PUBLIC DISCLOSURE

August 22, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Adirondack Bank
RSSD No. 101671

185 Genesee Street
Utica, New York 13501

FEDERAL RESERVE BANK OF NEW YORK

33 LIBERTY STREET
NEW YORK, N.Y. 10045

NOTE: **This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

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INSTITUTION'S CRA RATING*:* Adirondack Bank ("Adirondack") is rated "**SATISFACTORY**."

Adirondack's Community Reinvestment Act ("CRA") performance was satisfactory for the examination period of January 1, 2003, through December 31, 2004. Major factors supporting the rating are:

- The bank's loan-to-deposit ratio was reasonable.
- A substantial majority of loans were made in the assessment area.
- The distribution of loans to borrowers of different income levels, including low- and moderate-income ("LMI") individuals, and to businesses of different sizes was reasonable.
- The geographic distribution of loans in the assessment area was reasonable.

DESCRIPTION OF INSTITUTION

Adirondack has $377 million in total assets as of December 31, 2004, and is a community bank serving the Adirondack and Utica-Rome areas of New York State. Adirondack is wholly-owned by Adirondack Bancorp, Inc., a one-bank holding company. The bank's headquarters moved from the bank's Saranac Lake office to the Utica office since the last CRA examination.

Adirondack offers a variety of deposit and loan products to both consumers and businesses. Commercial credit products include term loans, lines of credit, construction loans, business credit cards, letters of credit, and commercial mortgages. Retail credit products include home purchase, refinance, installment, automobile/RV/watercraft, credit cards, home improvement, and home equity.

On December 30, 2003, Adirondack converted from a national bank charter to a New York State bank charter. The Office of the Comptroller of the Currency ("OCC") conducted the bank's previous CRA examination, dated February 25, 2003, and assigned Adirondack a "Satisfactory" CRA rating.

There are no financial or legal impediments preventing the bank from servicing the credit needs of its assessment areas.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Adirondack has two assessment areas that are located in contiguous areas of central and northern New York State. The first assessment area is comprised of most of the geographies in the Utica-Rome Metropolitan Statistical Area (MSA) 46540 and includes all of Herkimer County and most of Oneida County.

The second assessment area is a Non-MSA area that includes 45 census tracts that are geographically spread out in portions of seven Non-MSA counties and extends up to the Canadian and Vermont borders. These counties include Clinton, Essex, Franklin, Fulton, Hamilton, Lewis, and Montgomery.

A map illustrating Adirondack's assessment areas is on page BB10.

SCOPE OF EXAMINATION

Adirondack was examined using the FFIEC Small Bank examination procedures. Large bank examination procedures were not used because the bank did not complete a full year of CRA data collection after reaching the large bank asset size threshold. A full scope review was conducted for the Utica-Rome MSA assessment area, an area with most of the bank's loan and deposit activity. A limited scope review was conducted for the Non-MSA assessment area which has limited lending reflecting Adirondack's small presence with just four of the bank's sixteen branches. Also, only five moderate-income census tracts and no low-income census tracts are located in the Non-MSA assessment area.

The analysis of the distribution of loans by geography and borrower characteristics focused on 2004 lending activity because of changes in metropolitan area definitions issued by the federal Office of Management and Budget ("OMB") that became effective in 2004. The assessment areas described above are based on the new OMB definitions.

PERFORMANCE CONTEXT

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of Census, 2000, the U.S. Department of Labor, the U.S. Department of Housing and Urban Development ("HUD"), the New York Association of Realtors, the New York State Department of Labor, and the Federal Reserve Bank of New York Utica-Rome District Profile-October 2004.

Demographic Characteristics

According to the 2000 Census, the Utica-Rome MSA assessment area contains 92 census tracts, including 10 low-income tracts, 17 moderate-income tracts, 48 middle-income tracts, 16 upper-income tracts and one tract without an income designation. Most of the LMI tracts are in Oneida County, concentrated in the cities of Utica and Rome. The low-income tracts contain 6% of the population and 10% of the businesses. The moderate-income tracts contain 13% of the population and 14% of businesses.

The Utica-Rome MSA assessment area has a population of 299,896, a 5.3% decrease since 1990. This represents the continuation of a trend that has occurred since the 1970s as working-age people moved out of the area in response to a lack of job opportunities as local manufacturers closed down or relocated. According to the US Census, the decline has continued through 2004, with an additional 4% decrease in population from 2000. This decline would be greater, except for a recent influx of immigrants from Eastern Europe.

