The Adirondack Trust Company

2016 ANNUAL REPORT

THE ADIRONDACK TRUST COMPANY®
BANKING. INSURANCE. INVESTMENTS.
Since 1902

Directors

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

MICHAEL J. O'CONNELL
Executive Vice President

EUGENE G. QUIRK
Senior Vice President - Insurance

MICHAEL S. BRODT
Senior Vice President

LUCILE M. LUCAS
Senior Vice President

BRYAN M. BOOTH
Vice President

MATTHEW P. D'ABATE
Vice President

MATTHEW C. HARRISON
Vice President

EDWARD M. LENZ
Vice President

MICHAEL D. MURRAY
Vice President

SUSANNE M. ROGAN
Vice President

MEREDITH L. RUMPF
Vice President

JACK ARNOLD, CPA
Executive Vice President,
Chief Administrative Officer,
Chief Financial Officer & Treasurer

KATHLEEN M. MacAREVEY
Corporate Secretary & Executive Assistant

EDWARD P. HART, III
Senior Vice President

MAUREEN A. VEDDER
Senior Vice President

JOHN D. CONROE, CFP®, AFIM
Vice President

ANDREW R. FERRARA
Vice President

ANGELA M. KEDIK
Vice President

SERGEI V. MORGOSLEPOV
Vice President

KELLEY H. PELUSO
Vice President

CHRISTOPHER J. ROSE
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:

The whole world was in turmoil. The Allied forces led by Great Britain and France had been fighting the German Empire and Austria-Hungary for two long years in what came to be called The War to end all Wars. In Ireland, Republicans started a rebellion in Dublin which was quickly put down, but led ultimately to a free Irish State. Arabs in Mecca began a revolt against the Ottoman Empire. Greece erupted in civil war. The central government of China disintegrated and the country entered a period dominated by warlords. Mexico was in the middle of a revolution and General Pershing along with 15,000 troops had entered that country to give chase to Pancho Villa. American forces also invaded the Dominican Republic and Cuba.

On the home front German saboteurs blew up a munitions plant in Black Tom Island, New Jersey. Labor violence flared in Everett, Washington when IWW workers attempting to join other striking workers were shot at by local police. Margaret Sanger was arrested for obscenity for advocating the use of birth control and sophomore tackle and guard Paul Robeson was excluded from the Rutgers football team when Washington and Lee University refused to play against a black person. It was 1916.

But in New York State's newest city, chartered only the year before, a different sort of seed was germinating. The directors of The Adirondack Trust Company had promised the community that when the bank attained $3 million in deposits they would build a new banking house, and furthermore, the directors promised to use their own money to pay for the construction. They kept that promise. On June 10, 1916 the cornerstone for the new building was laid. There was a ceremony, and the founder and President, Senator Edgar T. Brackett gave a short speech. Considering the state of the world it was remarkably optimistic. The letter was addressed to the future board of directors, 100 years hence. It recognized the perils of the world, but it also expressed hope and confidence that a better world would emerge. The letter also admonished the future board to manage the bank "...not only for the proper purpose of making money for its stockholders, but also for the development of the community where it is located and to be an example of high dealing to all who come into contact with it."

On June 28th of this year, that future board of directors removed the cornerstone and opened the time capsule containing the letter. It is remarkable that the building constructed in 1916 to last 100 years, has in fact lasted that long. It is more remarkable that the same building is still operating in essentially the same way and for the same purpose as it was built. It is more remarkable still that the name has remained the same for 100 years and that several of the families that were involved in the management of the bank 100 years ago are still involved in the management 100 years later. But I think that the most remarkable aspect of this 100th anniversary is not the building itself, but the fact that the guiding principals laid out in 1916 are still the guiding principals of this institution, "…that no wrong motive shall enter into your management of its affairs; that the law governing your conduct shall be obeyed, not only in letter, but in spirit… "

I think Senator Brackett would be proud of his bank 100 years later. 2016 was a very good year indeed with positive results in all aspects of our business. As you will read in Mr. Arnold's letter that follows, many new records in loans, investments, and insurance have been achieved and after significant investments in a new core processing system, compliance infrastructure and staff, earnings have resumed an upward trajectory. This year your bank was ranked in the top 10 in the capital region for banks, small business lending, residential mortgage lending, health insurance agencies, and property and casualty insurance agencies. For the 14th year in a row we were voted the best bank in Saratoga by readers of *The Saratogian*. The Bauer rating service designated The Adirondack Trust Company as an "Exceptional Performance Bank" for securing a 5-star rating for 40 consecutive quarters. Perhaps best of all, Karen Stetkar, a Financial Counselor at the main office, celebrated her 50th anniversary in the building that was celebrating its 100th birthday.

