



PRESS RELEASE

Date: January 25, 2005

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 2004 Earnings

SYRACUSE, NEW YORK {January 25, 2005}

Alliance Financial Corporation (Nasdaq: ALNC), parent of Alliance Bank, N. A., announced today that earnings were \$2.00 per share on a fully diluted basis for the year ended December 31, 2004, down 10.3% compared with \$2.23 for the prior year. Earnings in 2003 included a one-time \$0.26 per share benefit from the Bank's second quarter sale of its Whitney Point branch, the Bank's only Broome County N.Y. location. Excluding that event, 2004 earnings rose 1.5%, and net income for the year exceeded that reported in 2003 by 2.7%. The Company's net income for 2004 of \$7.3 million declined 9.4% compared with the 2003 net income of \$8 million, which likewise benefited nearly \$1 million from the Whitney Point branch sale.

"We are pleased with our results in 2004. We achieved record deposit and loan growth levels while pursuing an aggressive branch expansion strategy, incurring costs associated with the opening of three new branches in the Greater Syracuse area," said Jack H. Webb, Chairman, President and Chief Executive Officer of Alliance Financial Corporation. "In the first quarter of 2005 we have continued this momentum with the announcement of plans to construct a new branch in Camillus and have other locations under review."

"Our previously announced acquisition of a portion of the personal trust business of HSBC Bank USA, N.A. is on schedule to close February 1, pending approval of the New York State Supreme Court. This transaction will increase trust assets under management to over \$800 million and we project it will be accretive to earnings in 2005. This transaction will add significant scale to our trust assets under management and will diversify our earnings by increasing our other income in 2005. We anticipate that our continued investment in new branches in 2005 will partially offset the earnings accretion that is expected from the trust business," said Webb.

The Company further reported that its return on average assets for 2004 was 0.84%, compared with 1.01% in 2003, while its return on average equity at 10.75% fell from 12.34% in 2003.

The Company's net interest income for 2004 increased \$842 thousand, or 3.1%, compared with the prior year as the result of significant growth in earning assets. Average earning assets for 2004 increased \$74 million, or 10%, with more than 75% of the growth reflected in the Bank's loan portfolio. The Company's 2004 tax equivalent net interest margin of 3.67% declined from 3.91% in 2003. Interest income for the 12 months ended December 31, 2004, at \$40.9 million, was up 1.7% compared with the prior year. Strong growth in average loans generated additional revenue, more than offsetting the negative effect that lower market interest rates had on reducing loan portfolio revenue during the year. Average loans increased \$56.5 million, or 12.8%, with significant growth reported in indirect auto and commercial loans. Although average loan yields in 2004 declined 62 basis points compared with 2003, the income benefit resulting from the strong loan growth increased total loan income by 1.7% compared with the prior year. Investment income also rose 1.7% during the year. Average investment securities in the Company's portfolio increased \$16 million, or 5.4%, in 2004 while the average yield fell 14 basis points, when compared with the prior year. The low interest rate environment that continued throughout 2004 positively impacted the Company's cost of funds, as interest expense declined 1.1% when compared with 2003. Average rates paid on both deposits and borrowings in 2004 were lower than those paid in 2003. During 2004, the average rate paid on interest-bearing liabilities declined 18 basis points, while the Company increased average interest-bearing liabilities by \$58.6 million, or 8.9%, during the year. The Company reported even stronger growth in average non-interest bearing deposits, up 19.1% in 2004 when compared with the prior year.

The Bank's provision for loan loss expense in 2004 was \$984,000, down \$1.4 million, or 58% lower than the expense reported in 2003. The Company's evaluation of the adequacy of the level of the Allowance for Loan and Lease Losses throughout 2004 concluded that the 2004 expense funded the allowance to a level that was both adequate and in compliance with its policy. Non-performing loans and leases at the end of 2004 declined to 0.53% of total loans and leases from 0.98% at year-end 2003. Net loan and lease losses as a percentage of average loans and leases were 0.36% in 2004, up from 0.29% in the prior year. Compared with the prior year, both the increase in the loss rate and the reduction in the level of non-performing loans were significantly impacted by one commercial loan relationship. Excluding the losses associated with this loan relationship, the 2004 rate of net loan and lease losses was 0.12%.

