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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

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Senior Vice President & Trust Officer

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Vice President & Chief of Security

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Vice President

LUCILE M. LUCAS
Vice President

KELLEY H. PELUSO
Vice President

THOMAS E. RATSEP
Vice President

D. ROBERT SCRIBNER
Vice President

ROBERT E. WARD, JR.
Vice President

ANDREW J. WISE
Vice President

JOHN P. BARRY
Assistant Vice President

JOHN D. CONROE
Assistant Vice President

EDWARD P. HART, III
Assistant Vice President

PHILIP W. KLEIN
Assistant Vice President

DOUGLAS R. BLEYL
Assistant Treasurer

SHARON L. CHARBONNEAU
Assistant Treasurer - Compliance Officer

LISA M. LENGYEL
Assistant Treasurer

MARY B. McLAUGHLIN
Assistant Treasurer

JO-ANN M. O'REILLY
Assistant Treasurer

MARCY J. THOMPSON
Assistant Treasurer

LINDA A. WATTERS
Assistant Treasurer

JUDITH M. ZANELLA
Assistant Treasurer

DAVID W. BROWN
Vice President & Treasurer

MICHAEL S. BRODT
Vice President

RICHARD J. FERGUSON
Vice President

DOUGLASS M. MABEE
Vice President

EUGENE G. QUIRK
Vice President - Insurance

DAVID W. ROBERTSON
Vice President

NORMAN J. SMITH
Vice President - Human Resources

ELLERY T. WILLARD, JR.
Vice President

JACK ARNOLD
Comptroller

CAROL A. CATONE
Assistant Vice President

JAMES FLYNN
Assistant Vice President

STEWART J. HATCH
Assistant Vice President

MEREDITH L. RUMPF
Assistant Vice President

JUDITH CASSIER
Assistant Treasurer

MATTHEW P. D'ABATE
Assistant Treasurer

TAMRA L. LYNCH
Assistant Treasurer

CHARLENE S. MUSOLFF
Assistant Treasurer

LYNN A. POHL
Assistant Treasurer

NEWMAN E. WAIT, III
Assistant Treasurer

SUSAN I. WELCH
Assistant Treasurer

KATHLEEN M. STEVENS
Executive Assistant & Corporate Secretary

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RICHARD F. CARMAN, JR.
Vice President - Audit



We take banking to heart.™

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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

same year. We also received for the fifth year in a row, the Capital Region Small Community Bank Lender of the Year Award given by the Small Business Administration.

We began work on two new products late this year, a small business line of credit and a health savings account. Both of these products are being introduced in the month of January, 2006.

Our new office building got off to a slow start, but is now underway and we expect to claim occupancy by late 2006 or early 2007.

* * * * *

The Pride of Baltimore II is a topsail schooner 96.5 feet long. Her beam is 26 feet and she displaces 185.5 long tons. She carries 11 sails controlled by more than 100 lines. She is a modern (1988) version of a Baltimore clipper ship (ca. 1811). On May 2nd of this year my brother Ned and I joined the ship's company as guest crew. There were three other guest crew, ten paid crew, the Captain and the cook for a total of 17 seafarers aboard. We sailed from Annapolis, Maryland, to Lunenburg, Nova Scotia and then on to Falmouth, England arriving on May 24th.

It was a difficult passage with sustained winds of 50 knots gusting to 60. Waves on occasion exceeded 30 feet. We experienced rain, sleet, snow, thunder and lightening. The North Atlantic in May can be very unfriendly. We were organized into three watches consisting of five crew on each four-hour rotation.

Pride II is owned by the Maryland Port Administration and operated by a not-for-profit organization. Her mission is to serve as the goodwill ambassador for the port of Baltimore. She is a small business with a budget in excess of \$1 million per year. Her crew earns \$800 per month with the cook, engineer and officers making slightly more than that. The food budget for our voyage was \$6 per person per day. The management of a crew that small would not seem complicated, but I relearned some important management lessons aboard Pride II that bear mentioning.

