

PUBLIC DISCLOSURE

August 24, 2009

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, NY 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 is rated Satisfactory.

The following table indicates the performance level of the institution with respect to the lending and community development tests.

+PERFORMANC E LEVELS	PERFORMANCE TESTS	
	Lending Test	Community Development Test
Outstanding		
Satisfactory	X	X
Needs to Improve		
Substantial Noncompliance		

For the examination period of January 1, 2007 through December 31, 2008, the satisfactory performance of Adirondack Bank (“Adirondack”) with regard to the Community Reinvestment Act (“CRA”) is based on the following performance criteria:

- A substantial majority of loans were made in the assessment areas.
- The distribution of loans to borrowers of different income levels and businesses of different sizes reflects reasonable penetration.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The bank’s loan-to-deposit ratio was reasonable.
- The level of community development loans, qualified investments and community development services demonstrates reasonable responsiveness to community development needs in the assessment areas.

DESCRIPTION OF INSTITUTION

Headquartered in Utica, NY, Adirondack is the sole bank subsidiary of Adirondack Bancorp, Inc., a bank holding company. The bank operates 17 branches located in northern and central New York State. As of December 31, 2008, the bank had total assets of \$480 million, net loans and leases of \$317 million, total domestic deposits of \$401 million, and total real estate loans of \$226 million. Of the total real estate loans, 59% (\$133 million) were secured by one- to four-family residential properties.

Adirondack is a full service commercial bank that offers a variety of credit products to consumers and businesses. Consumer products include residential mortgages (fixed and adjustable rate), automobile/RV/watercraft loans, credit cards, home equity loans and lines of credit, and unsecured personal loans. Commercial products include commercial mortgages, term loans, lines of credit, construction loans, business credit cards, letters of credit, and loans to small businesses. The bank has an established Small Business Lending Program that offers loans in amounts of \$275,000 or less to businesses with gross annual revenues of \$3 million or less.

The bank operates in a competitive market with branches of numerous local, regional, and international banks operating in the bank's assessment areas. Local peer banks include Oneida Savings Bank, Rome Savings Bank, First Niagara Bank, and NBT Bank N.A. Based on deposits reported to the Federal Deposit Insurance Corporation ("FDIC") on June 30, 2008, Adirondack has the fifth largest deposit market share (8.7%) in the Utica-Rome metropolitan statistical area ("MSA"), the assessment area where the bank conducts a majority of its business.

Adirondack's previous CRA examination was conducted as of August 20, 2007, using the Federal Financial Institutions Examination Council's ("FFIEC") Intermediate Small Bank Examination Procedures. The prior examination resulted in an overall rating of "satisfactory." There are no financial or legal factors that would prevent Adirondack from fulfilling its responsibility under CRA.

DESCRIPTION OF ASSESSMENT AREA

Adirondack has three assessment areas that are located in central and northern New York State. Since the last examination, the MSA 45060 (Syracuse, NY) assessment area was reduced by excluding all of Madison County and two census tracts in Onondaga County. The bank also added three tracts in Onondaga County to this assessment area. Adirondack now defines its assessment areas to consist of the following:

MSA 46540 (Utica-Rome, NY), which includes all of Herkimer County and Oneida Counties.

Non-MSA Area, which includes portions of Clinton, Essex, Franklin, Fulton, Hamilton, Lewis and Montgomery Counties. These counties are geographically spread out and extend up to the Canadian and Vermont borders.

MSA 45060 (Syracuse, NY), which includes a portion of Onondaga County, specifically the City of Syracuse, NY.

The combined assessment areas consist of 269 census tracts, of which 191 are middle- and upper-income tracts, 45 are moderate-income tracts, 31 are low-income tracts, and two are tracts with no income designation. Adirondack's assessment area is in compliance with the requirements of Section 228.41 of Regulation BB and does not arbitrarily exclude low- and moderate-income ("LMI") geographies. Additional assessment area data can be found in Exhibit 1 on page BB4. See page BB25 for a map illustrating the bank's assessment areas.

Exhibit 1				
Summary of Key Assessment Area Data				
	MSA 46540	Non MSA	MSA 45060	TOTALS
Total Population¹	299,896	151,720	415,669	867,285
Population % of AA population	35%	17%	48%	100%
Families	76,588	37,606	104,084	218,278
Families % of AA families	35%	17%	48%	100%
Total Census Tracts¹	92	44	133	269
Tracts % AA tracts	34%	16%	49%	100%
LMI tracts	27	5	44	76
LMI tracts % all AA LMI tracts	36%	7%	58%	100%
Total Owner-Occupied Units¹	79,126	39,381	103,590	222,097
Units % of AA units	36%	18%	47%	100%
Business Establishments²	10,291	5,969	17,886	34,146
Bus. est. % AA bus. est.	30%	17%	52%	100%
Farm Establishments²	550	337	155	1,042
Bus. est. % AA bus. est.	53%	32%	15%	100%
Number of Branches³	12	4	1	17
Branches % all branches	71%	24%	6%	100%
Branches in LMI tracts	3	0	1	4
LMI branches % AA LMI branches	75%	0%	25%	100%
Branch Deposits (\$'000s)⁴	325,651	73,393	2,516	401,560
Deposits % AA deposits	81%	18%	1%	100%
Deposit Market Share (%)/ Rank in Market	8.74%/5	1.98%/11	0.03%/20	
Home Purchase Originations⁵	200	19	7	226
HP originations % AA orig.	88%	8%	3%	100%
Refinance Originations⁵	183	23	6	212
RF originations % AA orig.	86%	11%	3%	100%
Home Improvement Originations⁵	371	80	3	454
HI originations % AA orig.	82%	18%	1%	100%
Multi-Family⁵	5	1	0	6
MF originations % AA orig.	83%	17%	0%	100%
Small Business Originations⁵	220	50	22	292
SB orig. % AA orig.	75%	17%	8%	100%
Consumer Originations⁵	1,750	250	126	2,126
Cons orig. % AA orig.	82%	12%	6%	100%
Combined Loan Totals	2,729	423	164	3,316
% of AA Orig.	82%	13%	5%	100%

