

PRESS RELEASE

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Alliance Financial Reports Second Quarter Earnings

SYRACUSE, NEW YORK {July 21, 2005}

Alliance Financial Corporation (Nasdaq: ALNC), parent of Alliance Bank, N. A., announced today that earnings were \$0.48 per share on a fully diluted basis for the quarter ended June 30, 2005, equal to the \$0.48 reported for second quarter of 2004. The Company's 2005 second quarter net income of \$1.7 million also matched its 2004 second quarter net income. Net income for 2005's second quarter expressed as an annualized rate of return on average assets and average common shareholder's equity was 0.76% and 10.14%, respectively, compared with 0.81% and 10.48%, respectively, for the second quarter of 2004.

For the first two quarters of 2005, diluted earnings per share were \$1.03, up 3% from \$1.00 in the comparable 2004 period. Net income for the first half of 2005 totaled \$3.8 million, 3.4% higher than \$3.6 million reported a year earlier. For the six-month period ended June 30, 2005, the return on average assets and average common shareholder's equity was 0.83% and 10.90%, respectively, compared with 0.85% and 10.84%, respectively, in the corresponding 2004 period.

"As anticipated, the accretive impact of our acquisition of a portion of the HSBC, USA, N.A.'s personal trust business has offset the negative impact that the current interest rate environment has had on our net interest margin. We are pleased to report continued strong balance sheet growth in deposits and loans, reflective of the strength of our core business and growing share of market, particularly in the Greater Syracuse market. This has been supported by our build-out of the Alliance Bank branch network in Onondaga County, with three new offices built in '04 and three more announced in '05, two of which are already under construction and scheduled to open this fall. In addition, this has been aided by heightened brand awareness, which benefited from efforts such as our purchase of the naming rights for Alliance Bank Stadium," said Jack H. Webb, Chairman, President and Chief Executive Officer of Alliance Financial Corporation.

“Commercial and consumer deposit growth were particularly strong, providing funding for the growth we’ve experienced in our commercial leasing and indirect auto lending businesses,” said Webb. “Notable is that all of this has been achieved through organic growth in a market where economic indicators have been relatively flat. At the same time, credit quality has remained strong, resulting in net loan and lease recoveries during the first half of this year.”

Year-over-year second quarter net interest income declined \$361 thousand, or 5.1%, reflecting the fact that rising short-term interest rates over the past twelve months have had a greater impact on a larger percentage of interest bearing liabilities than earning assets. For the comparable second quarters, the average tax-equivalent yield on earning assets rose 22 basis points while the average cost of interest-bearing liabilities was up 68 basis points. The 2005 second quarter tax-equivalent net interest margin was 3.32%, down from 3.71% for the same period a year ago. Average net loans totaled \$557 million in the recent quarter, \$67 million, or 13.7%, higher than the second quarter of 2004. Such growth was primarily attributable to a 25% increase in average indirect auto loans and a nearly 600% increase in average commercial leases. For the comparable periods average earning assets increased \$59 million, or 7.3%. Average investment securities for the comparable periods declined 2.3%, while the average investment portfolio yield fell 4 basis points. Average interest-bearing liabilities totaled \$771 million in the 2005 second quarter, up \$53 million, or 7.3%, compared with the same quarter last year while average non-interest bearing deposits increased \$11 million, or 17.8%, over the past twelve months.

The Company’s evaluation of the adequacy of the level of the Allowance for Loan and Lease Losses during the 2005 second quarter continued to report strong loan quality indicators. Non-performing loans and leases at June 30, 2005 were 0.27% of total loans and leases, down from 0.53% at year-end 2004 and 0.82% at June 30, 2004. For the second quarter of 2005, the Company reported that net loan and lease losses as a percentage of average loans and leases were 0.05% compared to a loss rate of 0.00% in the second quarter of 2004. For the six months ended June 30, 2005, the Company reported a net recovery as a percentage of average loans and leases of 0.01%. Loan delinquency, as measured by the percentage of loans past due 30 days or more and non-accruing to total loans, also improved for the comparable quarters declining from 1.45% at quarter end a year ago to 0.85% at the end of the most recent quarter. Over the past twelve months, improvement in the quality of the loan and lease portfolio has reduced the allowance for loan and lease losses as a percentage of period end loans and leases from 1.20% at June 30, 2004 to 0.89% at June 30, 2005. In connection with second quarter loan and lease growth of \$46 million, or 8.7%, the Company recorded a provision for loan and lease loss expense of \$385,000.