The importance of communication. On every rotation of the watch, both coming on and going off, the watch captain always called us together to discuss our assignments, and to report anything of note. Generally speaking these little reporting sessions lasted only a minute, and consisted of mild praise or admonishment. But occasionally,

Changes In Loan Reserves

	For the years ended December 31,	
	2005	2004
Balance at beginning of year	\$9,000,000.00	\$9,000,000.00
Recoveries credited	210,815.19	262,206.03
Provision	400,000.00	345,845.59
Losses charged	(447,674.39)	(608,051.62)
	<hr/>	<hr/>
Balance at end of year	<u>\$9,163,140.80</u>	<u>\$9,000,000.00</u>

See accompanying note to consolidated financial statements.

Changes In Stockholders' Equity

	For the years ended December 31,	
	2005	2004
Balance at beginning of year	\$68,353,337.37	\$66,391,037.59
Net Income	8,268,924.48	7,600,360.74
Change in unrealized (loss) gain on securities available for sale, net of tax	(1,570,435.60)	(1,735,236.96)
Issued 278 and 1,014 shares common stock, respectively	329,430.00	1,166,100.00
Cash dividends	(5,121,828.00)	(5,068,924.00)
	<hr/>	<hr/>
Balance at end of year	<u>\$70,259,428.25</u>	<u>\$68,353,337.37</u>

See accompanying note to consolidated financial statements.

Note to consolidated financial statements:

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

A Note to Our Stockholders:

I am very pleased to report a successful year for your bank. We experienced growth in all areas of our endeavors. Total deposits increased \$17 million while demand deposits grew by 9.1%. Loans increased 4.3%. Interest income, net interest income, and non-interest income all reached record levels. And while total expenses similarly exceeded prior records, the net result was an increase in net income after taxes of \$669 thousand, 8.8% over last year and 3.2% over the prior record earnings set in 2003. Return on average assets was a strong 1.41% while return on average equity for the year rose to 11.83%. 1,002 more customers began to use our internet banking this year, an increase of 15.5%. Assets in the Trust Department grew by 2.8%, in line with growth in the S&P 500 Index. Our insurance activities accelerated with the purchase of our third agency, Clientsfirst Insurance Agency located in Ballston Lake. Insurance Agency revenue grew by 45.9% to \$3 million. We welcome Mike Barry and his colleagues to our team.

This strong financial performance, coupled with the low tax rate on dividends, made possible the continuance of the special dividend. We also added \$1.1 million to our already overfunded defined benefit pension plan. This one time contribution was tax-deductible, and will reduce fluctuations in our future periodic pension cost caused by market performance. The escalation of short-term interest rates caused a reduction in the market value of our securities portfolio of \$1.6 million net of tax, less than 1% of their value. You will find this adjustment in "Changes in Stockholders' Equity". And yet, even with a large dividend payment, an addition to our pension plan of \$1.1 million, and a reduction in the value of our securities portfolio of \$1.6 million net of tax, stockholders' equity still increased by \$1.9 million to a new record of \$70.3 million. This is further testimony to the financial strength of your bank.

Negative trends of note were a small write-down (\$33.6 thousand) of our investment in High Peaks Venture Capital and an increase in our delinquent loans from just under 1% to just over 2%. Nevertheless, the loans are well secured by collateral as well as a reserve of 2.5 % of total loans.

Every year, our local newspaper, The Saratogian, conducts a reader's poll of the best businesses. This year your bank won in four categories; best bank, best mortgage company, best insurance agency and best financial planner. We are the first ever to win in four categories in the

Statements of Income

matters with potentially serious ramifications were discussed and settled before they developed into a crisis.

The importance of dealing with personnel problems swiftly. On one occasion there was an issue between two crew members. The Captain immediately interviewed all those who had born witness to the altercation, and then called in the offending parties for a private consultation. I have no idea what he said to the crew involved, but there was not a repeat offense.

The importance of organization. On board ship everything has its place and must be in its place. This is paramount to maintain the safety of the vessel and the crew. Emergencies happen with distressing frequency on board wooden ships, and precious time can be lost looking for misplaced tools or equipment.

The importance of good manners. I have heard it said that manners are where ethics meet every day life. On board ship one is often tired, wet, hungry, and or sick. Little annoyances can become major issues very quickly, and good manners help to reduce tensions.

On board Pride II we were blessed with skilled officers, an amicable crew, and a sound vessel. This made an adventure out of an otherwise difficult trip. It is not an outlandish metaphor for your bank.