1. Source: 2000 Census data

2. Source: 2008 Dun & Bradstreet

3. Number of branches as of 12/31/2008

4. Source: Federal Deposit Insurance Corporation ("FDIC") Summary of deposit data as of 6/30/2008

5. Loans originated and purchased between January 1, 2007 and December 31, 2008

SCOPE OF EXAMINATION

Procedures

Adirondack was examined using the FFIEC Intermediate Small Bank Examination Procedures, which consist of a lending test and a community development test.

Products

A sample consisting of HMDA-related loans (home purchase, home improvement, and refinance loans), consumer loans, and small business loans originated between January 1, 2007 and December 31, 2008 was evaluated. Loan samples were selected using the Board of Governors' sampling procedures. The sample consisted of 364 HMDA-related loans, 188 consumer loans, and 134 small business loans. Examiners verified the integrity of the bank's HMDA-related, consumer, and small business loan data as part of the onsite examination. Examiners also reviewed activities pertaining to community development during the same period.

Full Scope Assessment Areas

MSA 46540 and the non-MSA assessment area were analyzed as full scope assessment areas as 99% of the bank's deposit activity and 95% of loan activity occurred within these assessment areas. MSA 45060 was analyzed as a limited scope assessment area as less than 1% of deposits and 5% of the loan activity occurred in that area. In addition, only one of the bank's seventeen branches is located in MSA 45060.

Lending Distribution Analysis

The analysis of geographic and borrower distribution considered only the loans made in Adirondack's assessment areas. Performance in MSA 46540 was given the most weight based on the number of loans made in each assessment area. The bank's performance in 2007 and 2008 was compared to the 2007 and 2008 loan data of the aggregate of all HMDA-reporting lenders. Aggregate data is not available for consumer loans.

To evaluate the geographic distribution of HMDA-related and consumer loans, the proportion of loan originations was compared to the proportion of owner-occupied housing units located in LMI geographies. For small business loans, the analysis compared the proportion of loan originations to the proportion of businesses located in LMI geographies.

To analyze the borrower characteristics of HMDA-related and consumer loans, the proportion of originations to LMI borrowers was compared with the proportion of LMI families in the assessment areas. Income estimates from the U.S. Department of Housing and Urban Development ("HUD") were used to categorize borrower income. For small business loans, the bank's percentage of loans to businesses with gross annual revenues ("GAR") of \$1 million or less was compared to the percentage of all such businesses in the assessment areas. The size of the small business loan was also used as a proxy to identify lending to businesses with GAR of \$1 million or less.

Community Contacts

Examiners conducted interviews with two community development organizations in order to gain an understanding of local credit needs. Both community groups focused their efforts on economic development, affordable housing, and the provision of community development services for LMI individuals.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Adirondack's record of meeting the credit needs of its assessment areas through its lending performance is rated satisfactory. Adirondack originated a substantial majority of its loans within its assessment areas and its loan-to-deposit ratio was reasonable. The overall distribution of its loans among borrowers of different income levels and businesses of different sizes was reasonable. The geographic distribution of loans also reflected reasonable penetration throughout the bank's assessment areas.

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 areas. The bank's average loan-to-deposit ratio for the eight quarters between January 1, 2007 and December 31, 2008 was 75%, based on information contained in its *Consolidated Report of Condition and Income*. This ratio was below the national peer average of 89% for similarly-sized banks and below an average of 112%¹ for four similarly-situated banks with branches located in Adirondack's assessment areas during the evaluation period.

Lending in Assessment Areas

Adirondack originated a substantial majority of its loans in its assessment areas. Of the sample of 347 HMDA loans and 175 consumer loans analyzed during this examination, 90% of the HMDA loans and 93% of the consumer loans were extended to individuals residing in the bank's assessment area. Of the sample of 120 small business loans evaluated, 90% were extended to business establishments in the bank's assessment areas.

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

Adirondack's overall lending penetration among borrowers of different income levels (including LMI individuals) and businesses of different sizes was reasonable based on adequate performance in both MSA 46540 (Utica-Rome, NY) and the non-MSA assessment area.

¹ Among the four local peer banks are two small savings and loan banks with average loan-to-deposit ratios significantly above the national peer average. As a result, the average loan-to-deposit ratio for local peers was elevated. These savings banks are funded through other sources of funding, in addition to deposits.

Geographic Distribution of Loans

Adirondack's geographic distribution of loans reflected reasonable dispersion based on adequate performance in MSA 46540 (Utica-Rome, NY) and poor performance in the non-MSA assessment area.

Response to Complaints

Adirondack received no complaints relating to its CRA performance. Since the last examination, there were no CRA-related or consumer complaints filed with the Federal Reserve Bank of New York.