Yes, Senator Brackett's bank has grown up, has kept pace with changing conditions, and has survived The Great Depression, The Second World War, and The Great Recession unscathed. But I think he would be most proud that it has remained firmly anchored in the community of Saratoga and has remained dedicated to the principals of fair dealing he so eloquently laid out in his letter of 1916.

1916, like 2016, was a presidential election year. The country was deeply divided by issues concerning women's suffrage, segregation, and the war in Europe. Charles Evans Hughes, the Republican candidate, ran against Woodrow Wilson the Democrat. Wilson narrowly defeated Hughes by winning several swing states in the electoral college by razor-thin margins. Like Donald Trump, he lost his state of residence, one of only four times in presidential elections that has happened. Interestingly, Wilson opposed women's suffrage and supported segregation. Hughes was in favor of women's suffrage. Hughes favored America entering the war in Europe in support of England and France. Wilson won by promising to keep America out of the war in Europe, a promise he failed to keep. American politics was a mess as usual and very few promises to the voters were honored.

But if we look out over the changing American landscape for the last century we see that Senator Brackett was right. For all of our many problems, I believe the world is a better place than it was in 1916. His optimism was born out. And we, like Brackett before us, believe better days lay ahead and that this great country, and her great people will once again find a way to iron out our differences without settling scores, and move forward without leaving people behind. It is our hope and our expectation that in 2116, when the cornerstone is opened again and the time capsule contents removed and the new letter read, that the world will be a better place than it is now.

Charles V. Wait
Chairman

Financial Narrative:

For the twelve months ended December 31, 2016, total assets of $1.1 billion and deposits of $991 million were up 2%. Gross loans were up 15% or $94 million to a record $734 million. The loan growth was funded in part by $19 million of deposit growth, $43 million of our investment portfolio runoff and use of $27 million of our excess liquidity. The growth in loans was realized in all categories.

Net income of $6.7 million was up 14% or $818 thousand. Net interest income after the provision for loan losses increased 7.6% or $2 million, driven by the increased average balances in our loan and investment portfolios for the year. We increased the provision for loan losses by $750 thousand to $1 million to keep pace with our loan growth. Asset quality continues to remain strong as evidenced by net charge offs of only 3 basis points and non- performing loans of less than 1% of total loans.

Non-interest income was up $638 thousand or 3.3%, due to increases of $738 thousand or 5.6% in our Insurance Agency's revenue, $125 thousand or 5.3% in Trust Department service fees and $150 thousand from net gains on loan sales. This was offset in part by declines in service charges on deposit accounts and loan servicing fees.

Non-interest expense increased $1.2 million or 3.2%, including compensation & benefits expense, which increased $581 thousand or 2.6%. Other increases were realized from consultation costs associated with risk management, corporate marketing administration and alternative investment opportunities. Mortgage recording taxes increased and Occupancy costs decreased, due to the early 2015 snow removal costs.

Return on average assets and equity was 60 basis points and 5.9%, respectively.

Respectfully submitted,

Jack Arnold, CPA
EVP, CAO, CFO & Treasurer

THE ADIRONDACK TRUST COMPANY®
BANKING. INSURANCE. INVESTMENTS.

Photograph taken by Tom Stock of The Adirondack Trust Company staff in front of the Main Office on December 6, 2016.

THE ADIRONDACK TRUST COMPANY®

BANKING. INSURANCE. INVESTMENTS.

