The Adirondack Trust Company

2017 ANNUAL REPORT

ADIRONDACK
TRUST COMPANY

Directors

GUY ALONGE, III

SUSAN LAW DAKE

MARY C. GAVIN

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DOUGLASS M. MABEE

DOUGLASS T. MABEE

CHRISTEL A. MACLEAN

J. THOMAS ROOHAN, JR.

STEPHEN F. SULLIVAN

STEPHAN R. von SCHENK

CHARLES V. WAIT

CHARLES V. WAIT, JR.

Senior Management Team

CHARLES V. WAIT
Chairman of the Board

STEPHAN R. von SCHENK
President & CEO

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

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Senior Vice President

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Senior Vice President

BRYAN M. BOOTH
Vice President

JOHN D. CONROE, CFP®, AFIM
Vice President

ANDREW R. FERRARA
Vice President

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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

LUCILE M. LUCAS
Senior Vice President

MAUREEN A. VEDDER
Senior Vice President

EDWARD M. CONNELL
Vice President

MATTHEW P. D'ABATE
Vice President

MATTHEW C. HARRISON
Vice President

DEAN A. KOLLIGAN
Vice President

SERGEI V. MORGOSLEPOV
Vice President

KELLEY H. PELUSO
Vice President

CHRISTOPHER J. ROSE
Vice President

ROBERT E. WARD, JR.
Vice President

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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:

In 1935, Congress passed the "Wagner Act" which created the National Labor Relations Board and paved the way for the formation of national labor unions. The Congress of Industrial Organizations (CIO) and the Steel Workers Organizing Committee (SWOC) had developed a strategy for organizing steel workers and by March of 1937 SWOC had succeeded in signing an agreement to represent the employees of United States Steel. But attempts to organize the other steel companies (known as little steel) met with stiff resistance and on May 26, 1937, the SWOC authorized a general strike against the "little steel" companies. Within days, 67,000 workers were off the job and scattered violence had begun to erupt.

In the same year that the Wagner Act was passed, Bertolt Brecht met a promising young American composer named Marc Blitzstein, who incidentally had been a guest at Yaddo in 1931. Brecht suggested Blitzstein compose an opera using the life of a prostitute as an allegory for the condition of workers under capitalism. A year later Blitzstein's wife died. The grief stricken composer threw himself into the work of writing his opera. By the end of the summer of 1936 he had finished the music, lyrics and book for "The Cradle Will Rock," which he described as a labor opera written in a style somewhere between realism, romance, vaudeville, comic strip, Gilbert and Sullivan and Brechtian allegory.

Also at that time, two young theater men employed by The Works Progress Administration met, formed a partnership and were leading WPA project 891, the classical theater unit of the Federal Theatre Project in New York City. John Houseman and Orson Welles had already produced two successful shows and chose for their third Blitzstein's new opera. It was set to open for preview performances on June 16, 1937.

But by June, the steelworkers strike had gained in momentum, and violence. The WPA decided this was not the best time to open a pro-union play, and so instructed Welles and Houseman not to proceed with the planned premiere for "The Cradle Will Rock" on June 16th. When Welles and Houseman refused the directive from the WPA, federal agents were sent to the theater to lock it down and secure the stage, sets, and orchestra. Interestingly, the actors union sided with the government and prohibited their actors from appearing "on stage" in the production unless they were paid in advance.

Undaunted, Welles, Houseman, and Blitzstein found a piano and an empty theater and moved the production to the new location. More than 600 people followed them to view the performance and when Blitzstein began to play and sing his own opera, the actors and actresses originally scheduled to appear in the show began to sing their parts from the house seats so as to not violate the unions' prohibition against appearing "on stage".

"The Cradle Will Rock" was an instant success. Welles and Houseman were fired by the WPA for insubordination and so founded the Mercury Theatre whose first production in 1938 was "The Cradle Will Rock". Virtually every performance since the premiere has been staged in the manner of the first performance, with a single piano on stage and the actors playing their parts in the audience. This summer, Saratoga Opera staged "The Cradle Will Rock" as it was originally intended to be performed-one of only a very few times the opera has been staged with full orchestra. It was the first such production in 60 years. This is only one example of how exceptional art has found its way to one of America's smallest cities.