Non-interest income for the 2005 second quarter increased \$1.5 million, or 68.7%, compared to last year’s second quarter, with the increase attributable to growth of \$1.7 million, or 472% in trust revenues that were primarily associated with the

February 2005 acquisition of a portion of the HSBC personal trust business. Lower income from retail brokerage services and security gains offset some of the growth in trust revenues. Service charges on deposits were also lower as rising market interest rates provided customers higher earning credit rates on deposit balances offsetting charges. Total operating expenses for the second quarter increased 13.7% compared to last year's second quarter. Salary and benefit costs rose 12.6%, with more than 85% of the increase relating to growth associated with the trust acquisition and staffing associated with the commercial leasing business. Occupancy and equipment expense rose 3.3% for the comparable periods, with the increase attributable to the trust expansion and a new branch facility. Over 65% of the 24% rise in all other operating expenses related to costs associated with servicing the growth in the trust business including the amortization expense associated with the purchased assets.

As of June 30, 2005, total assets were \$937 million, increasing \$80 million, or 9.3%, compared to June 30, 2004. For the twelve months ended June 30, 2005, loans and leases (net of unearned income) increased \$80 million, or 15.9%, to a record \$579 million. The growth was primarily attributable to commercial leases that increased \$35 million and indirect auto loans that were up \$33 million. More modest growth was reported in the commercial and consumer home equity loan categories, each up \$5 million over the past 12 months. The residential mortgage loan portfolio was relatively unchanged, while mortgage loans being serviced by the bank increased \$8 million. Investment securities declined \$7 million, or 2.1% over the past twelve months to \$301 million, while the Company reported an increase of nearly \$10 million in intangible assets reflecting its purchase of the HSBC trust business. At June 30, 2005, deposits were a record \$688 million, increasing \$61 million, or 9.8%, since June 30, 2004. For the twelve months ended June 30, 2005, the Company reported an 11% increase in commercial deposits, an 8.8% rise in personal deposits, and a 1.8% increase in public funds deposits. The Company's brokered deposits increased \$17 million, or 37.6%, while other borrowings were up \$10 million, or 6.1% during the last twelve months.

Shareholders equity at June 30, 2005 was \$70.9 million, or 7.6% of assets. Shareholders equity increased \$6.5 million, or 10.2%, over the past twelve months, reflecting a \$4.4 million addition of net income after payment of dividends, \$454,000 from the issuance of common stock in connection with the exercise of stock options and the issuance of restricted stock, and a \$1.7 million increase in the market value (after tax) of the Company's investment portfolio. On July 8, 2005, the Company paid its regular quarterly dividend of \$0.21 per share.

For a copy of this release, including second quarter 2005 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 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