Non-interest income in 2004 declined 11.5% when compared with 2003, with the decline a result of the premium received on the sale of the Bank's Whitney Point Branch that was included in the 2003 income. Excluding that one-time event from 2003 income, non-interest income rose 4.4% in 2004 compared to the prior year,

and was the result of growth in trust and brokerage revenue, higher returns on bank-owned life insurance as well as increased service charge income. Non-interest expense for 2004 increased 11.8% when compared with the year ended December 31, 2003. The increase reflects higher costs associated with growth in the bank's retail and commercial banking businesses, and were in part attributable to the bank's opening of two new full-service branches and the relocation of a third during the year. The increased expense also supported the 2004 growth in trust and brokerage revenues as well as costs associated with the pending acquisition of the HSBC trust business. Operating expense also rose in connection with the Company's 2004 requirement to comply with Section 404 of the Sarbanes-Oxley Act. The Act requires the Company's management to complete a thorough assessment and evaluation of its internal controls over financial reporting, to issue a report attesting to the effectiveness of such internal controls, and to have its external auditor attest to and report on management's assessment of its internal controls.

An increase in the percentage of non-taxable income to pretax income reduced the Company's effective tax rate from 25.8% in 2003 to 21% in 2004.

For the fourth quarter of 2004, net income was \$1.6 million, compared with \$1.7 million for the quarter ended December 31, 2003. Diluted earnings per share for the quarter ended December 31, 2004 were \$0.44, compared with \$0.47 for the quarter ended December 31, 2003. Net income for the 2004 fourth quarter included a \$665,000 provision for loan loss expense, up \$281,000 compared to the prior year quarter, due to a change in the required level of reserve for a specific commercial credit.

Net interest income for the quarter ended December 31, 2004, increased \$88 thousand, or 1.2%, compared with the quarter ended December 31, 2003. The increase was primarily attributable to strong growth in average earning assets. An increase of 9.6% in average earning assets more than offset a 12-basis point decline in the average earning asset yield, and resulted in a 7.1% increase in interest income. Average interest-bearing liabilities rose 7.8% while the average rate paid on those liabilities increased 22 basis points, resulting in a 21.3% rise in interest expense for the comparable fourth quarters. For the comparable periods, the tax-equivalent net interest margin declined from 3.91% to 3.62%.

Non-interest income increased 11.4% when comparing the 2003 and the 2004 fourth quarters. The increase reflected growth in trust and brokerage revenues and higher returns on bank-owned life insurance. Non-interest expense was up 5.2% over the comparable period, with the increase primarily attributable to costs associated with the 2004 new branches and operating system enhancements designed to improve customer service

As of December 31, 2004, total assets were \$894 million, increasing \$67.7 million, or 8.2%, compared with December 31, 2003. During 2004, gross loans increased \$47.8 million, or 10%, to a record \$524.9 million at December 31, 2004. Loan growth was

strongest in the commercial and indirect loan categories. Investment securities increased \$19.3 million, or 6.3%, in 2004, to \$325.1 million at December 31, 2004. At year-end 2004, deposits grew to a record \$623.1 million, increasing \$61.7 million, or 11%, since December 31, 2003. For the year ended December 31, 2004, the Company reported a 22.6% increase in commercial deposits, a 12.5% rise in personal deposits, and a 12.3% decline in public funds deposits. The Company's borrowings increased \$3.4 million, or 1.8%, during 2004 to \$192.2 million at December 31, 2004.

Shareholders equity at December 31, 2004 was \$69 million, or 7.7% of assets. Shareholders equity increased \$2.8 million, or 4.2%, during 2004, reflecting a \$4.3 million addition of net income after payment of dividends, \$583,000 from the issuance of common stock, and a \$2 million decline in the market value (after tax) of the Company's investment portfolio. On January 10, 2005, the Company paid its regular quarterly dividend of \$0.21 per share.

For a copy of this release, including 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 an independent bank holding company with one subsidiary, 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; (9) the possibility that the expansion of the Company's trust business will be delayed or not occur, or may fail to perform as currently anticipated; and (10) other factors detailed from time to time in the Company's SEC filings.