And it was far from being the only excitement in Saratoga. The Saratoga Performing Arts Center's resident companies were supplemented by Che Malambo, an Argentinian dance troupe, as well as a new series of small performances called SPAC on Stage featuring sold out concerts by The Hot Sardines, Time for Three, Black Violins and Tiempo Libre. The newly-renovated Caffè Lena put on a dizzying array of new performances from bluegrass to country to jazz and classic rock. The Orchard Project continued this year with their innovative theater workshops and performances. And Yaddo continues to broaden the diversity of their artists in residence. Saratoga has become a cauldron of yeasty fermentation for the arts and may well be one of the most lively and concentrated communities for creativity in the country.

Saratoga was alive in the world of commerce as well as the realm of the arts. The Adelphi Hotel, where I once worked as a desk clerk, elevator operator and bellhop, was given a $28 million facelift and is now one of the finest hotels of its kind in the country. GlobalFoundries has begun to ramp up production capabilities and now manufactures in Saratoga County three microchips used in the new iPhone 8. The New York Racing Association has begun renovations of the grandstand with a new section of boxes focusing on a more youthful market.

All of this rich activity is of course having a very beneficial impact on the banking business. In spite of the fact that 2017 was our first full year of our new starting wage of $12.00 an hour, that we paid in advance all of our future commitments for charitable contributions, gave a $100 cash bonus to all employees, and front-loaded as many expenses in 2017 as faithful accounting would allow; your bank finished 2017 in a very strong financial position. Deposits were up 7 percent, average loans gained just under 8 percent and earnings gained 14.3 percent. Loan delinquencies at less than 1 percent were at a record low and net charge offs were a modest 2 one hundredths of 1 percent.

Not everything came up roses though. We suffered two robberies and a devastating fire at our Wilton Branch. Fortunately, no one was injured in any of the events and no customer property was lost. Our well-trained staff and the excellent care by first responders in each case prevented bad situations from becoming disasters.

As you will notice in this report we also launched a new look for your bank. From extensive market research we learned that young people viewed our previous logo as old fashioned and therefore assumed we weren't technologically proficient (we are). We also needed a way to marry our Adirondack Trust brand with our Amsure Insurance brand. The new logo solved that problem; the same A is used for both companies. Finally, we needed to simplify our logo so that it would still be readable when reduced in size for electronic applications and publication. We hope you like the result. Rest assured that while the look is a bit more modern we still adhere to the principals that have governed the management of this bank for the last 115 years.

Charles V. Wait
Chairman

Nota Bene:
John Housman and Orson Welles both went on to have successful careers in the theater. Both won Aacademy Awards. John Housman founded The Acting Company in 1972 and its alumni include Kevin Klein, Patti Lupone, David Schramm and David Ogdon Stiers. The Acting Company was a summer resident company of the Saratoga Performing Arts Center. My father, Newman E. Wait, Jr. fourth President of your bank, was Treasurer and a member of its Board of Directors for several years.

Financial Narrative:

For the twelve months ended December 31, 2017, total assets of $1.2 billion and deposits of $1.1 billion were up 6.7% and 7%, respectively. Gross loans were up 57 basis points or $4.2 million to $738 million, although average balances were up nearly 8% for the year. Loan growth during the year was funded in part by run off from maturities in the investment portfolio. Excess cash was held at the Federal Reserve Bank of New York earning 75 basis points more than twelve months earlier.

Net income of $7.6 million was up 14% or $956 thousand. Net interest income before the provision for loan losses increased 10% or $3 million, driven by the increased average balances in our loan portfolio and increased yields in both our investment portfolio and excess cash held at the Federal Reserve Bank of New York. We provided another $1 million to our loan loss reserve, despite continued strong asset quality with net charge offs of only 2 basis points and non-performing loans of less than 1% of total loans.

Non-interest income was up $79 thousand or 39 basis points, due in part to the gain from insurance proceeds associated with the loss of our Wilton Branch in a fire in March of this year. This was offset by decreased revenue from our insurance agency and the loss realized from the sale of a long term bond in our investment portfolio.