Community contacts noted challenges for the area with a net out-migration of the working-age population with higher education and increasing proportion of an older population and less skilled workforce. The Utica area, with a less highly educated workforce, has also had difficulty attracting higher paying employers. There is a need for small business lending as well as community development activities to encourage new businesses to locate in the area.

Income Characteristics

The Utica-Rome MSA assessment area lags the state and nation in income. The 2004 HUD-adjusted median family income for the Utica-Rome MSA is $50,600, 11% under the New York State average.

Housing Characteristics

Housing in the Utica-Rome MSA assessment area is affordable. The New York Association of Realtors reports median sales prices for single family homes in the chart above.

MEDIAN SALES PRICES – SINGLE FAMLY HOMES		
Area	**2003**	**2004**
Oneida County, NY	$77,375	$83,000
Herkimer County, NY	$67,300	$69,900
New York State	$198,500	$232,000

Rents are also relatively affordable in the MSA. The 2000 Census put median gross rent at $470 for Oneida County and $420 for Herkimer County, compared to $672 for New York State.

The 2000 Census shows that in the Utica-Rome MSA assessment area, 59% of housing is owner-occupied, 27% is rental, and 14% of the units are vacant. Housing in the Utica-Rome MSA assessment area tends to be old. The 2000 Census reports that 63% of housing stock in Oneida County and 60% of housing stock in Herkimer County was built before 1960, indicating a need for home improvement loans. However, community contacts noted that many older homes would need substantial funding for renovation due to age and the high cost of lead and asbestos removal.

Labor, Employment and Economic Characteristics

Unemployment in the Utica-Rome MSA assessment area approximates the state annual average for 2004 at 5.3% for the Utica-Rome MSA and 5.4% for New York State. However, jobs tend to be low paying, with substantial growth in back-office service orientated operations (student loan check processing and medical bill processing) and large retail operations. The 2000 Census shows that 86% of the 9,473 businesses in the Utica-Rome MSA assessment area have revenues of $1 million or less, indicating a need for small business loans.

Community groups that were contacted noted a challenge for small business growth in the city of Utica where the majority of commercial property owners are non-profit organizations that do not pay local taxes. This in combination with the aging population with limited incomes and Medicare expenses led city government to institute a sales tax of 9.5%, as well as high personal and business property taxes. These taxes hamper small business development in the city and contribute to lower wages. As a result, Utica has lost many businesses as well as more of the tax base with many middle- and upper- income households moving to the suburbs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Adirondack's satisfactory CRA rating is based on an assessment of the bank's core performance criteria. For the performance levels related to lending, borrower income and geographic distribution, a sample of 391 loans originated between January 1, 2004, and December 31, 2004, was analyzed. The sample includes 161 consumer loans, 130 loans reported under the Home Mortgage Disclosure Act ("HMDA"), and 100 small business loans.

Loan-to-deposit Ratio

Adirondack's loan-to-deposit ratio was reasonable given the bank's size, financial condition, and the credit needs of its assessment area. The bank's average loan-to-deposit ratio for the eight most recent quarters ending December 31, 2004, was 69%, based on information contained in its Consolidated Report of Condition and Income. This ratio was below the national peer average of 79% for similarly sized banks, but was slightly above the average ratio of 68% for four similarly sized banks located in the assessment area during the same time period.

Lending in Assessment Area

Adirondack originated a substantial majority of its loans, 88%, in its assessment areas. Specifically, 96% of its HMDA-related loans, 84% of its consumer loans, and 83% of its commercial loans were made within the assessment areas.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Overall, the bank's record of lending to borrowers of different income levels, including LMI individuals, and businesses of different sizes was satisfactory given the demographics of the bank's assessment areas. This is primarily based on performance in the Utica-Rome MSA and overall performance in the Non-MSA assessment area was consistent. Exhibit 1 depicts lending distribution in each loan category.