COMMUNITY DEVELOPMENT TEST

Adirondack demonstrated satisfactory responsiveness to the community development needs of its assessment areas through a reasonable level of community development loans, qualified investments, and community development services. This conclusion considers Adirondack's capacity and the need and availability of opportunities for community development in Adirondack's assessment areas. Satisfactory performance was noted in both MSA 46540 (Utica-Rome, NY) and the non-MSA assessment area.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An isolated violation of the substantive provisions of the Equal Credit Opportunity Act (Regulation B) was found at this examination, which involved the improper request for a spousal cosigner on a loan.

Bank management has taken steps to ensure that underwriters receive appropriate training specific to the cosigner requirements under Regulation B. Based on the isolated nature of the violation, the bank's overall fair lending risk management program and the remedial actions taken by Adirondack to prevent future violations, the bank's overall satisfactory CRA performance was not materially impacted.

METROPOLITAN AREA

MSA 46540 (UTICA-ROME, NY)

DESCRIPTION OF OPERATIONS

Adirondack's banking activities within its assessment areas were primarily conducted within MSA 46540. As of December 31, 2008, Adirondack operated 12 of 17 branches (71%) in this MSA. These branches generated \$326 million in deposits, which accounts for 81% of the bank's total branch deposits as of June 30, 2008. Of the bank's total number of HMDA loans (898) originated in the assessment areas during 2007 and 2008, 85% were originated in this MSA. Of its total number of consumer loans (2,126) originated in the assessment areas, 82% were originated in this MSA, and of its total number of small business loans originated in the assessment areas (292), 75% were originated in this MSA. For additional assessment area data, see Exhibits 1 and 2.

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 Census), U.S. Department of Labor, U.S. Department of Housing and Urban Development ("HUD"), New York Association of Realtors ("NYSAR"), and New York State Department of Labor.

Demographic Characteristics

According to the 2000 Census, the Utica-Rome MSA contains 92 census tracts, which includes 10 low-income tracts and 17 moderate-income tracts. 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 in the MSA. The moderate-income tracts contain 13% of the population and 13% of businesses.

The 2000 Census reports that the Utica-Rome MSA has a population of 299,896, and it estimates that as of July 1, 2008, the MSA population decreased by 2% to 293,790. This decrease in population represents the continuation of a trend that has occurred since the 1970's as working-age individuals move out of the area in response to a lack of employment opportunities. The area, however, has experienced an influx of immigrants from Eastern Europe, Somalia, and Cambodia, which has slowed the population decline. Community contacts also noted that the senior citizen population in the MSA continues to increase.

Income Characteristics

According to the 2000 Census data, the Utica-Rome MSA has 20% of families that are low-income, 18% of families that are moderate-income, and 10% of families living below the poverty level. The MSA lags behind both New York State and the nation in income levels. The 2008 HUD-adjusted median family income for the Utica-Rome MSA is \$52,700, which is below the New York State average of \$65,300.

EXHIBIT 2
Assessment Area Demographics
MSA 46540 UTICA-ROME, NY

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	10	10.9	3,873	5.1	1,416	36.6	15,196	19.8
Moderate-income	17	18.5	9,267	12.1	1,849	20.0	13,909	18.2
Middle-income	48	52.2	47,724	62.3	3,667	7.7	17,647	23.0
Upper-income	16	17.4	15,724	20.5	404	2.6	29,836	39.0
Unknown-income	1	1.1	0	0.0	0	0.00	0	0.0
Total Assessment Area	92	100.0	76,588	100.0	7,336	9.6	76,588	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	10,912	2,090	2.6	19.2	5,815	53.3	3,007	27.6
Moderate-income	19,195	7,415	9.4	38.6	9,109	47.5	2,671	13.9
Middle-income	81,823	51,688	65.3	63.2	18,123	22.1	12,012	14.7
Upper-income	22,895	17,931	22.7	78.3	4,055	17.7	909	4.0
Unknown-income	4	2	0.0	50.0	2	50.0	0	0.0
Total Assessment Area	134,829	79,126	100.0	58.7	37,104	27.5	18,599	13.8
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Low-income	1,018	9.9	862	9.5	103	12.6	53	13.0
Moderate-income	1,383	13.4	1,210	13.3	121	14.8	52	12.7
Middle-income	5,826	56.6	5,159	56.9	430	52.7	237	57.9
Upper-income	2,061	20.0	1,833	20.2	162	19.9	66	16.1
Unknown-income	3	0.0	2	0.0	0	0.0	1	0.2
Total Assessment Area	10,291	100.0	9,066	100.0	816	100.0	409	100.0
	Percentage of Total Businesses:			88.1	7.9		4.0	

Housing Characteristics

The Utica-Rome MSA has 134,829 housing units, of which 59% are owner-occupied, 27% are rental, and 14% are vacant, as of the 2000 Census. Of the total owner-occupied housing units, 12% are located in LMI census tracts. Housing in the Utica-Rome MSA 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. Community contacts confirmed that home improvement loans represent a significant credit need in the area.

Housing in the Utica-Rome MSA is generally affordable. NYSAR reports the median sales prices for single family homes in Oneida County at \$110,000 in 2007 and \$105,000 in 2008. For Herkimer County, NYSAR reports the median sales prices for single family homes at \$84,950 in 2007 and \$83,900 in 2008. Housing prices fell slightly between 2007 and 2008 as a result of the nationwide distress in the housing market. However, one community contact in this area reported that it appears that housing prices in the area have stabilized most recently. The Utica-Rome area was also reported to have very low foreclosure rates compared to other metropolitan areas. Rents are also relatively affordable in the MSA. The 2000 Census put median gross rent for the MSA at \$460, compared to median gross rent of \$672 for New York State.