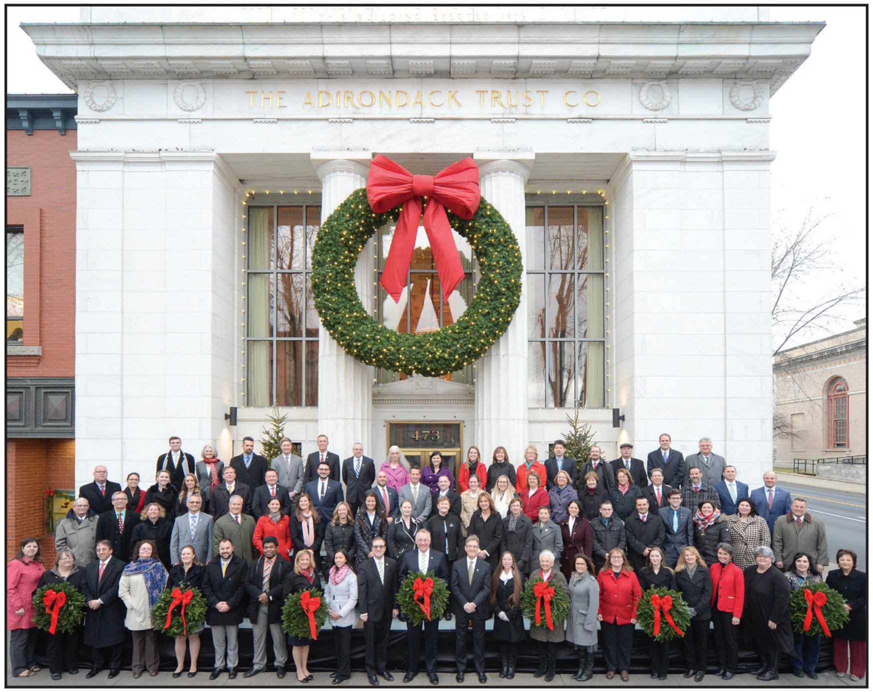
Non-interest expense increased $772 thousand or 2%, including compensation & benefits expense, which increased $1.1 million or 4.7%. This was offset by decreases in consultation costs and foreclosure expenses. Tax expense includes a charge of $354 thousand associated with the enactment of the Tax Cuts and Jobs Act of 2017 on December 22, 2017 (the 2017 Act), which reduced the federal corporate tax rate to 21%. The 2017 Act requires deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled.

Return on average assets and equity was 66 basis points and 6.7%, respectively.

Respectfully submitted,

Jack Arnold, CPA
EVP, CAO, CFO & Treasurer

ADIRONDACK
TRUST COMPANY



Photograph taken by Tom Stock
of The Adirondack Trust Company and Amsure staff
in front of the Main Office on December 5, 2017.

ADIRONDACK
TRUST COMPANY

Consolidated Statements of Condition

Assets

	As of December 31, 2017	As of December 31, 2016
ASSETS		
Cash and due from banks	$169,901,917.08	$63,134,473.95
Securities:		
Obligations of U.S. government	174,299,058.67	190,088,325.73
Obligations of federal agencies	4,844,121.77	16,737,900.48
Obligations of state and municipal subdivisions	22,306,288.28	29,241,806.74
Corporate	45,497,704.47	44,094,026.46
Other securities	311,799.12	311,799.12
Loans:		
Commercial loans	435,339,242.52	404,408,779.06
Residential loans	203,642,783.62	208,995,336.54
Other loans	98,925,937.61	120,320,343.33
Allowance for loan losses	(10,979,718.40)	(10,133,567.32)
Accrued interest receivable	2,871,920.20	2,664,291.83
Bank premises, furniture and fixtures, net	25,327,723.29	25,706,087.35
Other real estate owned	135,000.00	135,000.00
Goodwill and other intangibles, net	19,314,064.07	19,779,891.71
Pension funded status	4,394,382.00	6,522,260.00
Pre-paid expenses	2,646,502.98	2,523,443.17
Other assets	12,483,327.73	11,094,196.24
TOTAL ASSETS	**$1,211,262,055.01**	**$1,135,624,394.39**

Liabilities and Stockholders' Equity

	As of December 31, 2017	As of December 31, 2016
LIABILITIES		
Demand deposits	$336,765,992.27	$287,100,677.06
Savings deposits	537,503,384.29	513,084,124.91
Time deposits	186,190,654.84	190,766,022.56
Total deposits	1,060,460,031.40	990,950,824.53
Customer repurchase agreements	11,319,729.36	9,784,610.66
Accrued expenses	13,352,227.48	12,105,876.95
Other liabilities	12,677,014.27	11,970,434.00
TOTAL LIABILITIES	**1,097,809,002.51**	**1,024,811,746.14**
STOCKHOLDERS' EQUITY		
Common stock ($50 par value per share; 80,000 shares authorized, 76,825 and 76,450 shares issued, respectively)	3,841,250.00	3,822,500.00
Surplus	7,310,665.00	6,628,915.00
Retained earnings	109,123,666.79	105,396,755.88
Accumulated other comprehensive loss	(6,822,529.29)	(5,035,522.63)
TOTAL STOCKHOLDERS' EQUITY	**113,453,052.50**	**110,812,648.25**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$1,211,262,055.01**	**$1,135,624,394.39**

