



A L L I A N C E

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**In 2009, Alliance Financial Corporation (NASDAQ:ALNC) and its banking subsidiary, Alliance Bank, N.A., set a new record for earnings performance for the third successive year, besting the expectations of analysts. We achieved this in spite of a national financial crisis and the worst economic downturn since the Great Depression.**

**Strength and Stability**

As a community bank, we fueled Central New York’s economic engine. We turned local deposits into loans that helped families realize dreams, businesses to weather the economic turbulence, real estate values to stabilize, and regional jobs to remain in the region. We did it without the government telling us what to do and we did it without bailout money. We did it because that’s what we’re in the business of doing. We do it with passion and we do it well.

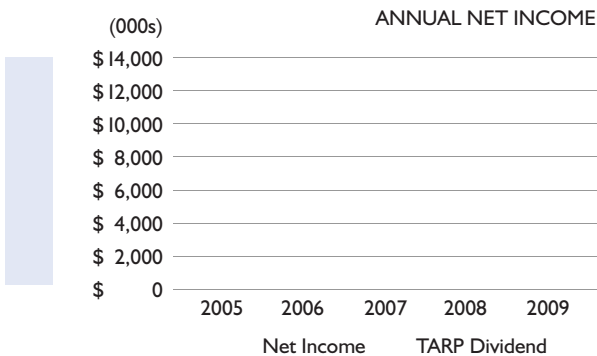
During the course of last year, we increased personal, business and municipal deposits by nearly 15 percent, often at the expense of larger banks. While national concern was voiced about a lack of available credit, we increased our residential, consumer and commercial lending by over 20 percent and, specifically, increased our residential mortgage lending by more than 50 percent.

Our investment management division, working with individuals and institutional clients such as churches, schools and not-for-profit organizations, steered them through the vagaries of a recovering, but still fragile market, helping them to make sound investment decisions based on their objectives.

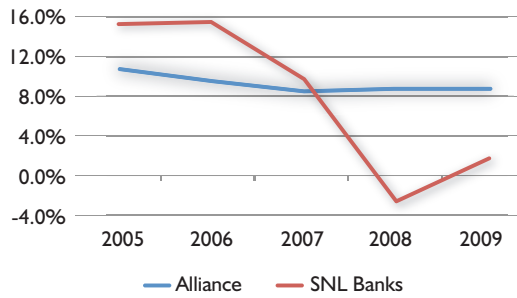
**Outperforming Our Peers**

Despite the downturn in the economy coupled with increasing regulatory and compliance costs, we achieved record-high levels of net income for the third consecutive year.

In 2008, net income reached a record high of just over \$10 million on strong margin growth and relatively modest credit losses that were significantly lower than industry averages. In 2009, we achieved another record year, posting net income of \$11.4 million, as continuing net interest margin growth offset somewhat higher loan loss provisions and a dramatic \$1.7 million increase in FDIC insurance expense.

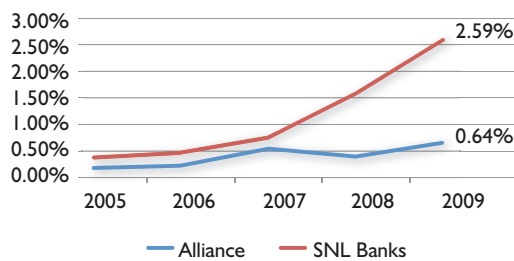


RETURN ON EQUITY



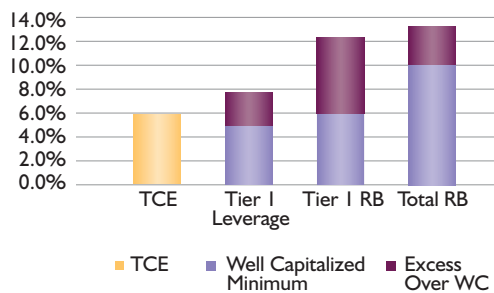
Our annualized return on equity has consistently been 8% or better for the past five years, reflecting a culture that refrains from excessive risk taking and adheres to sound lending and investing practices. While our performance lagged peer averages prior to 2008, our performance in 2008 and 2009 is clearly superior. It is now clear that the double-digit returns on equity posted by the financial industry in recent years came at the expense of long-term, sustainable performance.

