The Adirondack Trust Company 2008 ANNUAL REPORT



Directors

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PHILIP A. GLOTZBACH

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STEPHEN F. SULLIVAN

STEPHAN R. von SCHENK

CHARLES V. WAIT

JANE A. WAIT

Officers

CHARLES V. WAIT Chairman of the Board, President & CEO

> STEPHAN R. von SCHENK Executive Vice President

KATHIE L. DUNCAN Regional President - North Country Region

JOHN M. FULLERTON Senior Vice President & Trust Officer

JOHN ARNOLD, CPA Chief Financial Officer & Treasurer

JOHN J. BOYD Vice President & Chief of Security

SHARON L. CHARBONNEAU Vice President & Compliance Officer

> EDWARD P. HART, III Vice President

GEORGE T. HATHAWAY Vice President

> LUCILE M. LUCAS Vice President

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DAVID W. ROBERTSON Vice President

ROBERT E. WARD, JR. Vice President

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JOHN D. CONROE Assistant Vice President

JAMES FLYNN Assistant Vice President

PHILIP W. KLEIN Assistant Vice President

LYNN A. POHL Assistant Vice President

JASPER A.D. SHUPE, III Assistant Vice President

ROSEANNE ANTOLICK Assistant Treasurer

KATHY A. CIFRINO Assistant Treasurer

PAMELA J. FOOTE Assistant Treasurer

GLENDALL C. LARKIN, III Assistant Treasurer

> TAMRA L. LYNCH Assistant Treasurer

JO-ANN M. O'REILLY Assistant Treasurer

LINDA A. WATTERS Assistant Treasurer DAVID W. BROWN Senior Vice President & Chief Operating Officer

> EUGENE G. QUIRK Senior Vice President - Insurance

KATHLEEN M. MacAREVEY Corporate Secretary & Executive Assistant

> MICHAEL S. BRODT Vice President

RICHARD J. FERGUSON Vice President

STEWART J. HATCH Vice President

EDWARD M. LENZ Vice President - Human Resources

MICHAEL J. O'CONNELL Vice President

THOMAS E. RATSEP Vice President

D. ROBERT SCRIBNER Vice President

> ANDREW J. WISE Vice President

CAROL A. CATONE Assistant Vice President

MATTHEW P. D'ABATE Assistant Vice President

ANGELA M. KEDIK Assistant Vice President

CHARLENE S. MUSOLFF Assistant Vice President

MEREDITH L. RUMPF Assistant Vice President

NEWMAN E. WAIT, III Assistant Vice President

DOUGLAS R. BLEYL Assistant Treasurer

ANDREW R. FERRARA Assistant Treasurer

PATRICIA M. HUDSON Assistant Treasurer

> LISA M. LENGYEL Assistant Treasurer

MARY B. McLAUGHLIN Assistant Treasurer

MARCY J. THOMPSON Assistant Treasurer

> SUSAN I. WELCH Assistant Treasurer

RICHARD F. CARMAN, JR. Vice President - Audit

A Note to Our Stockholders:

Scylla and Charybdis are two sea monsters of Greek mythology who were situated on opposite sides of the Strait of Messina between Sicily and Calabria, in Italy. They were located close enough to each other that they posed an inescapable threat to passing sailors; avoiding Charybdis meant passing too closely to Scylla and vice versa.

Scylla was a creature who lived in a rock, and regularly ate sailors who passed by too closely. Her appearance has varied in classical literature; she was described by Homer in *The Odyssey* as having six heads perched on long necks along with twelve feet, while in Ovid's *Metamorphoses*, she was depicted as having the upper body of a nymph, with her midriff composed of dog's heads. Charybdis had a single gaping mouth that sucked in huge quantities of water and belched them out three times a day, creating whirlpools.

Odysseus was forced to choose which monster to confront while passing through the strait; he opted to pass by Scylla and lose only a few sailors, rather than risk the loss of his entire ship into a whirlpool. Jason and the Argonauts were able to navigate through without incident due to Hera's assistance, while Aeneas was able to bypass the deadly strait altogether.

This mythology is the progenitor of the phrase "between a rock and a hard place" and is a recurring theme in Western literature and art. Modern references to the pair can be found in rock music, the internet and even in video games.

Managing a bank during this past year has seemed like making a series of choices between Scylla and Charybdis. The economic trauma we have experienced this year surpassed even my pessimistic outlook in last year's annual report. Fortunately a combination of sound banking principals, conservative management, and a measure of serendipity has brought us through these challenges.

Total assets increased \$44 million to \$761,551,745.27, a gain of 6.1 percent. Deposits increased \$35 million or 5.6 percent to a new record. Net income rose modestly to \$8,675,592.04, also a new record. Equity rose to \$82,072,905.34 or \$1,078.40 per share. Return on average assets was 1.17 percent and return on equity was 10.86 percent. These returns were not records, but well ahead of our expectations and significantly in excess of most other banks.

