The Adirondack Trust Company



2007 ANNUAL REPORT



Directors

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CHARLES V. WAIT

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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

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MARCY J. THOMPSON Assistant Treasurer

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Senior Vice President & Chief Operating Officer

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KATHY A. CIFRINO Assistant Treasurer

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GLENDALL C. LARKIN, III Assistant Treasurer

> TAMRA L. LYNCH Assistant Treasurer

JO-ANN M. O'REILLY Assistant Treasurer

LINDA A. WATTERS Assistant Treasurer

RICHARD F. CARMAN, JR. Vice President - Audit

A Note to Our Stockholders:

A williwaw is a form of a katabatic wind or downdraft. These winds are a type of fall or gravity wind caused by cold air being pulled down a high land formation by gravity. In Antarctica, katabatic winds are commonly recorded at speeds of 100 knots and have even reached 200 knots. In Alaska and Patagonia where these winds are common, they can be particularly challenging to yachtsmen. They typically arrive at night after a windless period. Vessels riding a quiet anchor in a protected harbor may have no more than five minutes warning before they are hit by gale force winds which can last for an hour before abating. Unsuspecting vessels may drag anchor or even be sunk by these powerful winds.

In August of this year the residential mortgage market experienced its own version of the williwaw. The proximate effect was a liquidity crisis in the short term money markets used to finance companies active in the subprime mortgage market. Declining home prices and rising interest rates on adjustable rate mortgages (ARMs) had led to increased delinquencies in subprime loans. By October of 2007 16 percent of subprime loans were 90-days delinquent or in foreclosure proceedings, roughly triple the rate of 2005. By January 2008 this number had increased to 21 percent. To put these numbers into perspective, our comparable delinquency rate on residential mortgages and home equity loans is 1.24 percent as of December 31, 2007. In a successful effort to ease the liquidity crisis the Federal Reserve in cooperation with other central banks provided \$100 billion in the form of short term loans to banks. This prompt action has alleviated the liquidity crisis, but of course has not solved the underlying problem. To date a variety of financial companies including mortgage originators, money center banks and brokerage firms have written off well over \$100 billion worth of mortgages and mortgage related investments. This is roughly equal to the total amount spent by the American public to resolve the savings and loan crisis of the 1980s. Credible estimates predict that 20 percent of the equity of these companies will be lost. And there is more bad news - bond insurance companies such as Ambac Financial Group, Inc. (AMBAC) have had their credit ratings downgraded, and credit card delinquencies are beginning to rise. The economy is beginning to soften. Some economists are predicting a recession, indeed some say we are already in one.

Fortunately your bank is safely anchored in a quiet harbor. Despite a decline in our net interest margin we were able to post record results for this year. Deposits increased nearly \$38 million or 6.4 percent. Loans increased \$25 million or almost 7 percent while nonperforming loans as a percentage of total loans declined 6 percent. Total capital increased 4 percent to \$77 million. Earnings increased to \$8.6 million, a new record

and under the circumstances a significant achievement. Return on assets was healthy at 1.24 percent and return on equity was 11.2 percent. These results were achieved in spite of a decline in our net interest margin and a significant increase in operating costs associated with our new initiative in Glens Falls and the construction of our new five story office building in downtown Saratoga. A remarkable 28 percent increase in net income from our insurance division, \$25 million in net new loans, and a \$1 million gain in investment earnings offset an increase in noninterest expense of more than \$1 million. Net loan losses were modest at .14 percent of total loans, well below our 20 year moving average, and significantly below our peer average of .25 percent.

Our balance sheet remains sound. Total capital is \$77 million or 11.8 percent of assets without including our reserve for loan losses which amounted to \$8.4 million at year end. We have net unrealized gains in our securities portfolio of \$738,000. We own approximately \$263 million of securities all of which are either direct obligations of the US government, or are general obligation bonds of municipalities whose credit ratings without regard to insurance are investment grade. We own no structured investment vehicles (SIVs), collateralized debt obligations (CDO's), revenue bonds, subprime mortgages or paper issued by companies investing in these types of instruments. We have no structured notes, nor are we a member of the Federal Home Loan Bank. All of our loans are loans we have originated and that we service. We do not use brokers to find loans, and we do not buy loans from others. Our pension and post retirement benefit plans are funded beyond the expected future obligation owed to our employees. Our loan to deposit ratio stands at 64 percent which ensures that we will have the liquidity to provide for the legitimate credit needs of our communities without having to seek outside capital or borrow from other banks.

We had many significant achievements this year beyond what shows in the numbers. We were again voted the best bank, the best mortgage company, the best insurance agency and the best financial planner in *The Saratogian's* Readers Choice Awards for 2007. We were named the top community bank lender in the Albany area by the Small Business Administration (SBA) for the seventh consecutive year and tied for first place in the 34 counties comprising the Syracuse district of the SBA. The Capital District Business Review named us as one of the fastest growing companies in the region for 2007 based on growth in revenues. The Capital District Business Review also listed us as the 11th largest bank (12th last year), the seventh largest property and casualty insurance agency and the 28th largest privately held company in the Capital region (32nd last year).