Labor, Employment and Economic Characteristics

The average unemployment rate in the Utica-Rome MSA was 4.5% for 2007 and 5.6% for 2008, which was comparable to the New York State annual average of 4.5% for 2007 and 5.4% for 2008. However, the area tends to have low-paying jobs. Dun and Bradstreet reports that there are 10,291 businesses in the Utica-Rome MSA, of which 88% have GAR of \$1 million or less, indicating a need for small business loans in the area. Community contacts indicated that the area's primary employers continue to be state and local government, education, and health care institutions. The area has a substantial number of insurance companies back office operations, as well as large retail stores. The area is also home to the Turning Stone Casino, which is a major local tourist attraction.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Adirondack's record of lending in MSA 46540 was reasonable. Below is an analysis of the bank's lending to borrowers of different income levels and businesses of different sizes as well as an analysis of geographic distribution of loans throughout the MSA.

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

The overall distribution of HMDA-related and small business loans reflected reasonable penetration among individuals of different income levels and businesses of different sizes. An analysis of the lending distribution in each loan category follows:

Home Purchase Loans

Adirondack's distribution of home purchase loans to LMI borrowers in MSA 46540 was reasonable. The bank originated 3% of its home purchase loans to low-income borrowers in 2008, compared to 20% of low-income families residing in the assessment area. The bank's home purchase lending to low-income borrowers was below the aggregate, which originated 7% of its home purchase loans to low-income borrowers in 2008. The bank's home purchase lending to moderate-income borrowers was 14% in 2008, compared to 18% of moderate-income families residing in the area. Home purchase lending to moderate-income borrowers was significantly below the aggregate, which originated 27% of its home purchase loans to moderate-income borrowers in 2008. The bank's performance in 2007, when compared to the proportion of LMI families residing in the assessment area and to the 2007 aggregate performance, was more favorable than 2008 performance.

Refinance Loans

Adirondack's distribution of refinance loans to LMI borrowers in MSA 46540 was reasonable. In 2008, the bank extended 5% of its refinance loans to low-income borrowers, compared to 20% of low-income families residing in the assessment area. The bank's refinance lending to low-income borrowers in 2008 was comparable to the aggregate, which also made 5% refinance

loans to low-income borrowers. Refinance lending to moderate-income borrowers was 19% in 2008, compared to 18% of moderate-income families residing in the area. The bank's refinance lending to moderate-income borrowers exceeded the aggregate, which originated 15% of its refinance loans to moderate-income borrowers in 2008. The bank's performance in 2007, when compared to the proportion of LMI families residing in the assessment area and to the 2007 aggregate performance, was comparable to 2008 performance.

Home Improvement Loans

The distribution of home improvement loans to LMI borrowers in MSA 46540 was reasonable. The bank originated 11% of its home improvement lending to low-income borrowers in 2008, compared to 20% of low-income families residing in the assessment area. The bank's home improvement lending to low-income borrowers was above the aggregate, which originated 9% of its home improvement loans to low-income borrowers in 2008. The bank's home improvement lending to moderate-income borrowers was 17% in 2008, compared to 18% of moderate-income families residing in the area. Home improvement lending to moderate-income borrowers was below the aggregate, which originated 21% of its home improvement loans to moderate-income borrowers in 2008. The bank's performance in 2007, when compared to the proportion of LMI families residing in the assessment area and to the 2007 aggregate performance, was comparable to 2008 performance.

Consumer Loans

The distribution of consumer loans to LMI borrowers in MSA 46540 was reasonable. In 2008, Adirondack made 15% of its consumer loans to low-income borrowers, compared to 24% of low-income households in the assessment area. The bank's consumer lending to moderate-income borrowers was 39% in 2008, compared to 16% of moderate-income households in the area. The bank's performance in 2007, when compared to the proportion of LMI households in the assessment area, was comparable to 2008 performance.

Small Businesses Loans

Adirondack's distribution of loans to businesses of different sizes was reasonable. Of the bank's business lending, 67% was to businesses with GAR of \$1 million or less in 2008, compared to 88% of such businesses located in the assessment area. Adirondack's 2008 performance exceeded the performance of the aggregate, which reported 33% of its loans to businesses with GAR of \$1 million or less in 2008.

In 2008, Adirondack made 47% of its small business loans in amounts of \$100,000 or less, and the average small business loan size was \$182 thousand. The bank's percentage of small business loans in amounts of \$100,000 or less in 2008 was below the aggregate, which originated 95% of its loans in amounts of \$100,000 or less in 2008. The bank's performance in 2007, when compared to the proportion of small businesses in the assessment area and to the 2007 aggregate performance, was comparable to 2008 performance.

Geographic Distribution of Loans

The overall distribution of HMDA-related and small business loans reflected reasonable dispersion throughout MSA 46540, when compared to the level of owner-occupied housing units and to the performance of the aggregate. An analysis of the lending distribution in each loan category follows:

Home Purchase Loans

Adirondack's distribution of home purchase loans in the LMI areas of MSA 46540 was poor. In 2008, the bank did not originate any home purchase loans in LMI areas, compared to 3% of owner-occupied housing units located in low-income geographies and 9% of owner-occupied housing units located in moderate-income geographies. The bank's level of home purchase lending was below the performance of the aggregate, which made 1% of its home purchase loans in low-income geographies and 10% home purchase loans in moderate-income geographies in 2008. The bank's performance in 2007, when compared to the level of owner-occupied housing units and to the 2007 aggregate performance, was comparable to 2008 performance.