Consolidated Statements of Condition

Assets

	As of December 31, 2016	As of December 31, 2015
ASSETS		
Cash and due from banks	$63,134,473.95	$89,693,356.50
Securities:		
Obligations of U.S. government	190,088,325.73	234,219,557.00
Obligations of federal agencies	16,737,900.48	9,528,919.91
Obligations of state and municipal subdivisions	29,241,806.74	33,555,405.65
Corporate	44,094,026.46	46,001,447.89
Other securities	311,799.12	311,799.12
Loans:		
Commercial loans	404,408,779.06	370,854,543.08
Residential loans	208,995,336.54	171,860,202.67
Other loans	120,320,343.33	97,316,723.42
Allowance for loan losses	(10,133,567.32)	(9,359,935.63)
Accrued interest receivable	2,664,291.83	2,354,055.20
Bank premises, furniture and fixtures, net	25,706,087.35	26,309,297.16
Other real estate owned	135,000.00	216,259.00
Goodwill and other intangibles, net	19,779,891.71	20,245,719.35
Pension funded status	6,522,260.00	6,018,624.00
Pre-paid expenses	2,523,443.17	2,994,328.82
Other assets	11,094,196.24	9,052,260.10
TOTAL ASSETS	**$1,135,624,394.39**	**$1,111,172,563.24**

Liabilities and Stockholders' Equity

	As of December 31, 2016	As of December 31, 2015
LIABILITIES		
Demand deposits	$287,100,677.06	$273,749,950.06
Savings deposits	513,084,124.91	509,652,959.29
Time deposits	190,766,022.56	188,223,467.68
Total deposits	990,950,824.53	971,626,377.03
Customer repurchase agreements	9,784,610.66	6,904,520.75
Accrued expenses	12,105,876.95	9,713,433.09
Other liabilities	11,970,434.00	14,421,207.85
TOTAL LIABILITIES	**1,024,811,746.14**	**1,002,665,538.72**
STOCKHOLDERS' EQUITY		
Common stock ($50 par value per share; 80,000 shares authorized, 76,450 and 76,437 shares issued, respectively)	3,822,500.00	3,821,850.00
Surplus	6,628,915.00	6,608,258.00
Retained earnings	105,396,755.88	102,615,592.25
Accumulated other comprehensive loss	(5,035,522.63)	(4,538,675.73)
TOTAL STOCKHOLDERS' EQUITY	**110,812,648.25**	**108,507,024.52**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$1,135,624,394.39**	**$1,111,172,563.24**

Statements of Income

	For the years ended December 31, 2016	2015
Interest and dividend income:		
Interest and fees on loans	$26,632,622.76	$24,673,437.83
Interest and dividends on securities	4,060,515.43	3,252,081.85
Other interest income	278,031.77	228,559.63
Total interest and dividend income	**30,971,169.96**	**28,154,079.31**
Interest expense:		
Deposits and escrow accounts	1,334,111.49	1,286,918.56
Net interest income	**29,637,058.47**	**26,867,160.75**
Provision for loan losses	1,000,000.00	250,000.00
Net interest income after provision for loan losses	**28,637,058.47**	**26,617,160.75**
Non-interest income:		
Commissions and fees from insurance sales	13,959,513.20	13,221,720.29
Trust service fees	2,467,389.14	2,342,645.18
Service charges on deposits	1,040,090.10	1,209,983.46
Net gains from loan sales	652,265.39	502,401.28
Net gains from securities transactions	1,213.90	9,264.97
Other income	2,118,134.30	2,314,403.91
Total non-interest income	**20,238,606.03**	**19,600,419.09**
Non-interest expense:		
Compensation and benefits	23,084,214.13	22,502,859.97
Premises and equipment, net	3,947,192.68	4,132,755.31
Other expenses	12,252,697.01	11,425,142.93
Total non-interest expense	**39,284,103.82**	**38,060,758.21**
Income before income tax expense	9,591,560.68	8,156,821.63
Income tax expense	2,911,778.55	2,294,923.11
Net Income	**$6,679,782.13**	**$5,861,898.52**
Net Income per common share	**$87.39**	**$76.70**