We moved into our new five story, twenty five thousand square foot

office building on March 6th. We named the building the Mabee Building in honor of four generations of that family who have been loyal owners, board members and employees of The Adirondack Trust Company. The Mabee family has also supported many local charities including Bethesda Episcopal Church, Saratoga Care and Wesley Nursing Home. It has been my very great honor and pleasure to have worked for, employed, and been friends with three generations of the Mabee family.

In June we were presented with an important opportunity. Management rearrangements by a competitor gave us the ability to attract two extremely capable lenders from the Glens Falls area. We asked Kathie Duncan and Michael O'Connell to join our team and lead our efforts to grow our franchise in the North Country. We named Kathie our North Country Regional President. Kathie is the first woman to join our senior management team and our first regional president. We have one office in downtown Glens Falls, are building a second office on Bay Road in Queensbury, have acquired land for a third office, and may consider a fourth as well. We have been pleased with our initial results. In fact a good percentage of our new deposits and loans have come from our efforts in the Glens Falls area.

This coming year promises a new set of challenges for us. The financial markets will continue to be troubled as long as the residential mortgage market remains unsettled. Until then, the magnitude of future losses remains unknown. The markets will react to this uncertainty with fear which will result in continued volatility. Interest rates will continue to decline for borrowers and depositors. Because our loans re-price more quickly than our deposits, our net interest margin will also continue to decline. Expenses will rise as we invest further in the Glens Falls area. The insurance market will remain soft which will challenge our ability to increase net income from our agency. As the stock market languishes our trust department will be challenged to increase revenue. If our local economy enters a recession, loan delinquencies and ultimately net charge offs could increase. This bleak outlook will be mitigated to some degree by our very capable staff and by opportunities as yet unseen, but we believe that 2008 will be difficult.

I feel compelled at this point to comment for a moment on the state of racing in New York. While I am a Trustee of the New York Racing Association (NYRA), these comments are made by me in my capacity as President of the leading financial institution in Saratoga County and one deeply concerned about the future of thoroughbred racing in New York State. There is no more important industry in our county than racing. It supports our horse farms, our agriculture, our hotels, motels, restaurants, etc... The economic effect of racing on our communities is of the same magnitude as the Christmas season. Without racing, many businesses would fail. Three years ago a study commissioned by the Saratoga County

Industrial Development Agency found that the summer racing meet in Saratoga generated more than \$200 million in additional spending in the region, and more than \$12 million in tax revenue annually.

It is unbelievable that as of the date of this report, the State of New York has been unable to reach an agreement on the thoroughbred racing franchise. The effect of this delay and violation of the states own timetable has been to create uncertainty about the racing meet in Saratoga. Bookings are down at local hotels and motels because patrons are hesitant to reserve rooms until the franchise is settled. This has forced some properties to borrow against their lines of credit earlier in the season than they would otherwise. Governor Eliot Spitzer proposed a resolution in September of 2007. His memorandum of understanding (MOU) with the New York Racing Association called for a reduction and reorganization of the board of trustees, a 30 year franchise agreement, the surrender of any land claims by NYRA and other various stipulations. By surrendering any claim to the property, NYRA in effect signed its own death warrant in exchange for a thirty year stay of execution. It was a harsh agreement for NYRA but in the interest of continuing the finest racing in the world, NYRA accepted the terms. The New York State Assembly accepted the agreement. The creditors committee of the bankruptcy court accepted the agreement. In fact, all the essential parties agreed to the MOU except the New York State Senate under the leadership of Senator Joseph Bruno. As of this date the Senate has still refused to compromise, putting the citizens residing in Senator Bruno's district at risk of seriously adverse financial consequences. It is entirely within the power and ability of Senator Bruno to solve this problem immediately and without further delay. We call on him to do so. We ask him to do so to preserve the oldest and finest racing meet in the world today. We call on him to do so to save racing fans from continued uncertainty. We ask him to do so to save his own constituents from further economic hardship. Senator Bruno has done many great things for the Capital District and for Saratoga Springs in particular. He built a new railroad station in Rensselaer. He built a new airport in Albany. He has been a leader in the Luther Forest Technology Park. He has on several occasions helped to bolster the finances of the Saratoga Performing Arts Center. It would be a great shame if his record of achievement were tarnished by a failure to find common ground with the Governor and the New York Racing Association.