Refinance Loans

Adirondack's distribution of refinance loans in LMI areas in MSA 46540 was reasonable. In 2008, the bank made 2% of its refinance loans in low-income geographies, compared to 3% of owner-occupied housing units located in low-income areas. The bank's 2008 refinance lending in low-income geographies exceeded the aggregate, which made 1% of its refinance loans in low-income geographies.

The bank made 10% of its refinance loans in moderate-income geographies in 2008, compared to 9% of owner-occupied housing units located in moderate-income geographies. The bank's 2008 refinance lending in moderate-income geographies exceeded the aggregate, which made 7% of its refinance loans in moderate-income geographies. The bank's performance in 2007, when compared to the percentages of owner-occupied housing units and to the 2007 aggregate performance, was less favorable than 2008 performance.

Home Improvement Loans

Adirondack's distribution of home improvement loans in the LMI areas of MSA 46540 was reasonable. The bank's home improvement lending in low-income geographies was 4% in 2008, compared to 3% of owner-occupied housing units located in low-income geographies. The bank's 2008 home improvement lending was similar to the aggregate, which also made 4% of its home improvement loans in low-income geographies.

The bank's home improvement lending in moderate-income geographies was 4% in 2008, compared to 9% of owner-occupied housing units located in moderate-income geographies. Home improvement lending in moderate-income geographies was below the aggregate, which made 9% of its home improvement loans in moderate-income geographies in 2008. The bank's performance in 2007, when compared to the percentages of owner-occupied housing units and to the 2007 aggregate performance, was comparable to 2008 performance.

Consumer Loans

The bank's distribution of consumer loans in LMI areas in MSA 46540 was poor. In 2008, the bank made 5% of its consumer loans in low-income geographies, compared to 7% of households in low-income geographies. The bank made 5% of its consumer loans in moderate-income geographies, compared to 14% of households in moderate-income geographies. The bank's performance in 2007, when compared to the level of households in LMI areas, was comparable to 2008 performance.

Small Business Loans

Adirondack's distribution of small business loans in LMI geographies of MSA 46540 was reasonable. In 2008, the bank made 19% of its small business loans in low-income geographies, compared to 10% of businesses located in low-income areas. The bank's 2008 small business lending in low-income areas exceeded the aggregate, which originated 8% of its small business loans in low-income geographies. The bank made 6% of its small business loans in moderate-income geographies in 2008, compared to 13% of businesses located in moderate-income geographies. The bank's 2008 small business lending in moderate-income geographies was below the aggregate, which made 10% of its small business loans in moderate-income geographies in 2008. The bank's performance in 2007, when compared to the proportion of small businesses in the assessment area located in LMI geographies and to the 2007 aggregate performance, was comparable to 2008 performance.

COMMUNITY DEVELOPMENT TEST

Adirondack's community development performance was adequate in MSA 46540. The bank's level of community development activities compared favorably to five similarly-situated banks located in the Utica-Rome MSA in terms of community development loans and qualified investments as a percentage of total assets, as a percentage of total deposits, and as a percentage of tier 1 capital. During the examination period, loans and qualified investments benefiting the MSA totaled \$1.5 million. In terms of dollar volume, MSA 46540 total community development loans and investments decreased by 68% from last examination (last examination total loans and investments for MSA 46540 was \$4.7 million). The bank's community development efforts in this assessment area were dedicated to community services for LMI individuals (72% of total dollar volume) and to the creation of affordable housing (28% of total dollar volume).

Examples of community development activities carried out in this assessment area include:

- A \$550,000 loan to a non-profit organization that is a leading provider of programs and services for individuals who are physically, developmentally, or mentally challenged and their families. The organization's programs are primarily funded by Medicare and Medicaid.
- A \$425,000 loan to a for-profit organization that will use the funds to purchase a property in Oneida County that will provide 29 affordable rental units.

- A total of \$41,375 worth of grants made to various organizations dedicated to community services for LMI individuals.

Adirondack provided community development services by hosting three seminars relating to homebuyer education and banking services, and through offering technical assistance to five organizations that furnish community development services to LMI individuals. Bank officers and employees serve on the boards and committees of seven community development organizations in the MSA, which include:

- An economic development organization that provides businesses with tax incentives, utility rate reductions, and below market rate financing in order to create jobs and economic investment. One officer serves as Chairman of the Board and directs all activities and meetings.
- An economic development corporation whose mission is to maintain and improve economic vitality and quality of life by encouraging commercial, industrial and financial development. One officer chairs the operations committee of the Board of Directors, which provides direction for all aspects of operating initiatives and projects.

Adirondack also helped sponsor a Freddie Mac program for first-time home buyers in the Mohawk Valley. Various officers prepared all marketing and program materials and served as speakers for the program.

Additionally, the availability of branches in LMI geographies in the MSA enhanced the delivery of financial services to LMI individuals. The overall branch distribution provides excellent accessibility to the LMI population and geographies within the assessment area. Three of twelve branches (25%) are located in LMI census tracts compared to 19% of the assessment area population residing in LMI census tracts. The branches provide a full range of financial services to the individuals who reside in those geographies.