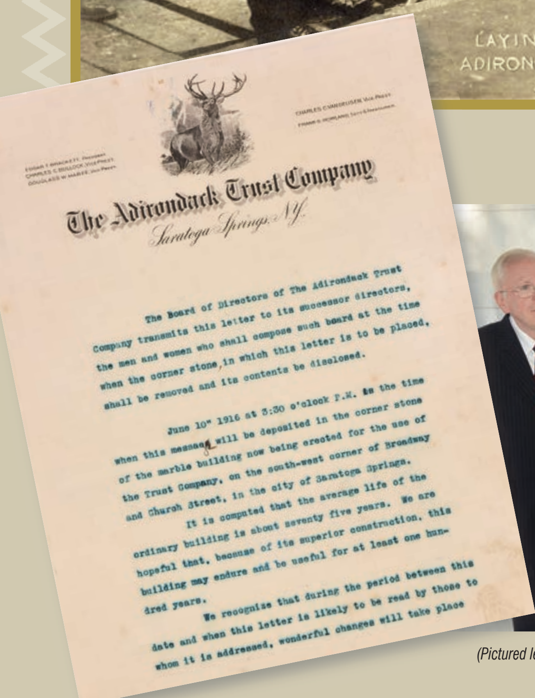
Changes In Loan Reserves

	For the years ended December 31, 2016	2015
Balance at beginning of year	$9,359,935.63	$9,338,306.37
Recoveries credited	89,509.40	239,092.13
Provision	1,000,000.00	250,000.00
Losses charged	(315,877.71)	(467,462.87)
Balance at end of year	**$10,133,567.32**	**$9,359,935.63**

Changes In Stockholders' Equity

	For the years ended December 31, 2016	2015
Balance at beginning of year	$108,507,024.52	$107,370,194.53
Net Income	6,679,782.13	5,861,898.52
Issued 13 and 12 shares common stock, respectively	21,307.00	20,340.00
Cash dividends declared	(3,898,618.50)	(3,897,981.00)
Change in unrealized loss on securities available for sale, net of tax	(160,405.47)	(1,137,346.14)
Change in pension and post retirement benefit plans funded status, net of tax	(336,441.42)	289,918.61
Balance at end of year	**$110,812,648.25**	**$108,507,024.52**

THE ADIRONDACK TRUST COMPANY



The Adirondack Trust Company
Saratoga Springs, N.Y.

The Board of Directors of The Adirondack Trust Company transmits this letter to its successor directors, the men and women who shall compose such board at the time when the corner stone, in which this letter is to be placed, shall be removed and its contents be disclosed.

June 10" 1916 at 3:30 o'clock P.M. is the time when this message will be deposited in the corner stone of the marble building now being erected for the use of the Trust Company, on the south-west corner of Broadway and Church Street, in the city of Saratoga Springs.

It is computed that the average life of the ordinary building is about seventy five years. We are hopeful that, because of its superior construction, this building may endure and be useful for at least one hundred years.

We recognize that during the period between this date and when this letter is likely to be read by those to whom it is addressed, wonderful changes will take place

(Pictured left to right) Wallace W. Allerdice, Jr., Charles V. Wait, Jr., Douglass M. Mabee, Stephan R. von Schenk

Building the Main Office Headquarters Saratoga Springs, NY

The Adirondack Trust Company's founder and first president Sen. Edgar T. Brackett (here, shown in the left foreground), along with his fellow directors, originally envisioned our iconic marble building in downtown Saratoga Springs. On June 10, 1916, the building's cornerstone was laid; placed inside the massive stone's false bottom was a time capsule, to be opened 100 years later. On June 28, 2016, The Adirondack Trust Company made good on that promise, and the time capsule was unearthed and unveiled to our community.

It is a great point of pride for our organization that we have grown, thrived, and prevailed for more than a century, and it is with great honor that we have served our stockholders, customers, and community with integrity and fervor. Shown here are a few photographs from this past summer, which capture this momentous occasion for our institution and all those who share in their love and appreciation for our bank and our region's history.

(Pictured left to right) Charles V. Wait, Jr., Douglass M. Mabee, Jane A. Wait, Charles V. Wait

100 Years

(Pictured left to right) Douglass M. Mabee, Douglass T. Mabee

(Pictured left to right) Charles V. Wait, Jane A Wait, Natalie I. Wait, Charles V. Wait, III, Charles V. Wait, Jr.

THE ADIRONDACK TRUST COMPANY®
BANKING. INSURANCE. INVESTMENTS.

AdirondackTrust.com

Main Office

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

Branch Offices

Ballston Spa
224 Church Avenue
Ballston Spa

Exit 15
3017 Route 50
Wilton

Glens Falls
24 Maple Street
Glens Falls

Milton
162 Northline Road
Milton

Queensbury
376 Bay Road
Queensbury

Exit 11
322 Ruhle Road
Ballston Lake

Malta
2510 Route 9
Malta

Prestwick Chase
100 Saratoga Boulevard
Saratoga Springs

South Broadway
112 South Broadway
Saratoga Springs

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