* * * * *

It seems every year that I write this message on Dr. Martin Luther King's birthday. In this time of great violence around the world, it seems fitting to commemorate the occasion, and end this report, with a quote from this great American. His message would be a useful one for all of the leaders around the world to remember, no matter what their religion or political persuasion.

"Darkness cannot drive out darkness; only light can do that. Hate cannot drive out hate; only love can do that."

– Dr. Martin Luther King, Jr.

	For the years ended December 31, 2005	2004
Interest and Dividend Income:		
Interest and fees on loans	\$22,748,624.74	\$20,286,756.00
Interest and dividends on securities	6,008,193.36	6,275,264.69
Interest on Federal Funds sold and other	883,673.59	321,223.00
Total Interest and Dividend Income	\$29,640,491.69	\$26,883,243.69
Interest Expense:		
Deposits and escrow accounts	5,204,915.93	4,083,824.65
Net Interest Income	24,435,575.76	22,799,419.04
Provision for loan losses	400,000.00	345,845.59
Net Interest Income after provision for Loan Losses	\$24,035,575.76	\$22,453,573.45
Non-Interest Income:		
Commissions and fees from insurance sales	\$2,958,639.86	\$2,027,652.07
Trust service fees	2,212,115.65	1,747,492.00
Service charges on deposits	2,047,260.29	1,645,089.00
Net gains from loan sales	70,341.88	413,429.00
Net gains from securities transactions	18,266.86	47,120.00
Other income	739,555.03	939,101.00
Total Non-Interest Income	\$8,046,179.57	\$6,819,883.07
Non-Interest Expense:		
Compensation and benefits	\$11,431,309.09	\$10,531,829.12
Premises and equipment, net	2,851,658.29	2,717,989.00
Other expenses	6,055,523.65	5,280,845.00
Total Non-Interest Expense	\$20,338,491.03	\$18,530,663.12
Income before income tax expense	11,743,264.30	10,742,793.40
Income tax expense	3,474,339.82	3,142,432.66
Net Income	\$8,268,924.48	\$7,600,360.74
Net Income per Common Share	\$109.95	\$102.31

See accompanying note to consolidated financial statements.


 Charles V. Wait
 President



Consolidated Statements of Condition

Assets

Liabilities and Stockholders' Equity

	As of December 31,			As of December 31,	
	2005	2004		2005	2004
ASSETS			LIABILITIES		
Cash and Due from Banks	\$22,594,838.17	\$13,983,712.64	Demand deposits	\$113,048,474.57	\$103,629,881.34
Securities:			Savings deposits	225,815,728.65	222,351,192.32
Obligations of U.S. Government	114,549,958.78	122,565,346.74	Time deposits	182,047,693.01	177,707,105.54
Obligations of Federal Agencies	6,021,110.24	14,951,124.91			
Obligations of State and			Total Deposits	520,911,896.23	503,688,179.20
Municipal Subdivisions	47,103,635.04	41,073,356.03	Other Liabilities	9,245,490.82	11,091,183.81
Other Securities	766,722.62	1,274,126.10			
Federal Funds sold	21,000,000.00	24,000,000.00	TOTAL LIABILITIES	\$530,157,387.05	\$514,779,363.01
Mortgage loans	92,084,430.78	90,202,544.82	STOCKHOLDERS' EQUITY		
Other loans, net	263,348,174.88	250,522,230.02	Common stock (\$50 par value per share;		
Accrued interest receivable	2,776,311.91	2,879,663.44	80,000 shares authorized, 75,328 and		
Bank premises, furniture and fixtures	13,132,662.02	13,183,329.53	75,050 shares issued, respectively)	\$3,766,400.00	\$3,752,500.00
Goodwill and other intangibles	4,135,947.30	3,034,799.45	Surplus	5,132,730.00	4,817,200.00
Other Assets	12,903,023.56	5,462,466.70	Retained earnings	61,386,768.62	58,239,672.13
			Unrealized (loss) gain on securities		
			available for sale, net of tax	(26,470.37)	1,543,965.24
TOTAL ASSETS	\$600,416,815.30	\$583,132,700.38	TOTAL STOCKHOLDERS' EQUITY	\$70,259,428.25	\$68,353,337.37
			TOTAL LIABILITIES AND		
			STOCKHOLDERS' EQUITY	\$600,416,815.30	\$583,132,700.38

See accompanying note to consolidated financial statements.