	June 30, 2005	Period Ended December 31, 2004	June 30, 2004
Balance Sheet			
Cash and Due From Banks	\$ 19,899	\$ 21,258	\$ 22,003
Federal Funds Sold	-	-	-
Securities Held-to-Maturity	6,929	5,367	5,793
Securities Available-for-Sale	294,254	319,758	301,912
Total Securities	301,183	325,125	307,705
Residential Real Estate Loans	175,647	176,666	174,914
Commercial Loans	151,507	148,821	146,853
Leases	46,250	15,817	4,938
Indirect Loans	147,400	117,622	113,910
Other Consumer Loans	65,193	63,862	59,991
Gross Loans and Leases	585,997	522,788	500,606
Less Unearned Income	6,564	2,055	714
Less Allowance for Loan and Lease Losses	5,141	5,267	6,060
Net Loans and Leases	574,292	515,466	493,832
Premises and Equipment, Net	13,245	14,454	14,085
Accrued Interest Receivable	3,702	4,005	4,075
Intangible Asset	9,699	-	-
Other Assets	14,660	13,626	15,045
Total Assets	\$ 936,680	\$ 893,934	\$ 856,745
Non-Interest Checking Accounts	80,056	74,549	74,207
Interest Bearing Checking Accounts	78,256	81,891	82,271
Savings Accounts	59,997	62,783	65,352
Money Market Accounts	185,158	143,952	162,286
Time Deposits	284,232	259,946	242,345
Total Deposits	687,699	623,121	626,461
Short-Term Borrowings	82,223	101,854	47,661
Long-Term Borrowings	85,310	90,310	110,310
Accrued Interest Payable	1,805	1,451	1,369
Other Liabilities	8,769	8,302	6,606
Total Liabilities	865,806	825,038	792,407
Common Stock	3,973	3,947	3,942
Surplus	11,057	10,298	10,181
Unamortized Value of Restricted Stock	(1,592)	(1,047)	(1,139)
Undivided Profits	64,493	62,235	60,117
Accumulated Other Comprehensive Income	898	1,418	(808)
Treasury Stock	(7,955)	(7,955)	(7,955)
Total Shareholders' Equity	70,874	68,896	64,338
Total Liabilities and Shareholders' Equity	\$ 936,680	\$ 893,934	\$ 856,745
Assets Under Trust Department Administration (Market Value)	\$ 837,631	\$ 282,255	\$ 274,524

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	Quarterly Average		Year to Date	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Balance Sheet				
Cash and Due From Banks	\$ 21,828	\$ 21,367	\$ 22,446	\$ 21,746
Federal Funds Sold	1,853	6,555	3,729	7,629
Securities Held-to-Maturity	7,038	6,885	6,942	6,924
Securities Available-for-Sale	299,854	307,142	299,611	306,337
Total Securities	306,892	314,027	306,553	313,261
Residential Real Estate Loans	175,856	172,191	175,714	172,533
Commercial Loans	152,763	145,586	151,197	143,882
Leases	33,076	4,754	24,906	4,220
Indirect Loans	136,038	108,733	128,537	104,332
Other Consumer Loans	64,152	59,305	63,608	58,999
Gross Loans and Leases	561,885	490,569	543,962	483,966
Less Unearned Income	4,866	698	3,525	675
Less Allowance for Loan and Lease Losses	4,966	6,002	5,190	6,091
Net Loans and Leases	552,053	483,869	535,247	477,200
Premises and Equipment, Net	13,522	13,648	13,865	13,632
Accrued Interest Receivable	3,939	4,080	3,764	3,873
Intangible Asset	9,675	-	6,604	-
Other Assets	15,868	14,579	15,384	14,231
Total Assets	\$ 925,630	\$ 858,125	\$ 907,592	\$ 851,572
Non-Interest Checking Accounts	76,125	64,627	75,780	62,241
Interest Bearing Checking Accounts	77,224	81,845	80,502	83,241
Savings Accounts	61,482	65,795	62,483	65,554
Money Market Accounts	195,690	179,214	183,096	165,920
Time Deposits	278,312	234,659	270,106	232,655
Total Deposits	688,833	626,140	671,967	609,611
Short-Term Borrowings	73,404	41,135	70,126	48,108
Long-Term Borrowings	85,310	116,224	87,595	118,267
Other Liabilities	9,128	8,048	8,881	8,449
Total Liabilities	856,675	791,547	838,569	784,435
Common Stock	3,973	3,941	3,967	3,936
Surplus	11,045	10,161	10,906	9,996
Unamortized Value of Restricted Stock	(1,625)	(1,159)	(1,561)	(1,045)
Undivided Profits	63,930	59,642	63,343	59,118
Accumulated Other Comprehensive Income	(413)	1,948	323	3,087
Treasury Stock	(7,955)	(7,955)	(7,955)	(7,955)
Total Shareholders' Equity	68,955	66,578	69,023	67,137
Total Liabilities and Shareholders' Equity	\$ 925,630	\$ 858,125	\$ 907,592	\$ 851,572