> Charles V. Wait President



Consolidated Statements of Condition

Assets

Liabilities and Stockholders' Equity

	As of December 31,	
	2007	2006
ASSETS		
Cash and Due from Banks	\$25,862,822.04	\$22,044,052.42
Securities:		
Obligations of U.S. Government	205,535,776.64	150,911,755.85
Obligations of Federal Agencies Obligations of State and	6,477,226.94	2,437,231.31
Municipal Subdivisions	50,317,067.52	56,199,943.47
Other Securities	286,849.12	275,849.12
Federal Funds sold	0.00	28,960,000.00
Mortgage loans	101,727,746.47	98,332,640.56
Other loans, net	289,509,837.95	267,656,270.73
Accrued interest receivable	4,003,593.93	4,058,877.97
Bank premises, furniture and fixtures	20,399,565.37	18,848,028.36
Goodwill and other intangibles	4,517,561.11	4,192,203.92
Other Assets	8,886,564.73	19,613,451.07
TOTAL ASSETS	\$717,524,611.82	\$673,530,304.78 ———

	As of Dec 2007	ember 31, 2006
LIABILITIES	_007	
Demand deposits	\$114,484,345.65	\$121,300,529.10
Savings deposits	301,186,799.62	276,450,093.57
Time deposits	213,248,890.21	193,233,532.51
Total Deposits	628,920,035.48	590,984,155.18
Other Liabilities	11,394,900.66	8,493,994.25
TOTAL LIABILITIES	\$640,314,936.14	\$599,478,149.43
STOCKHOLDERS' EQUITY		
Common stock (\$50 par value per share;		
80,000 shares authorized, 75,841 and	40 =00 0=0 00	40 ==0 000 00
75,578 shares issued, respectively)	\$3,792,050.00	\$3,778,900.00
Surplus	5,785,280.00	5,430,230.00
Retained earnings Other Comprehensive Income	68,216,291.80 (583,946.12)	64,764,462.06 78,563.29
TOTAL STOCKHOLDERS' EQUITY	\$77,209,675.68	\$74,052,155.35
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$717,524,611.82	\$673,530,304.78
STOCKHOLDERS EQUIT	Ψ/ 1/ ₁ /2/27 ₁ /011.02	======================================

See accompanying note to consolidated financial statements.

Statements of Income

	For the years end	ded December 31, 2006
Interest and Dividend Income:		
Interest and fees on loans	\$27,712,006.26	\$25,758,870.31
Interest and dividends on securities	10,545,007.55	8,311,979.28
Interest on Federal Funds sold		
and other	1,485,768.00	1,830,530.08
Total Interest and Dividend Income	\$39,742,781.81	\$35,901,379.67
Interest Expense:		
Deposits and escrow accounts	14,883,595.85	10,988,979.82
Net Interest Income	24,859,185.96	24,912,399.85
Provision for loan losses	0.00	0.00
Net Interest Income after provision for		
Loan Losses	\$24,859,185.96	\$24,912,399.85
Non-Interest Income: Commissions and fees from insurance sales	\$4,303,803.59 2,174,529.13 1,935,391.52 170,129.14	\$4,020,605.76 2,169,672.52 1,963,141.29 177,729.33
transactions	1,002,944.73	(1,363.96)
Other income	886,885.22	805,789.02
Total Non-Interest Income	\$10,473,683.33	\$9,135,573.96
Non-Interest Expense: Compensation and benefits Premises and equipment, net Other expenses	\$13,831,849.59 3,149,300.71 6,547,230.20	\$13,114,698.48 2,862,005.70 6,337,784.83
Total Non-Interest Expense	\$23,528,380.50	\$22,314,489.01
Income before income tax expense	11,804,488.79	11,733,484.80
Income tax expense	3,195,913.05	3,216,962.59
Net Income	\$8,608,575.74	\$8,516,522.21
Net Income per Common Share	\$113.68	\$112.86

See accompanying note to consolidated financial statements.

Changes In Loan Reserves

	For the years ended December 31,	
	2007	2006
Balance at beginning of year	\$9,045,839.65	\$9,163,140.80
Recoveries credited	393,334.31	156,449.69
Provision	0.00	0.00
Losses charged	(947,490.33)	(273,750.84)
Balance at end of year	\$8,491,683.63	\$9,045,839.65

See accompanying note to consolidated financial statements.

Changes In Stockholders' Equity

	For the years end 2007	ded December 31, 2006
Balance at beginning of year	\$74,052,155.35	\$70,259,427.42
Net Income	8,608,575.74	8,516,522.21
AFS, net of tax	374,005.42	105,033.72
common stock, respectively	368,200.00	310,000.00
Cash dividends	(5,156,746.00)	(5,138,828.00)
Adjustments to initially apply SFAS No. 158, net of tax	(1,036,514.83)	0.00
Balance at end of year	\$77,209,675.68	\$74,052,155.35

See accompanying note to consolidated financial statements.

Notes 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.
- 2. Pension & Post Retirement Plans: As of December 31, 2007 we adopted the provisions of SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and other Postretirement Plans". Accordingly, we recorded a charge of \$1.0 million, net of taxes, to accumulated other comprehensive loss.



We take banking to heart. www.adirondacktrust.com

Main Office

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

Branch Offices

Ballston Spa	Exit 15
220 Church Ave.	3017 Route 50
Ballston Spa	Wilton
Glens Falls	Malta
24 Maple St.	2510 Route 9
Glens Falls	Malta

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

South Broadway	West Church
112 South Broadway	315 Church St.
Saratoga Springs	Saratoga 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