NON METROPOLITAN AREA

(Clinton, Essex, Franklin, Fulton, Hamilton, Lewis and Montgomery Counties, NY)

DESCRIPTION OF OPERATIONS

As of December 31, 2008, Adirondack operated four branches in the seven counties that make up the non-MSA assessment area, representing 24% of its total 17 branches. These branches generated \$73 million in deposits and accounted for 18% of the bank's total branch deposits as of June 30, 2008. Of the bank's total loans originated in the assessment areas during 2007 and 2008, 14% of HMDA loans, 12% of consumer loans, and 17% of small business loans were originated in the non-MSA assessment area. For additional data, see Exhibits 1 and 3.

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 Census), the U.S. Department of Labor, the U.S. Department of Housing and Urban Development ("HUD"), the New York Association of Realtors, and the New York State Department of Labor.

Demographic Characteristics

The non-MSA assessment area encompasses portions of seven contiguous counties located in northern New York State. These counties are primarily rural with towns and villages scattered across the assessment area. According to the 2000 Census, the non-MSA assessment area contains 44 census tracts, which include five moderate-income tracts, 35 middle-income tracts, three upper-income tracts, and one tract that has unknown income. The area has no low-income census tracts. Within the assessment area, seven middle-income census tracts in Lewis and Montgomery Counties meet the FFIEC definition of distressed non-metropolitan middle-income census tracts due to population losses. In addition, two middle-income census tracts in Hamilton County meet the FFIEC definition of underserved remote rural areas.

The 2000 Census reports that non-MSA area has total population of 151,720, of which 10% reside in moderate-income census tracts.

Income Characteristics

According to the 2000 Census, the area has 37.8% of families that are LMI and 10% of families living below the poverty level. The HUD-adjusted median family income in 2008 for the non-MSA assessment area ranges from a low of \$48,600 in Lewis County to a high of \$58,600 in Clinton County.

EXHIBIT 3
Assessment Area Demographics
NON-MSA ASSESSMENT AREA

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	7,206	19.2
Moderate-income	5	11.4	3,685	9.8	778	21.1	7,012	18.6
Middle-income	35	79.5	30,714	81.7	2,725	8.9	8,521	22.7
Upper-income	3	6.8	3,207	8.5	160	5.0	14,867	39.5
Unknown-income	1	2.3	0	0.0	0	0.0	0	0.0
Total Assessment Area	44	100.0	37,606	100.0	3,663	9.7	37,606	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	7,131	3,184	8.0	44.7	3,048	42.7	899	12.6
Middle-income	65,082	32,671	83.0	50.2	14,526	22.3	17,885	27.5
Upper-income	4,981	3,526	9.0	70.8	1,093	21.9	362	7.3
Unknown-income	5	0	0.0	0.0	5	100.0	0	0.0
Total Assessment Area	77,199	39,381	100.0	51.0	18,672	24.2	19,146	24.8
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	588	9.9	500	9.5	64	14.1	24	9.0
Middle-income	4,810	80.6	4,259	81.2	326	71.8	225	84.0
Upper-income	570	9.5	487	9.3	64	14.1	19	7.1
Unknown-income	1	0.0	1	0.0	0	0.0	0	0.0
Total Assessment Area	5,969	100.0	5,247	100.0	454	100.0	268	100.0
	Percentage of Total Businesses:			87.9	7.6		4.5	

Housing Characteristics

The assessment area contains 77,199 housing units, of which 51% are owner-occupied, 24% are rental, and 25% are vacant. Of the owner-occupied housing units, 8% are in moderate-income census tracts and represent 45% of total housing units in these census tracts. Demographic information from the 2000 census estimated that the median age of the housing stock throughout the assessment area was 46 years.

According to the NYSAR, the median sales price for a single family home in 2007 ranged from a low of \$87,000 in Fulton County to a high of \$172,000 in Essex County. In 2008, the median sales price ranged from a low of \$95,000 to a high of \$155,000 in the same counties. The median housing costs in the various counties comprising the non-MSA assessment area ranged from four to six times the median family income of a low-income borrower and from two to four times the income of a moderate-income borrower. Housing affordability therefore may be difficult for some LMI individuals in the area.

Labor, Employment and Economic Characteristics

In 2007, the unemployment rates within the seven counties of the non-MSA assessment area ranged from a low of 4.8% in Hamilton County to a high of 5.9% in Montgomery County. In 2008, unemployment rates ranged from low of 6.4% to a high of 7.2% in the same counties. Unemployment in the non-MSA assessment area was higher than New York State's annual average rates, which were 4.5% for 2007 and 5.4% for 2008. Dun and Bradstreet reports that the area has 5,969 businesses, of which 88% have GAR of \$1 million or less, indicating a need for small business lending.

The retail trade sector has seen the most growth in the non-MSA. Like many areas in upstate New York, the non-MSA assessment area continues to suffer from an eroding manufacturing base. The natural resources and mining sector has also seen a decline in employment. Agriculture, however, remains an essential part of the area's economy.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Adirondack's record of lending in non-MSA assessment area was reasonable. Below is an analysis of the bank's lending to borrowers of different income levels and businesses of different sizes, as well as an analysis of the geographic distribution of loans throughout the non-MSA assessment area.