Trust assets declined by 2 percent which, given the circumstances, is a remarkably good number. New business and sound investments offset a decline in the Standard and Poor's 500 index of 37 percent.

Loans shrank last year by 1 percent as economic conditions made our

customers less eager to borrow. Loan delinquencies held steady over the year at just under 2 percent of total loans, but net charge-offs rose to .46 percent of total loans.

In February 2008 we acquired Amsure Associates, Inc., a leading provider of insurance in the Capital Region. As a result, net income from our insurance subsidiary increased from \$616,188 in 2007 to \$2,476,635 in 2008, and "goodwill and associated other intangibles" on our balance sheet increased by \$16,461,377.

As a result of these favorable numbers, BauerFinancial, Inc. again awarded your bank its coveted 5 star rating. We continue to be the only bank in Saratoga County to enjoy this distinction.

The Capital District Business Review included your bank in its annual list of the fastest growing companies, health insurance agencies, property and casualty companies and commercial mortgage lenders. This year, for the first time we made their list of the top 10 banks in the Capital Region and also for the first time made their list of the largest private sector employers.

Closer to home, we won *The Saratogian's* Reader's Choice Awards for the best bank, the best mortgage company, the best insurance agency and the best financial planner.

New initiatives at your bank include the introduction of statement savings accounts, e-statements, online deposit account opening, Smart Savings CDs (a stimulus check savings program), and online mortgage applications.

We are gratified by this year's results, but remain cautious and even pessimistic as the effects of the recession take hold. Local manufacturing companies have begun to announce layoffs and furloughs, hotels and motels report declining occupancy and residential real estate volume has declined by half although so far average prices have remained stable. Sales tax revenue and mortgage recording taxes will certainly decline putting pressure on municipal budgets.

We are anticipating further margin pressure as the federal government continues to provide liquidity to the financial system. Our FDIC premiums will increase by at least \$1 million dollars this coming year as bank failures are resolved. As the recession continues we will see an increase in delinquencies and most likely net charge-offs. We expect additions to our reserve for loan losses.

There are positive developments. Saratoga County is nearing completion of a new water system which will support development. A new corporate structure for the previously announced AMD micro chip fabrication plant to be located in the Luther Forest Technology Campus

should allow construction to begin this spring. When completed, the direct employment from this facility in Malta will be around 1,400 new jobs. Further stimulus from the Federal Government should begin to have a positive impact on the economy by the second half of 2009. The decline in gasoline prices from over \$4 per gallon to less than \$2 is in effect a substantial stimulus. The decline in mortgage interest rates from over 6 percent last year to less than 5 percent will reduce housing costs. These positive developments will present opportunities that we will be in a good position to take advantage of.

I would also like to add that your bank has elected not to participate in the United States Department of the Treasury's TARP (Troubled Asset Relief Program). This program is designed to provide capital to banks in the form of senior preferred stock. This stock carries a dividend of 5 percent for the first 5 years, and 9 percent thereafter. The stock cannot be redeemed for the first 3 years. Our current capital, including the reserve for loan losses is nearly \$90 million, or 11.78 percent of assets. This level of capital is far in excess of regulatory requirements and peer group averages. We see no need for additional capital from outside the bank, nor do we want the government as a partner in our enterprise. At 5 percent, the cost of the government's investment is well above our current cost of capital, and therefore expensive as well as unnecessary.

2009 will see significant challenges. The economy will remain weak at least through the first 6 months. Margin pressures will continue. Delinquencies will rise. Local, State, and perhaps even Federal taxes will increase for your bank. FDIC premiums will also rise. It is doubtful that we will be reporting record earnings in our next annual report. Nevertheless your bank will remain profitable, strongly capitalized, and well positioned to take advantage of opportunities that will almost surely present themselves as the financial landscape changes in significant and unprecedented ways. With any luck, like Aeneas, we will be able to avoid the choice between Scylla and Charybdis altogether.

It is Martin Luther King, Jr. Day and I find my thoughts reflecting on tomorrow's inauguration of Barack Obama. Our new president will face the most challenging economic situation since the great depression. On behalf of the board of directors, your bank pledges itself to support the president in his efforts to guide this great country through the many narrow and dangerous straits ahead.

Charles V. Wait President





Consolidated Statements of Condition

Assets

Liabilities and Stockholders' Equity

	As of Dece 2008	ember 31, 2007
ASSETS		
Cash and Due from Banks	\$31,358,213.99	\$25,862,822.04
Securities:		
Obligations of U.S. Government	189,976,005.50	205,535,776.64
Obligations of Federal Agencies Obligations of State and	6,300,998.07	6,477,226.94
Municipal Subdivisions	78,129,982.91	50,317,067.52
Other Securities	15,488,532.22	286,849.12
Mortgage loans	97,317,308.12	101,727,746.47
Other loans, net	290,608,185.90	289,509,837.95
Accrued interest receivable	3,863,882.05	4,003,593.93
Bank premises, furniture and fixtures	20,172,815.10	20,399,565.37
Goodwill and other intangibles	20,978,937.70	4,517,561.11
Other Assets	7,356,883.71	8,886,564.73
TOTAL ASSETS	\$761,551,745.27	\$717,524,611.82