EXHIBIT 1 **Distribution of Loans in Utica-Rome Assessment Area by Income Level of Borrower** **January 1, 2004 - December 31, 2004**			
	HMDA-RELATED	**CONSUMER**	**TOTAL**
LOW-INCOME: **Less than 50% of Median Income**			
Number	11	36	47
Percentage	11%	30%	21%
Amount ($)	$99,000	$215,000	$314,000
Percentage	2%	18%	5%
MODERATE-INCOME: **At least 50% & less than 80% of Median Income**			
Number	27	42	69
Percentage	27%	35%	31%
Amount ($)	$682,000	$398,000	$1,080,000
Percentage	13%	33%	16%
MIDDLE-INCOME: **At least 80% & less than 120% of Median Income**			
Number	31	29	60
Percentage	31%	24%	27%
Amount ($)	$1,425,000	$316,000	$1,741,000
Percentage	26%	26%	26%
UPPER-INCOME: **120% or more of Median Income**			
Number	32	13	45
Percentage	32%	11%	20%
Amount ($)	$3,241,000	$290,000	$3,531,000
Percentage	60%	24%	53%

HMDA-related Loans

As detailed in Exhibit 1, the distribution of Adirondack's HMDA-related lending to borrowers of different income levels was reasonable. The proportion of lending to low-income families was adequate and was less than the proportion of families that are low-income in the assessment area. The proportion of lending to moderate-income families was excellent, exceeding the proportion of moderate-income families in the assessment area. Low- and moderate income families comprise 20% and 18% of families in the assessment area, respectively.

Consumer Loans

Adirondack's consumer lending patterns were outstanding and exceeded the proportion of LMI families in the Utica-Rome assessment area. Low- and moderate- income families account for 20% and 18% of families in the assessment area, respectively. For details, see Exhibit 1 on the prior page.

Small Business Loans

The bank's lending to businesses with gross annual revenues (GAR) of $1 million or less was reasonable. As shown in Exhibit 2, Adirondack extended 70% of loans to these small businesses. In comparison, 86% of businesses in the assessment area have GAR of $1 million or less.

EXHIBIT 2
Distribution of Loans in Utica- Rome Assessment Area by Size of Business
January 1, 2004 – December 31, 2004

SMALL BUSINESS LENDING SUMMARY					
Number of loans to businesses	Number of loans to small businesses*	% of loans to small businesses	$ Amount of loans to businesses	$ Amount of loans to small businesses*	% of $ amount of loans to small businesses*
61	43	70%	$6,624,000	$3,971,000	60%

Geographic Distribution of Loans

Overall, Adirondack's geographic distribution of loans was reasonable given the demographics of the bank's assessment area. Performance in the Utica-Rome MSA reflected excellent distribution throughout the assessment area. However, performance in the Non-MSA was considered adequate. Specifically, the proportion of HMDA-related, consumer and small business lending in moderate-income census tracts of the Non-MSA was consistently below the proportion of owner occupied units, households and small businesses located in such tracts. There are no low-income geographies in the Non-MSA assessment area.

The distribution of lending for each loan category in the Utica-Rome MSA assessment area was analyzed as follows:

HMDA-related Loans

The level of HMDA-related lending in low and moderate-income census tracts was excellent with 3% of loans extended in low-income tracts and 16% of loans extended in moderate-income tracts compared to 3% and 9% of owner-occupied housing units located, respectively, in these tracts.

* Businesses with gross annual revenues of $1 million or less.

Consumer Loans

The geographic distribution of the bank's consumer loans was reasonable with 3% of consumer loans originated in low-income census tracts compared to 7% of households located in those tracts. In moderate-income census tracts, 11% of consumer loans were originated compared with 14% of households located in moderate-income census tracts.

Small Business Loans

The geographic distribution of the bank's small business loans was excellent. In low-income census tracts, 15% of loans were originated and exceeded the demographic of 10% of businesses that are located in such tracts. In addition, 13% of small business loans were originated in moderate-income census tracts compared with 14% of businesses located in those areas.

Response to Complaints

Adirondack received no complaints relating to the bank's CRA performance, and no complaints have been filed with the Federal Reserve Bank of New York since the previous examination.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices, including the Equal Credit Opportunity Act and the Fair Housing Act, was identified as being inconsistent with helping to meet community credit needs.

CRA APPENDIX A

GLOSSARY

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance is analyzed considering performance context, quantitative factors and qualitative factors.