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

The overall distribution of HMDA-related and small business loans in the non-MSA assessment area reflected reasonable penetration among individuals of different income levels and businesses of different sizes. An analysis of the lending distribution in each loan category follows:

Home Purchase Loans

Adirondack's distribution of home purchase loans to LMI borrowers in the non-MSA assessment area was reasonable. The bank did not originate any home purchase loans to low-income borrowers in 2008, compared to 19% of low-income families residing in the area. The bank's home purchase lending to low-income borrowers was significantly below the aggregate, which originated 5% of its home purchase loans to low-income borrowers in 2008.

The bank's home purchase lending to moderate-income borrowers was 20% in 2008, compared to 19% of moderate-income families residing in the area. Home purchase lending to moderate-income borrowers was comparable to the aggregate, which originated 19% of its home purchase loans to moderate-income borrowers in 2008. The bank's performance in 2007, when compared to the proportion of LMI families residing in the non-MSA assessment area and to the 2007 aggregate performance, was comparable to 2008 performance.

Refinance Loans

Adirondack's distribution of refinance loans to LMI borrowers in the non-MSA assessment area was reasonable. In 2008, the bank made 25% of its refinance loans to low-income borrowers, compared to 19% of low-income families residing in the assessment area. The bank's 2008 refinance lending to low-income borrowers exceeded the aggregate, which made 6% of its refinance loans to low-income borrowers. In 2008, the bank did not originate any refinance loans to moderate-income borrowers, which was significantly below the aggregate's 2008 refinance lending to this population. The aggregate originated 17% of its refinance loans to moderate-income borrowers in 2008. The bank's performance in 2007, when compared to the proportion of LMI families residing in the non-MSA assessment area and to the 2007 aggregate performance, was more favorable than 2008 performance.

Home Improvement Loans

Adirondack's distribution of home improvement loans to LMI borrowers in the non-MSA assessment area was reasonable. The bank did not originate any home improvement loans to low-income borrowers in 2008, compared to 19% of low-income families residing in the assessment area. Home improvement lending to low-income borrowers was significantly below the aggregate, which originated 12% of its home improvement loans to low-income borrowers in 2008.

The bank's home improvement lending to moderate-income borrowers was 38% in 2008, compared to 19% of moderate-income families residing in the area. The bank's 2008 home improvement lending to moderate-income borrowers exceeded the aggregate, which originated 24% of its home improvement loans to moderate-income borrowers in 2008. The bank's performance in 2007, when compared to the proportion of LMI families residing in the non-MSA assessment area and to the 2007 aggregate performance, was comparable to 2008 performance.

Consumer Loans

The bank's distribution of consumer loans to LMI borrowers in the non-MSA assessment area was reasonable. The bank did not originate any consumer loans to low-income borrowers in 2008, compared to 25% of low-income households in the assessment area. Consumer lending to moderate-income borrowers was 63% in 2008, compared to 17% of moderate-income households in the area. The bank's performance in 2007, when compared to the proportion of LMI households in the non-MSA assessment area, was comparable to 2008 performance.

Small Business Loans

Adirondack's distribution of loans to businesses of different sizes was excellent in the non-MSA assessment area. The bank's lending to businesses with GAR of \$1 million or less was 89% in 2008, compared to 88% of such businesses located in the assessment area. Adirondack's 2008 performance exceeded the performance of the aggregate, which reported 41% of its loans made to businesses with GAR of \$1 million or less in 2008.

In 2008, Adirondack made 44% of its small business loans in amounts of \$100,000 or less, and the average small business loan size was \$299 thousand. The bank's percentage of small business loans in amounts of \$100,000 or less in 2008 was below the aggregate, which originated 94% of its loans in amounts of \$100,000 or less in 2008. The bank's performance in 2007 when compared to the proportion of small businesses in the non-MSA assessment area and to the 2007 aggregate performance, was less favorable than 2008 performance.

Geographic Distribution of Loans

The overall distribution of HMDA-related and small business loans reflected very poor dispersion throughout the non-MSA assessment area, when compared to the level of owner-occupied housing units as well as to the performance of the aggregate. Since the non-MSA assessment area has no low-income tracts, the analysis of the lending distribution in each loan category was based only on lending performance in moderate-income geographies.

Home Purchase Loans

Adirondack's distribution of home purchase loans in moderate-income areas in non-MSA assessment area was very poor. The bank did not originate any home purchase loans in moderate-income geographies in 2008, compared to 8% of owner-occupied housing units located in moderate-income areas. The aggregate made 9% of its home purchase loans in moderate-income geographies in 2008. The bank's performance in 2007, when compared to the level of owner-occupied housing units located in the non-MSA assessment area and to the 2007 aggregate performance, was comparable to 2008 performance.

Refinance Loans

Adirondack's distribution of refinance loans in moderate-income areas in the non-MSA assessment area was very poor. The bank did not originate any refinance loans in moderate-income geographies in 2008, compared to 8% of owner-occupied housing units located in moderate-income areas. The aggregate made 6% of its refinance loans in moderate-income geographies in 2008. The bank's performance in 2007, when compared to the level of owner-occupied housing units located in the non-MSA assessment area and to the 2007 aggregate performance, was comparable to 2008 performance.

Home Improvement Loans

The bank's distribution of home improvement loans in moderate-income areas in non-MSA assessment area was very poor. The bank did not originate any home improvement loans in moderate-income geographies in 2008, compared to 8% of owner-occupied housing units located in moderate-income areas. The aggregate made 5% of its 2008 home improvement loans in moderate-income geographies. The bank's performance in 2007, when compared to the level of owner-occupied housing units located in the non-MSA assessment area and to the 2007 aggregate performance, was comparable to 2008 performance.

