



PRESS RELEASE

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CONTACTS:

David P. Kershaw
Executive Vice President &
Chief Financial Officer
315-475-4478

Joseph M. Russo
Vice President
Marketing and Investor Relations
315-475-6710

ALLIANCE FINANCIAL REPORTS THIRD QUARTER EARNINGS

SYRACUSE, NEW YORK {October 21, 2004}

Alliance Financial Corporation (Nasdaq: ALNC), parent of Alliance Bank, N. A., reported net income of \$2 million and diluted earnings per share of \$0.56 for the quarter ended September 30, 2004. When compared with the same period in 2003, net income rose 10% and diluted earnings increased 9.8%. Net income and diluted earnings per share for the three months ended September 30, 2003 were \$1.8 million and \$0.51, respectively. Comparing the nine months ended September 30, 2004 to September 30, 2003, net income was \$5.7 million and \$6.3 million, respectively, and diluted earnings per share were \$1.56 and \$1.78, respectively. The decline in both net income and diluted earnings per share for the comparable nine month periods reflects the inclusion of the nearly \$1 million net premium received by the Bank in connection with the 2003 second quarter sale of its Whitney Point branch. When excluding the premium received on the branch sale from the 2003 results, 2004 net income increased 5.6% and diluted earnings per share rose 3.3% for the comparable nine-month periods.

The Company also reported that its return on average assets for the third quarter 2004 was 0.94%, compared with 0.93% reported in the third quarter of 2003, while its return on average equity at 12.18% compared with an 11.24% return reported for the same period in 2003.

“As a report card of our performance, the third quarter is showing high marks on all fronts,” said Jack H. Webb, Chairman, President and Chief Executive Officer of Alliance Financial Corporation. “Increases in net interest income and average earning assets have mitigated the decline in net interest margin stemming from the extended period of low market interest rates. Non-interest income has shown strong performance. Loan quality is even further improved. Our asset size has continued to grow, bringing us closer to the \$900-million mark. And we successfully opened our third new branch this year, further building on deposits that have already

grown as a consequence of aggressive market efforts and two earlier new branch openings. We're adhering to our strategic plan and it's producing the intended positive results."

Year-over-year third quarter 2004 net interest income increased 3.8% to \$7 million, the result of a \$67 million, or 9%, increase in average earning assets that generated revenue more than offsetting the negative impact resulting from a 17-basis-point decline in the net interest margin. The increase in average earning assets was primarily attributable to an 11.9% growth rate in average loans over the prior year third quarter. A decline of 26 basis points in overall earning asset yields, chiefly attributable to lower yields on the residential mortgage and indirect auto loan portfolios, contrasted with an 8-basis-point decline in the average rate paid on interest bearing liabilities.

The Bank's provision for loan and lease loss expense declined \$264,000 when comparing the third quarter of 2004 to the third quarter of 2003. Improvement in loan portfolio quality indicators over the past twelve months, highlighted by a significant decline in loan losses contributed to the decline in the provision expense. Net loans charged off, as a percentage of average annualized loans, were 0.13% for the quarter ended September 30, 2004, declining from 0.35% for the quarter ended September 30, 2003. Loan delinquency, as measured by the percentage of loans past due 30 days or more and nonaccruing to total loans, ended the third quarter of 2004 at 1.64%, comparable with the 1.61% rate reported a year earlier. The Bank's level of criticized loans was 21.1% of the Company's combined capital plus the allowance for loan losses during the 2004 third quarter, comparable with last quarter, but up slightly from the 18.6% reported in last year's third quarter. At September 30, 2004, the ratio of non-performing loans to total loans was 0.82%, down 23.4%, from the 1.07% ratio reported a year earlier. At September 30, 2004, the Allowance for Loan and Lease Losses represented 1.18% of outstanding loans and leases.

Non-interest income for the 2004 third quarter rose 6.3% compared with the third quarter of 2003 reflecting growth in trust and brokerage revenues and increases in the gain on the sale of loans and other recurring fee income. Non interest expense for the comparable periods increased 10.5%. Increased salary and employee benefits expense included costs associated with the Bank's 2004 opening of three new branches as well as costs relating to the planned acquisition of a portion of the HSBC personal trust business. The Bank's branch expansion program also contributed to higher occupancy and equipment expense while the increase in other expense related to growth in the balance sheet over the past 12 months.

As of September 30, 2004, total assets were \$884 million, increasing \$76.6 million, or 9.5%, compared with September 30, 2003. The growth in assets over the past 12 months reflects a \$41.2 million, or 8.8%, increase in loans, and an increase of \$33.6 million, or 11.5%, in the investment portfolio. The loan portfolio growth during the last 12 months reflects increases in indirect auto and commercial loans, as well as increased outstanding balances on home equity lines of credit. At September 30,

2004, deposits of \$641.9 million were up \$79.1 million, or 14.1%, compared with a year ago, with the growth rate positively impacted by the build in overall retail deposits supported by the 2004 new branch openings, as well as strong growth in commercial deposits. Borrowings of \$162.7 million at September 30, 2004 declined by \$7.8 million, or 4.6% compared with that reported on September 30, 2003.