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

	Period Ended	
	December 31, 2004	December 31, 2003
Balance Sheet		
Cash and Due From Banks	\$ 21,258	\$ 21,824
Federal Funds Sold	-	-
Securities Held-to-Maturity	5,367	6,756
Securities Available-for-Sale	319,758	299,031
Total Securities	325,125	305,787
Residential Real Estate Loans	176,666	173,963
Commercial Loans and Leases	166,757	147,142
Indirect Loans	117,622	97,163
Other Consumer Loans	63,862	58,803
Gross Loans and Leases	524,907	477,071
Less Unearned Income	2,055	630
Less Allowance for Loan and Lease Losses	5,267	6,069
Net Loans and Leases	517,585	470,372
Premises and Equipment, Net	12,335	10,410
Accrued Interest Receivable	4,005	4,017
Other Assets	13,626	13,845
Total Assets	\$ 893,934	\$ 826,255
Non-Interest Checking Accounts	74,549	56,085
Interest Bearing Checking Accounts	81,891	85,614
Savings and MMDA Accounts	206,735	204,168
Time Deposits	259,946	215,533
Total Deposits	623,121	561,400
Short-Term Borrowings	101,854	68,483
Long-Term Borrowings	90,310	120,310
Accrued Interest Payable	1,451	1,244
Other Liabilities	8,302	8,665
Total Liabilities	825,038	760,102
Common Stock	3,947	3,910
Surplus	10,298	9,268
Unamortized Value of Restricted Stock	(1,047)	(563)
Undivided Profits	62,235	57,976
Accumulated Other Comprehensive Income	1,418	3,517
Treasury Stock	(7,955)	(7,955)
Total Shareholders' Equity	68,896	66,153
Total Liabilities and Shareholders' Equity	\$ 893,934	\$ 826,255
Assets Under Trust Administration (Book Value)	\$ 248,188	\$ 223,242

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

Quarterly Average
December 31, 2004 December 31, 2003 Year to Date
December 31, 2004 December 31, 2003

Balance Sheet

Cash and Due From Banks	\$ 23,714	\$ 20,975	\$ 22,465	\$ 20,225
Federal Funds Sold	413	2,094	4,165	2,659
Securities Held-to-Maturity	5,666	7,156	6,189	6,403
Securities Available-for-Sale	320,098	294,325	308,202	296,472
Total Securities	325,764	301,481	314,391	302,875
Residential Real Estate Loans	175,529	172,006	173,829	162,438
Commercial Loans & Leases	159,613	141,292	153,862	138,884
Indirect Loans	117,423	94,226	110,464	82,328
Other Consumer Loans	63,608	59,003	60,745	58,143
Gross Loans and Leases	516,173	466,527	498,900	441,793
Less Unearned Income	1,331	513	906	300
Less Allowance for Loan and Lease Losses	5,902	6,020	6,033	5,728
Net Loans and Leases	508,940	459,994	491,961	435,765
Premises and Equipment, Net	12,354	10,307	11,516	10,235
Accrued Interest Receivable	4,113	4,092	3,816	3,922
Other Assets	14,594	14,564	14,467	14,879
Total Assets	\$ 889,892	\$ 813,507	\$ 862,781	\$ 790,560
Non-Interest Checking Accounts	76,921	59,345	68,949	57,886
Interest Bearing Checking Accounts	83,803	84,136	83,235	83,365
Savings and MMDA Accounts	216,414	207,950	225,405	197,303
Time Deposits	265,246	213,007	245,747	218,370
Total Deposits	642,384	564,438	623,336	556,924
Borrowings	168,101	175,291	163,149	159,914
Other Liabilities	10,080	8,151	8,799	8,823
Total Liabilities	820,565	747,880	795,284	725,661
Common Stock	3,946	3,908	3,940	3,885
Surplus	10,280	9,217	10,113	8,688
Unamortized Value of Restricted Stock	(1,052)	(561)	(1,064)	(478)
Undivided Profits	61,914	57,839	60,252	55,401
Accumulated Other Comprehensive Income	2,194	3,179	2,211	5,343
Treasury Stock	(7,955)	(7,955)	(7,955)	(7,940)
Total Shareholders' Equity	69,327	65,627	67,497	64,899
Total Liabilities and Shareholders' Equity	\$ 889,892	\$ 813,507	\$ 862,781	\$ 790,560