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Income Statement	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Interest Income	\$ 11,228	\$ 10,059	\$ 21,844	\$ 20,063
Interest Expense	4,515	2,985	8,328	6,021
Net Interest Income	6,713	7,074	13,516	14,042
Provision for Loan and Lease Losses	385	165	(159)	179
Net Interest Income After Provision for Loan and Lease Losses	6,328	6,909	13,675	13,863
Trust & Brokerage Income	2,136	472	3,355	881
Service Charges on Deposit Accounts	694	779	1,351	1,518
Investment Securities (Losses) Gains	(22)	132	(22)	405
Gain on the Sale of Loans	68	20	111	89
Bank Owned Life Insurance	101	105	199	399
Rental Income from Leases	230	206	772	383
Other Non-interest Income	376	410	766	793
Total Non-interest Income	3,583	2,124	6,532	4,468
Salaries and Employee Benefits	4,266	3,789	8,177	7,489
Occupancy and Equipment Expense	1,324	1,282	3,046	2,500
Communication Expense	158	162	321	315
Stationary and Supplies Expense	101	128	219	259
Marketing Expense	152	157	335	401
Amortization of Intangible Asset	124	-	166	-
Other Operating Expense	1,508	1,194	2,984	2,522
Total Operating Expenses	7,633	6,712	15,248	13,486
Net Income Before Taxes	2,278	2,321	4,959	4,845
Provision for Income Taxes	530	577	1,197	1,207
Net Income	\$ 1,748	\$ 1,744	\$ 3,762	\$ 3,638

Share and Per Share Data

Period Ending Shares Outstanding	3,597,758	3,566,963	3,597,758	3,566,963
Basic Average Shares Outstanding	3,597,397	3,566,109	3,592,539	3,561,387
Diluted Average Shares Outstanding	3,668,813	3,628,591	3,664,774	3,637,898
Basic Earnings Per Share	\$ 0.49	\$ 0.49	\$ 1.05	\$ 1.02
Diluted Earnings Per Share	\$ 0.48	\$ 0.48	\$ 1.03	\$ 1.00
Cash Dividends Declared	\$ 0.21	\$ 0.21	\$ 0.42	\$ 0.42
Book Value	\$ 19.70	\$ 18.04	\$ 19.70	\$ 18.04

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Key Ratios	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Leverage Ratio	7.59%	7.59%	7.59%	7.59%
Return on Average Assets	0.76%	0.81%	0.83%	0.85%
Return on Average Equity	10.14%	10.48%	10.90%	10.84%
Net Interest Margin (Tax Equivalent)	3.32%	3.71%	3.39%	3.71%
Efficiency Ratio	74.14%	72.41%	76.06%	72.86%
Net Loans and Leases Charged-off (Recovered) to Average Loans and Leases, Annualized	0.05%	0.00%	(0.01%)	0.08%
Provision for Loan and Lease Losses to Average Loans and Leases, Annualized	0.28%	0.13%	(0.06%)	0.07%
Allowance for Loan and Lease Losses to Period-end Loans and Leases	0.89%	1.20%	0.89%	1.20%
Allowance for Loan and Lease Losses to Nonperforming Loans and Leases	327.09%	147.07%	327.09%	147.07%
Nonperforming Loans and Leases to Period-end Loans and Leases	0.27%	0.82%	0.27%	0.82%
Nonperforming Assets to Period-end Assets	0.17%	0.49%	0.17%	0.49%
 Allowance for Loan and Lease Losses				
Allowance for Loan and Lease Losses, Beginning of Period	\$ 4,829	\$ 5,893	\$ 5,267	\$ 6,069
Loans and Leases Charged-off	(203)	(130)	(351)	(438)
Recoveries of Loans and Leases Previously Charged-off	130	132	384	250
Net Loans and Leases Recovered (Charged-off)	(73)	2	33	(188)
Provision for Loan and Lease Losses	385	165	(159)	179
Allowance for Loan and Lease Losses, End of Period	\$ 5,141	\$ 6,060	\$ 5,141	\$ 6,060