Consumer Loans

The bank's distribution of consumer loans in moderate-income areas in non-MSA assessment area was very poor. The bank did not originate any consumer loans in moderate-income geographies in 2008, compared to 11% of households in moderate-income areas. The bank's performance in 2007, when compared to the level of households in LMI areas in the non-MSA assessment area, was comparable to 2008 performance.

Small Business Loans

Adirondack's distribution of small business loans in moderate-income geographies in the non-MSA assessment area was reasonable. In 2008, the bank made 33% of its small business loans in moderate-income geographies, compared to 10% of businesses located in moderate-income geographies. The bank's 2008 small business lending in moderate-income geographies exceeded the aggregate, which originated 9% of its small business loans in moderate-income geographies. The bank's performance in 2007, when compared to the proportion of small businesses in the non-MSA assessment area located in moderate-income geographies and to the 2007 aggregate performance, was much less favorable than 2008 performance.

COMMUNITY DEVELOPMENT TEST

Adirondack's community development performance was reasonable in the non-MSA assessment area. During the examination period, the bank's community development activities in the non-MSA assessment area consisted of seven qualified investments in total amount of \$286,000. In terms of dollar volume, qualified investments increased by 85% since the last examination (last examination total qualified investments was \$155,000). The bank's community development efforts in the non-MSA assessment area consisted of municipal bonds for infrastructure improvements dedicated to revitalizing distressed middle-income communities. These investments included:

- A bond to a municipality in a middle-income distressed geography in Lewis County to acquire road equipment and make necessary repairs for highway maintenance. Maintenance of roads is an essential service that revitalizes and stabilizes the area by attracting new, and maintaining existing, businesses and residents.
- A bond to a municipality of a middle-income distressed geography in Montgomery County to purchase a police department vehicle. This investment will revitalize and stabilize the community by benefiting public safety, thus attracting new and maintaining existing residents and businesses.

The bank provided a very limited number of community development services in the non-MSA assessment area, which consisted of a bank officer serving on the board of a non-profit organization that provides services for victims of domestic violence, mentoring programs for troubled teens, daycare programs for working families, food pantries and shelters for the homeless, and emergency services for LMI families.

METROPOLITAN AREA

MSA 45060 (SYRACUSE, NY)

(LIMITED REVIEW)

Conclusions regarding performance in this limited-review assessment area are related to the bank's overall performance. The bank's performance in MSA 45060 was below its overall lending test performance and consistent with its overall community development test performance.

The bank has a limited presence in MSA 45060, reflective of its lending activity. For MSA 45060, a total of 29 loans were made over the course of the evaluation period, including seven HMDA loans, thirteen consumer loans, and nine small business loans. Of the HMDA loans, two were made to moderate-income individuals and none were located in LMI geographies. With respect to the consumer loans, seven were made to LMI individuals and three were located in LMI geographies. For small business loans, seven were made to businesses with GAR or \$1 million or less, and one was made to a business located in moderate-income geography. By contrast, however, 52% (\$2 million) of the bank's community development loans and investments benefited MSA 45060.

CRA APPENDIX A

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small, relatively permanent statistical subdivision of a county or statistically equivalent entity delineated for data presentation purposes by a local group of census data users or the geographic staff of a regional census center in accordance with Census Bureau guidelines. Designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions at the time they are established, census tracts generally contain between 1,000 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries are delineated with the intention of being stable over many decades, so they generally follow relatively permanent visible features. However, they may follow governmental unit boundaries and other invisible features in some instances; the boundary of a state or county (or statistically equivalent entity) is always a census tract boundary.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of LMI individuals.

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: A family is a group of two or more people related by birth, marriage, or adoption and residing together; all such people (including related subfamily members) are considered as members of one family.

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 income of applicants, the amount of loan requested, and the disposition of the application (e.g., 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: A household consists of all the people who occupy a housing unit. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards, or employees who share the housing unit. A person living alone in a housing unit, or a group of unrelated people sharing a housing unit such as partners or roomers, is also counted as a household. The count of households excludes group quarters.

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

Metropolitan Statistical Area (“MSA”): A geographic entity defined by the federal Office of Management and Budget for use by federal statistical agencies, based on the concept of a core area with a large population nucleus, plus adjacent communities having a high degree of economic and social integration with that core.

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

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

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share or grant that has as its primary purpose community development.

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.

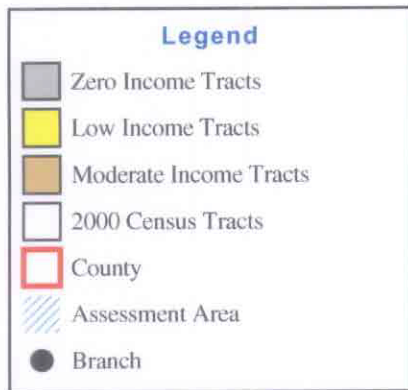
Upper-income: Individual income that is more than 120% of the area median income, or a median family income that is more than 120%, in the case of a geography.

Adirondack Bank

Assessment Area

January 1, 2007 - December 31, 2008

Clinton



Franklin

Herkimer

Lewis

Essex

Hamilton

Oneida

Fulton

Montgomery

Onondaga

