59	3,474,339.82
Net Income	\$8,516,522.21	\$8,268,923.66
Net Income per Common Share	\$112.86	\$109.95

See accompanying note to consolidated financial statements.

Changes In Loan Reserves

	For the years ended December 31,	
	2006	2005
Balance at beginning of year	\$9,163,140.80	\$9,000,000.00
Recoveries credited	156,449.69	210,815.19
Provision	0.00	400,000.00
Losses charged	(273,750.84)	(447,674.39)
Balance at end of year	<u>\$9,045,839.65</u>	<u>\$9,163,140.80</u>

See accompanying note to consolidated financial statements.

Changes In Stockholders' Equity

	For the years ended December 31,	
	2006	2005
Balance at beginning of year	\$70,259,427.42	\$68,353,337.37
Net Income	8,516,522.21	8,268,923.66
Change in unrealized Gain (Loss) on Securities AFS, net of tax	105,033.72	(1,570,435.61)
Issued 250 and 278 shares common stock, respectively	310,000.00	329,430.00
Cash dividends	(5,138,828.00)	(5,121,828.00)
Balance at end of year	<u>\$74,052,155.35</u>	<u>\$70,259,427.42</u>

See accompanying note to consolidated financial statements.

Note to consolidated financial statements:

Amounts in the prior year consolidated financial statements have been reclassified whenever necessary to conform to the current year presentation.

Photograph taken by Roxanne Brydges following an ice storm on Monday, January 15, 2007 outside our South Broadway Branch.



We take banking to heart.®

www.adirondacktrust.com

Main Office

473 Broadway • Saratoga Springs, N.Y. • (518) 584-5844

Branch Offices

Ballston Spa 220 Church Ave. Ballston Spa	Exit 15 3017 Route 50 Wilton	Glens Falls 24 Maple St. Glens Falls
Malta 2510 Route 9 Malta	Milton 162 Northline Rd. Ballston Spa	Prestwick Chase 100 Saratoga Blvd. Saratoga Springs
South Broadway 112 South Broadway Saratoga Springs	West Church 315 Church St. Saratoga Springs	Wilton 650 Maple Ave. Wilton



(518) 584-5300

Insurance Offices

Main Office 10 Railroad Pl. Saratoga Springs	Ballston Lake 39 Main St. Ballston Lake
Cambridge 33 Gilbert St., Suite E Cambridge	Malta 2510 Route 9 Malta