NONPERFORMING ASSETS TO TOTAL ASSETS



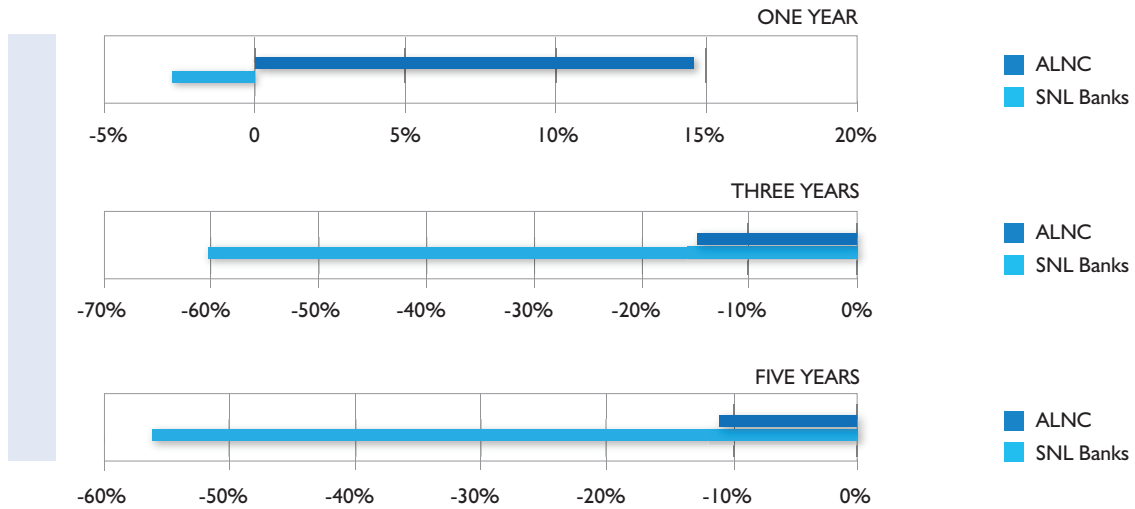
Continuing weakness in the local, state and national economies contributed to an increase in nonperforming assets in 2009, though on a relative basis our asset quality remains quite strong and our trends are significantly more favorable than industry averages. Our levels of nonperforming assets, at 0.64% at the end of 2009, are one-fourth that of the SNL Banks index average of 2.59%, reflecting Alliance's attention to prudent underwriting standards on traditional lending products originated in our market. By design, we did not pursue asset growth by originating sub-prime, Alt-A or other high-risk mortgages, or by originating non-owner occupied commercial real estate.

CAPITAL RATIOS



Our strong balance sheet is supported by a strong capital base, as evidenced by a tangible common equity ratio of just under 6%, and regulatory ratios comfortably above well capitalized thresholds. The combination of a strong capital base and very good asset quality will allow us to take advantage of growth opportunities in our market that present themselves as a result of competitive dislocations and an improving economy.

Our stock performance over the short term and the long term has exceeded that of our peer group, reflecting the underlying strength of our earnings performance, asset quality and capital. The price of our stock increased nearly 15% in 2009, versus a 2.8% drop for the SNL Banks index. The value of Alliance as a long-term investment is reflected in its stock performance over three- and five-year periods, with our price declines over these periods largely the consequence of macroeconomic conditions, substantially less than peer averages.



### National Recognition for Performance

In September 2009, based upon metrics concerning growth, profitability, credit quality and capital strength, Alliance was recognized by Sandler O’Neill and Partners as one of the investment firm’s “2009 Bank and Thrift SM-ALL STARS.” This is a distinction accorded the nation’s 30 best performing small-capitalization publicly traded banks and thrifts with a market cap of less than \$2 billion.

Alliance also made its entry last year into the Russell 3000 Index of the 3,000 largest publicly traded U.S. companies as measured by total market capitalization.