Statements of Income

	For the years ended December 31, 2017	2016
Interest and dividend income:		
Interest and fees on loans	$29,009,780.40	$26,632,622.76
Interest and dividends on securities	4,120,134.49	4,060,515.43
Other interest income	832,131.13	278,031.77
Total interest and dividend income	**33,962,046.02**	**30,971,169.96**
Interest expense:		
Deposits and escrow accounts	1,338,778.20	1,334,111.49
Net interest income	**32,623,267.82**	**29,637,058.47**
Provision for loan losses	1,000,000.00	1,000,000.00
Net interest income after provision for loan losses	**31,623,267.82**	**28,637,058.47**
Non-interest income:		
Commissions and fees from insurance sales	13,174,551.99	13,959,513.20
Trust service fees	2,504,808.59	2,467,389.14
Service charges on deposits	1,017,110.46	1,040,090.10
Net gains from loan sales	694,893.39	652,265.39
Net gains from securities transactions	(378,553.99)	1,213.90
Other income	3,304,853.59	2,118,134.30
Total non-interest income	**20,317,664.03**	**20,238,606.03**
Non-interest expense:		
Compensation and benefits	24,172,998.83	23,084,214.13
Premises and equipment, net	4,142,979.61	3,947,192.68
Data processing	3,373,555.03	3,293,061.23
Other professional services	1,926,849.71	2,248,364.65
Other expenses	6,439,674.58	6,711,271.13
Total non-interest expense	**40,056,057.76**	**39,284,103.82**
Income before income tax expense	11,884,874.09	9,591,560.68
Income tax expense	3,895,887.75	2,911,778.55
Income tax provision for continuing operations	353,562.93	0.00
Net Income	**$7,635,423.41**	**$6,679,782.13**
Net Income per common share	**$99.85**	**$87.39**

Changes In Loan Reserves

	For the years ended December 31, 2017	2016
Balance at beginning of year	$10,133,567.32	$9,359,935.63
Recoveries credited	107,843.66	89,509.40
Provision	1,000,000.00	1,000,000.00
Losses charged	(261,692.58)	(315,877.71)
Balance at end of year	**$10,979,718.40**	**$10,133,567.32**

Changes In Stockholders' Equity

	For the years ended December 31, 2017	2016
Balance at beginning of year	$110,812,648.25	$108,507,024.52
Net Income	7,635,423.41	6,679,782.13
Issued 375 and 13 shares common stock, respectively	700,500.00	21,307.00
Cash dividends declared	(3,908,512.50)	(3,898,618.50)
Change in unrealized loss on securities available for sale, net of tax	(467,004.56)	(160,405.47)
Change in pension and post retirement benefit plans funded status, net of tax	(1,320,002.10)	(336,441.43)
Balance at end of year	**$113,453,052.50**	**$110,812,648.25**

OUR NEW WILTON BRANCH

OPENING SUMMER 2018

ADIRONDACK
TRUST COMPANY

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

Malta
2510 Route 9
Malta

Luther Forest
51 Luther Forest Boulevard
Malta

Queensbury
376 Bay Road
Queensbury

West Church
315 Church Street
Saratoga Springs

Exit 11
322 Ruhle Road
Ballston Lake

Glens Falls
24 Maple Street
Glens Falls

Milton
162 Northline Road
Milton

Prestwick Chase
100 Saratoga Boulevard
Saratoga Springs

South Broadway
112 South Broadway
Saratoga Springs

Wilton
650 Maple Avenue
Wilton

ADIRONDACK
WEALTH MANAGEMENT

Offices

Main Office
31 Church Street • Saratoga Springs

Glens Falls
24 Maple Street • Glens Falls

Adirondack Wealth Management takes pride in providing financial solutions to individuals, families, corporations and nonprofit institutions. As trusted advisers, our financial planning, investment management and trust and estate professionals are committed to helping our clients build wealth and achieve their financial goals. It is our philosophy that the delivery of financial planning and investment management services begins and ends with the client. We believe that highly personalized communication with each of our clients is paramount to providing financial solutions and having a successful long-term relationship.

AMSURE
(A Divison of Adirondack Trust Company Financial Services, Inc.)

Insurance Offices

Main Office
31 Church Street • Saratoga Springs

Albany
12 Computer Drive West • Albany

For over a half century Amsure has developed customized insurance solutions for a diverse range of business clients, nonprofit organizations, individuals and families. As a local company we take the time to develop insurance solutions that are based on the relationship with our clients. We work to understand their needs and tailor an insurance program that protects each client while managing their cost.

ADIRONDACK

TRUST COMPANY