Shareholders' equity at September 30, 2004 was \$69 million, or 7.8% of assets, compared with \$65.3 million, 8.1% of assets on the same date the prior year. The increase of \$3.7 million, or 5.7%, in shareholders' equity over the past 12 months reflects the addition of net income after payment of dividends and proceeds from the issuance of common stock in connection with the exercise of stock options, offset by a reduction in accumulated other comprehensive income due to a decline in the market value of the Company's investment portfolio. On September 16, 2004, the Company declared its regular quarterly dividend of \$0.21 per share. The dividend was paid on October 8, 2004.

For a copy of this release including third quarter 2004 performance highlights and supporting financial information, please refer to the "Press Releases" section of the "Investor Information" module on the Company's website at www.alliancebankna.com.

Alliance Financial Corporation is the parent bank holding company of Alliance Bank, N.A., that provides banking, commercial leasing, trust and investment services through 20 office locations in Cortland, Madison, Oneida and Onondaga counties.

This press release contains certain forward-looking statements with respect to the financial condition, results of operations and business of Alliance Financial Corporation. These forward-looking statements involve certain risks and uncertainties. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities: (1) an increase in competitive pressure in the banking industry; (2) changes in the interest rate environment reduce margins; (3) changes in the regulatory environment; (4) general economic conditions, either nationally or regionally, are less favorable than expected, resulting in, among other things, a deterioration in credit quality; (5) changes in business conditions and inflation; (6) changes in the securities markets; (7) changes occur in technology used in the banking business; (8) the ability to maintain and increase market share and control expenses; and (9) other factors detailed from time to time in the Company's SEC filings.

ALLIANCE FINANCIAL CORPORATION
Consolidated Financial Information
(\$ in thousands)
Unaudited

	<u>September 30, 2004</u>	<u>Period Ended December 31, 2003</u>	<u>September 30, 2003</u>
Balance Sheet			
Cash and Due From Banks	\$ 25,022	\$ 21,824	\$ 23,152
Federal Funds Sold	-	-	1,000
Securities Held-to-Maturity	5,571	6,756	7,012
Securities Available-for-Sale	319,516	299,031	284,517
Total Securities	325,087	305,787	291,529
Residential Real Estate Loans	174,757	173,963	174,337
Commercial Loans and Leases	155,283	147,142	144,814
Indirect Loans	117,209	97,163	91,238
Other Consumer Loans	62,450	58,803	58,062
Gross Loans and Leases	509,699	477,071	468,451
Less Unearned Income	991	630	382
Less Allowance for Loan and Lease Losses	6,031	6,069	5,984
Net Loans and Leases	502,677	470,372	462,085
Premises and Equipment, Net	12,301	10,410	10,228
Accrued Interest Receivable	4,307	4,017	4,091
Other Assets	14,631	13,845	15,367
Total Assets	\$ 884,025	\$ 826,255	\$ 807,452
Non-Interest Checking Accounts	77,904	56,085	56,968
Interest Bearing Checking Accounts	83,574	85,614	85,490
Savings and MMDA Accounts	218,801	204,168	210,193
Time Deposits	261,651	215,533	210,183
Total Deposits	641,930	561,400	562,834
Short-Term Borrowings	52,417	68,483	40,996
Long-Term Borrowings	110,310	120,310	129,500
Accrued Interest Payable	1,360	1,244	1,125
Other Liabilities	9,049	8,665	7,735
Total Liabilities	815,066	760,102	742,190
Common Stock	3,942	3,910	3,903
Surplus	10,181	9,268	9,116
Unamortized Value of Restricted Stock	(1,093)	(563)	(500)
Undivided Profits	61,390	57,976	57,371
Accumulated Other Comprehensive Income	2,494	3,517	3,327
Treasury Stock	(7,955)	(7,955)	(7,955)
Total Shareholders' Equity	68,959	66,153	65,262
Total Liabilities and Shareholders' Equity	\$ 884,025	\$ 826,255	\$ 807,452
Assets Under Trust Administration (Book Value)	\$ 250,835	\$ 223,242	\$ 227,560