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

Income Statement	Three months ended December 31,		Year ended December 31,	
	2004	2003	2004	2003
Interest Income	\$ 10,708	\$ 9,998	\$ 40,919	\$ 40,220
Interest Expense	3,536	2,914	12,684	12,827
Net Interest Income	7,172	7,084	28,235	27,393
Provision for Loan and Lease Losses	665	384	984	2,349
Net Interest Income After Provision for Loan and Lease Losses	6,507	6,700	27,251	25,044
Trust & Brokerage Income	475	353	1,778	1,357
Service Charges on Deposit Accounts	771	807	3,056	2,927
Investment Securities Gains	-	-	717	1,142
Gain on the Sale of Loans	41	122	197	421
Bank Owned Life Insurance	306	112	810	461
Net Premium on Sale of Branch	-	-	-	1,407
Other Operating Income	358	358	1,665	1,572
Total Other Income	1,951	1,752	8,223	9,287
Salaries and Employee Benefits	3,688	3,575	14,919	13,462
Occupancy Expense	1,167	871	4,429	3,553
Other Operating Expense	1,783	1,862	6,945	6,513
Total Other Expense	6,638	6,308	26,293	23,528
Net Income Before Taxes	1,820	2,144	9,181	10,803
Provision for Income Taxes	225	443	1,926	2,792
Net Income	\$ 1,595	\$ 1,701	\$ 7,255	\$ 8,011

Share and Per Share Data

Period Ending Shares Outstanding	3,571,872	3,534,761	3,571,872	3,534,761
Basic Average Shares Outstanding	3,571,083	3,532,643	3,565,226	3,510,074
Diluted Average Shares Outstanding	3,628,804	3,611,120	3,631,806	3,584,930
Basic Earnings Per Share	\$ 0.45	\$ 0.48	\$ 2.03	\$ 2.28
Diluted Earnings Per Share	\$ 0.44	\$ 0.47	\$ 2.00	\$ 2.23
Cash Dividends Declared	\$ 0.21	\$ 0.31	\$ 0.84	\$ 0.94
Book Value	\$ 19.30	\$ 18.72	\$ 19.30	\$ 18.72

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

Key Ratios	Three months ended December 31,		Year ended December 31,	
	2004	2003	2004	2003
Leverage Ratio	7.58%	7.70%	7.58%	7.70%
Return on Average Assets	0.72%	0.84%	0.84%	1.01%
Return on Average Equity	9.21%	10.37%	10.75%	12.34%
Net Interest Margin (Tax Equivalent)	3.62%	3.91%	3.67%	3.91%
Efficiency Ratio	72.76%	71.39%	72.12%	64.14%
Net Loans Charged-off to Average Loans and Leases, Annualized	1.11%	0.26%	0.36%	0.29%
Provision for Loan and Lease Losses to Average Loans and Leases, Annualized	0.52%	0.33%	0.20%	0.53%
Allowance for Loan and Lease Losses to Period-end Loans and Leases	1.01%	1.27%	1.01%	1.27%
Allowance for Loan and Lease Losses to Nonperforming Loans and Leases	191.46%	130.43%	191.46%	130.43%
Nonperforming Loans and Leases to Period-end Loans and Leases	0.53%	0.98%	0.53%	0.98%
Nonperforming Assets to Period-end Assets	0.31%	0.57%	0.31%	0.57%
 Allowance for Loan Losses				
Allowance for Loan Losses, Beginning of Period	\$ 6,031	\$ 5,984	\$ 6,069	\$ 5,019
Loans Charged-off	(1,521)	(394)	(2,190)	(1,669)
Recoveries of Loans Previously Charged-off	92	95	404	370
Net Loans Charged-off	(1,429)	(299)	(1,786)	(1,299)
Provision for Loan Losses	665	384	984	2,349
Allowance for Loan Losses, End of Period	\$ 5,267	\$ 6,069	\$ 5,267	\$ 6,069