All of what we achieved in the last year was done without high-risk loans or exotic financing. It was accomplished by being what we are, a community bank, and by being true to our core values of knowing and serving our customers, whether personal, business or municipal, in the Central New York communities in which we do business and reside. Our strength and stability, our straight-from-the-shoulder honesty in working with our customers, our integrity, our determination to provide the best possible service, and our ability to forge and maintain lasting relationships with those we serve were all factors in attracting business and producing record results.

While we took deposits, made loans and dealt with the challenges of a struggling economy, we continued to enhance customer service in a variety of ways. We built a new drive-thru branch in Hamilton, NY, a market that we dominate and, yet, in which we continue to grow.

### **Continually Enhancing Service Delivery**

We launched a new, more user friendly, more robust personal online banking and bill pay system in February, followed by a new business online banking and bill pay system in May, followed by a new online account opening function in November. This new online account opening function, an Internet-based “virtual bank” at [www.allianceeverywhere.com](http://www.allianceeverywhere.com), enables customers to open checking or savings accounts online as well as certificates of deposit. This function has also provided us the capability to penetrate new markets for Health Savings Accounts, which have proliferated as employers have sought new ways to control employee healthcare costs through the adoption of high-deductible health insurance plans.

The virtual bank constitutes a new, 29th branch, but one that is accessible “everywhere,” anytime, 24-7 via the Internet. Customers are no longer excluded because of physical location or branch hours. By means of these electronic delivery channels, we not only better service the customer, we also open new markets, increase penetration, generate new deposits and extend and leverage the power of our brand and reputation.

### **Proud to Be Different**

Throughout 2009, we communicated with the public. Through articles and TV interviews, through a widely published op-ed piece written in conjunction with two other area community bankers and through advertising and videos on our website. We delivered a clear and consistent message. We delivered a message of strength and stability, and we reinforced it with our performance. That performance was enhanced by our attention to credit quality. Speaking plainly, we are prudent, even conservative. We are good stewards of the money that people entrust to us and that we lend to others. Attention to credit quality and adherence to credit standards, which others eschewed, are hallmarks of our bank. The rightness of our self-imposed discipline has been borne out at a time when “trust” again has become an imperative in the relationship between the customer and the bank. As the public is now critically aware, not all banks are alike, and we take pride in being distinctly different, a distinction that will remain evident as we serve our customers in 2010 and beyond.

On behalf of our 325-plus employees, we thank you for your continued commitment to Alliance and belief in the course we’ve pursued in building a strong, successful company. We are ready and eager to meet the challenges and opportunities ahead in 2010 and beyond.

Sincerely,



Jack H. Webb  
*President and Chief Executive Officer*  
Alliance Bank, N.A.

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HUNT Real Estate ERA  
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Executive Vice President  
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Director Since 2007

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Executive Vice President

### **J. Daniel Mohr**

Executive Vice President and CFO

### **Judy A. Schultz**

Corporate Secretary

## Alliance Bank, N.A. Senior Management Team

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### **John H. Watt, Jr.**

Executive Vice President,  
Commercial Banking  
Sales and Service, Alliance  
Investment Management

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Executive Vice President  
and CFO

### **James W. Getman**

Executive Vice President  
and Senior Loan Officer,  
Credit Management  
and Administration  
and Leasing Business

### **Steven G. Cacchio**

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Retail Banking Sales  
and Service

### **Kathy L. Davis**

Senior Vice President and  
Senior Credit Officer

### **Kenneth J. Entenmann**

Senior Vice President  
and Director of Alliance  
Investment Management

### **Thomas E. Gogola**

Senior Vice President,  
Bank Operations

### **Colleen K. Lefevre**

Senior Vice President,  
Human Resources

### **Joseph M. Russo**

Senior Vice President,  
Marketing and Investor  
Relations

### **Richard J. Shirtz**

Senior Vice President and  
Manager, Commercial and  
Treasury Management Groups

### **Claudia J. Tavernese**

Senior Vice President,  
Risk Management

### **Jason S. Tedford**

Senior Vice President and CIO

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Senior Vice President and  
Oswego Market Executive

### **John A. Elberson**

Vice President and  
Oneida Market Executive

### **John A. Mason**

Senior Vice President,  
Commercial Banking and  
Cortland Market Executive

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An Alliance Financial Company

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Chief Executive Officer

### **James V. Mazza**

President

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