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance is analyzed using only quantitative factors.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

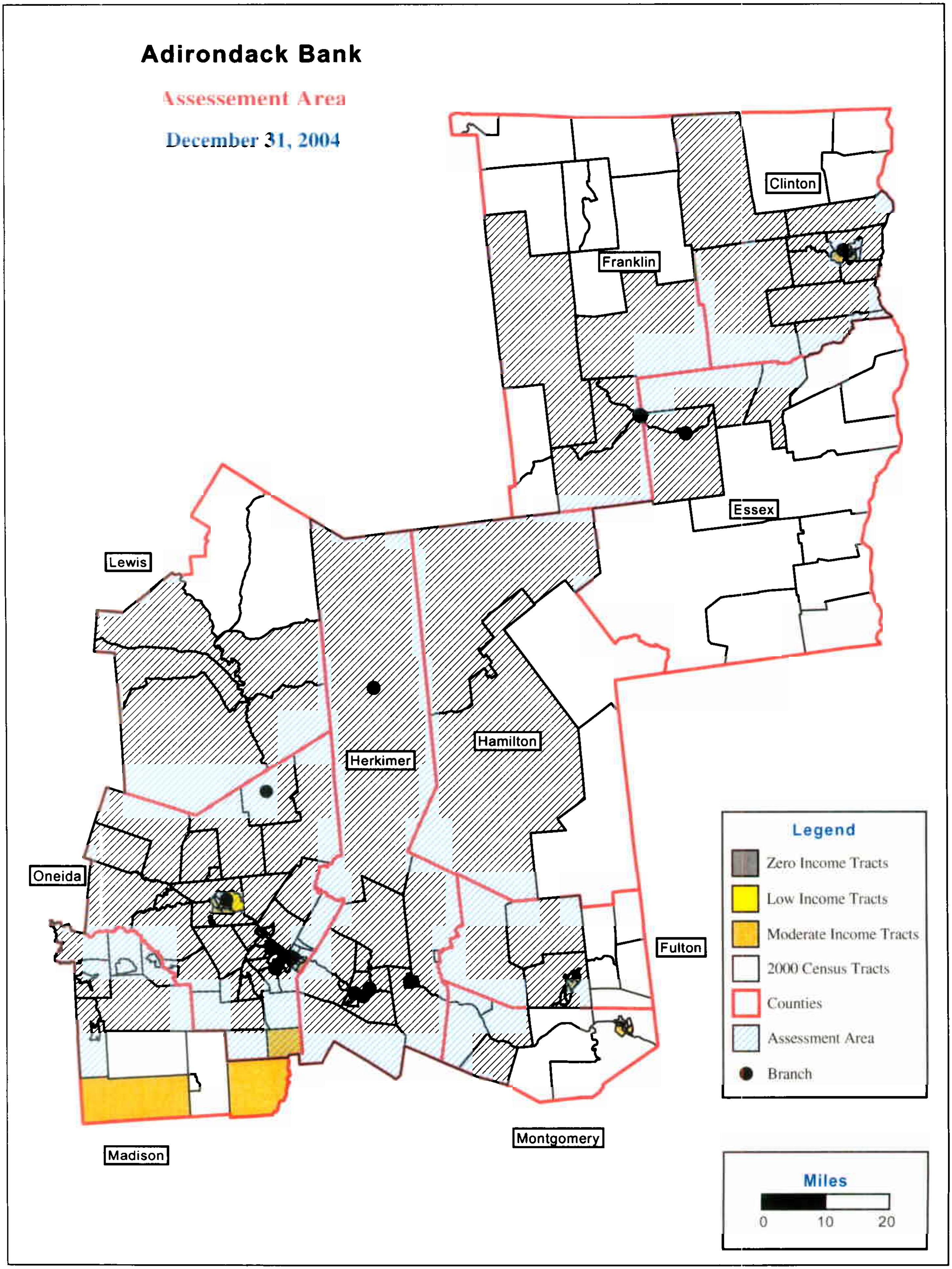
Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution’s CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of $1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.


Adirondack Bank
Assessement Area
December 31, 2004
Clinton
Franklin
Essex
Lewis
Herkimer
Hamilton
Oneida
Fulton
Madison
Montgomery
Legend
Zero Income Tracts
Low Income Tracts
Moderate Income Tracts
2000 Census Tracts
Counties
Assessment Area
Branch
Miles
0
10
20