	As of Dec	ember 31, 2007
LIABILITIES		
Demand deposits	\$108,438,972.68	\$114,484,345.65
Savings deposits	333,018,801.43	301,186,799.62
Time deposits	222,788,875.85	213,248,890.21
Total Deposits	664,246,649.96	628,920,035.48
Other Liabilities	15,232,189.97	11,394,900.66
TOTAL LIABILITIES	\$679,478,839.93	\$640,314,936.14
STOCKHOLDERS' EQUITY		
Common stock (\$50 par value per share; 80,000 shares authorized, 76,106 and		
75,841 shares issued, respectively)	\$3,805,300.00	\$3,792,050.00
Surplus	6,144,355.00	5,785,280.00
Retained earnings	72,858,707.84	68,216,291.80
Accumulated other comprehensive loss	(735,457.50)	(583,946.12)
TOTAL STOCKHOLDERS' EQUITY	\$82,072,905.34	\$77,209,675.68
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$761,551,745.27	\$717,524,611.82

See accompanying note to consolidated financial statements.

Statements of Income

	For the years en	ded December 31, 2007
Interest and Dividend Income:		
Interest and fees on loans	\$25,721,747.18	\$27,712,006.26
Interest and dividends on securities Interest on Federal Funds sold	7,782,107.50	10,545,007.55
and other	159,015.43	1,485,768.00
Total Interest and Dividend Income	\$33,662,870.11	\$39,742,781.81
Interest Expense:		
Deposits and escrow accounts	10,342,194.80	14,883,595.85
Net Interest Income	23,320,675.31	24,859,185.96
Provision for loan losses	1,000,000.00	0.00
Net Interest Income after provision for Loan Losses	\$22,320,675.31	\$24,859,185.96
Non-Interest Income: Commissions and fees from insurance sales	\$10,385,564.97 1,865,906.39 1,923,040.26 243,085.88 1,190,504.65 741,708.98	\$4,303,803.59 2,174,529.13 1,935,391.52 170,129.14 1,002,944.73 886,885.22
Total Non-Interest Income	\$16,349,811.13	\$10,473,683.33
Non-Interest Expense: Compensation and benefits Premises and equipment, net Other expenses	\$15,525,141.96 3,660,658.84 7,761,673.72	\$13,831,849.59 3,149,300.71 6,547,230.20
Total Non-Interest Expense	\$26,947,474.52	\$23,528,380.50
Income before income tax expense	11,723,011.92	11,804,488.79
Income tax expense	3,047,419.88	3,195,913.05
Net Income	\$8,675,592.04	\$8,608,575.74
Net Income per Common Share	\$114.11	\$113.68

See accompanying note to consolidated financial statements.

Changes In Loan Reserves

	For the years ended December 31,	
	2008	2007
Balance at beginning of year	\$8,491,683.63	\$9,045,839.65
Recoveries credited	300,978.48	393,334.31
Provision	1,000,000.00	0.00
Losses charged	(2,125,471.77)	(947,490.33)
Balance at end of year	\$7,667,190.34	\$8,491,683.63

See accompanying note to consolidated financial statements.

Changes In Stockholders' Equity

	For the years end 2008	ded December 31, 2007
Balance at beginning of year	\$77,209,675.68	\$74,052,155.35
Net Income	8,675,592.04	8,608,575.74
AFS, net of taxIssued 265 and 263 shares	1,938,764.42	374,005.42
common stock, respectively	372,325.00	368,200.00
Cash dividends declared	(4,033,176.00)	(5,156,746.00)
Change in pension and post retirement benefit plans funded		
status, net of tax	(2,090,275.80)	(1,036,514.83)
Balance at end of year	\$82,072,905.34	\$77,209,675.68

See accompanying note to consolidated financial statements.



We take banking to heart.

www.adirondacktrust.com

Main Office

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

Branch Offices

Ballston SpaExit 15220 Church Ave.3017 Route 50Ballston SpaWilton

Glens FallsMalta24 Maple St.2510 Route 9Glens FallsMalta

Milton Prestwick Chase
162 Northline Rd. 100 Saratoga Blvd.
Ballston Spa Saratoga Springs

South BroadwayWest Church112 South Broadway315 Church St.Saratoga SpringsSaratoga Springs

Wilton 650 Maple Ave. Wilton



(518) 584-5844

Investment Offices

Main Office

31 Church Street Saratoga Springs, New York

Glens Falls

24 Maple Street Glens Falls, New York



(518) 584-5300

Insurance Offices

Main Office

31 Church Street Saratoga Springs, New York

Cambridge

33 Gilbert Street, Suite E Cambridge, New York

Amsure

(A Division of Adirondack Trust Insurance)
12 Computer Drive West
Albany, New York

Note to consolidated financial statements:

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