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	Quarterly Average		Year to Date	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Balance Sheet				
Cash and Due From Banks	\$ 22,655	\$ 20,371	\$ 22,049	\$ 19,975
Federal Funds Sold	988	982	5,415	2,847
Securities Held-to-Maturity	5,244	7,052	6,364	6,152
Securities Available-for-Sale	300,036	290,854	304,237	297,188
Total Securities	305,280	297,906	310,601	303,340
Residential Real Estate Loans	174,722	167,338	173,263	159,250
Commercial Loans & Leases	154,172	140,230	151,945	138,080
Indirect Loans	115,767	86,742	108,144	78,362
Other Consumer Loans	61,377	58,027	59,791	57,857
Gross Loans and Leases	506,038	452,337	493,143	433,549
Less Unearned Income	945	372	765	229
Less Allowance for Loan and Lease Losses	6,048	5,945	6,076	5,631
Net Loans and Leases	499,045	446,020	486,302	427,689
Premises and Equipment, Net	11,904	10,165	11,236	10,211
Accrued Interest Receivable	3,407	3,527	3,718	3,866
Other Assets	14,808	15,309	14,423	14,983
Total Assets	\$ 858,087	\$ 794,280	\$ 853,744	\$ 782,911
Non-Interest Checking Accounts	74,394	58,702	66,292	57,399
Interest Bearing Checking Accounts	82,653	85,056	83,045	83,108
Savings and MMDA Accounts	222,258	196,945	228,402	193,754
Time Deposits	252,431	208,747	239,247	220,158
Total Deposits	631,736	549,450	616,986	554,419
Borrowings	151,746	170,971	161,499	154,788
Other Liabilities	8,217	8,424	8,372	9,048
Total Liabilities	791,699	728,845	786,857	718,255
Common Stock	3,942	3,901	3,938	3,877
Surplus	10,181	9,075	10,058	8,512
Unamortized Value of Restricted Stock	(1,113)	(509)	(1,069)	(450)
Undivided Profits	60,856	56,733	59,698	54,588
Accumulated Other Comprehensive Income	477	4,190	2,217	6,065
Treasury Stock	(7,955)	(7,955)	(7,955)	(7,936)
Total Shareholders' Equity	66,388	65,435	66,887	64,656
Total Liabilities and Shareholders' Equity	\$ 858,087	\$ 794,280	\$ 853,744	\$ 782,911

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Income Statement	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Interest Income	\$ 10,108	\$ 9,767	\$ 30,211	\$ 30,222
Interest Expense	3,127	3,042	9,148	9,913
Net Interest Income	6,981	6,725	21,063	20,309
Provision for Loan and Lease Losses	140	404	319	1,965
Net Interest Income After Provision for Loan and Lease Losses	6,841	6,321	20,744	18,344
Trust & Brokerage Income	422	329	1,303	1,004
Service Charges on Deposit Accounts	767	876	2,285	2,120
Investment Securities Gains	312	276	717	1,142
Gain on the Sale of Loans	67	3	156	105
Bank Owned Life Insurance	105	116	504	349
Net Premium on Sale of Branch	-	-	-	1,407
Other Operating Income	514	457	1,307	1,408
Total Other Income	2,187	2,057	6,272	7,535
Salaries and Employee Benefits	3,742	3,462	11,231	9,887
Occupancy Expense	1,105	827	3,262	2,682
Other Operating Expense	1,665	1,605	5,162	4,651
Total Other Expense	6,512	5,894	19,655	17,220
Net Income Before Taxes	2,516	2,484	7,361	8,659
Provision for Income Taxes	494	645	1,701	2,349
Net Income	\$ 2,022	\$ 1,839	\$ 5,660	\$ 6,310

Share and Per Share Data

Period Ending Shares Outstanding	3,566,963	3,528,075	3,566,963	3,528,075
Basic Average Shares Outstanding	3,566,963	3,525,733	3,563,259	3,502,469
Diluted Average Shares Outstanding	3,623,891	3,586,606	3,633,547	3,553,848
Basic Earnings Per Share	\$ 0.57	\$ 0.52	\$ 1.59	\$ 1.80
Diluted Earnings Per Share	\$ 0.56	\$ 0.51	\$ 1.56	\$ 1.78
Cash Dividends Declared	\$ 0.21	\$ 0.21	\$ 0.63	\$ 0.63
Book Value	\$ 19.33	\$ 18.50	\$ 19.33	\$ 18.50

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Key Ratios	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Leverage Ratio	7.75%	7.80%	7.75%	7.80%
Return on Average Assets	0.94%	0.93%	0.88%	1.07%
Return on Average Equity	12.18%	11.24%	11.28%	13.01%
Net Interest Margin (Tax Equivalent)	3.65%	3.82%	3.69%	3.91%
Efficiency Ratio	71.03%	67.11%	71.90%	61.84%
Net Loans Charged-off to Average Loans and Leases, Annualized	0.13%	0.35%	0.10%	0.31%
Provision for Loan and Lease Losses to Average Loans and Leases, Annualized	0.11%	0.36%	0.09%	0.60%
Allowance for Loan and Lease Losses to Period-end Loans and Leases	1.18%	1.28%	1.18%	1.28%
Allowance for Loan and Lease Losses to Nonperforming Loans and Leases	144.61%	119.17%	144.61%	119.17%
Nonperforming Loans and Leases to Period-end Loans and Leases	0.82%	1.07%	0.82%	1.07%
Nonperforming Assets to Period-end Assets	0.48%	0.63%	0.48%	0.63%
 Allowance for Loan Losses				
Allowance for Loan Losses, Beginning of Period	\$ 6,060	\$ 5,978	\$ 6,069	\$ 5,019
Loans Charged-off	(231)	(495)	(669)	(1,275)
Recoveries of Loans Previously Charged-off	62	97	312	275
Net Loans Charged-off	(169)	(398)	(357)	(1,000)
Provision for Loan Losses	140	404	319	1,965
Allowance for Loan Losses, End of Period	\$ 6,031	\$ 5,984	\$ 6,031	\$ 5,984