

March 5, 2009

Neil M. Barofsky
Special Inspector General
Office of the Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., Suite 1064
Washington, D.C. 20220

Re: Response of Alliance Financial Corporation (RSSD No. 1140510)
to Your Letter of February 6, 2009 - OMB Control Number 1505-0212

Dear Mr. Barofsky:

This letter is provided in response to your letter of February 6, 2009 and addresses the issues and requests contained therein. In addition, Alliance Financial Corporation ("Alliance") acknowledges the request in your letter to maintain complete records with respect to the use of the proceeds of the issuance of Preferred Stock and Warrant under the Treasury's Capital Purchase Plan ("CCP").

By way of back-ground and to provide context to this letter, Alliance is the holding company for Alliance Bank N.A. ("Alliance Bank"), a \$1.3 billion community bank headquartered in Syracuse New York. Alliance is a commercial bank with 29 branches and customer service centers. It is a public company traded on the NASDAQ under the symbol ALNC. Alliance has announced that it recorded record earnings of \$10.3 million as of the year ended December 31, 2008. Alliance and Alliance Bank are and have been well capitalized by all regulatory measures both before and after the issuance of securities to the Treasury under the CCP program. Alliance Bank's primary regulator is the Office of the Comptroller of the Currency. It is not now subject to and has never been subject to a memorandum of understanding or other regulatory agreement directing any corrective activity or actions. Alliance issued \$26,918,000 of 5% Senior Preferred Stock and a Warrant to purchase 173,964 shares of Alliance's common stock to the Treasury on December 19, 2008.

With respect to the request to provide a narrative addressing the "anticipated use" of CCP funds, Alliance responds as follows:

1. On December 16, 2008 the Board of Directors of Alliance approved a resolution authorizing the Company and its management to issue \$26,918,000 of 5% Preferred Stock and a related Warrant under the CCP. As part of the presentation concerning the issuance of these securities, the Board reviewed and approved the following uses of the CCP proceeds in descending order of importance: (a) additional retail and commercial lending including home mortgages, auto loans and commercial loans to growth companies or companies directly impacted by the economic recession, (b) purchase of securities for the Alliance investment portfolio, (c) recession related loss absorption which would allow for continued lending, (d) potential M&A transactions where business growth in Alliance's geographic footprint would be promoted.

2. The CCP transaction closed on December 19th, 2008. The proceeds from the issuance of the securities were segregated on Alliance's balance sheet where they will remain until deployed.

3. On January 27, 2009 the Board of Directors reviewed and approved a plan presented by management to deploy the proceeds of the CCP securities offering under a specifically defined set of lending programs and to track the lending under such programs. In addition, certain of the proceeds were earmarked under

[REDACTED]

b(4)

Specific approval criteria for these loans and approval authorities have been established. Alliance's loan and financial systems will be enhanced to provide specific tracking of the deployment of the proceeds. The plan as approved by the Board of Directors is on file in our records.

4. In order to support the various lending programs, the Board agreed to downstream approximately \$24,000,000 of the proceeds from Alliance to Alliance Bank. [REDACTED]

b(4)

[REDACTED] A Committee of our Board has assumed the responsibility for monitoring the lending program.

5. Since approval of the lending program and in addition to ongoing lending activities the following proceeds have been proposed subject to underwriting, committed and or advanced as of February 27, 2009:

Proposed	Committed	Funded
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

b(4)

(The forgoing is in addition to the 2009 business plan of Alliance Bank which forecasts lending which in the aggregate will exceed 2008)

With respect to Alliance's plans to address the executive compensation requirements of CCP the following actions have been taken or will be taken:

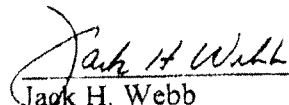
1. Alliance has prepared a comprehensive policy and procedures memorandum which provides the processes necessary to document, track and ensure compliance with the executive compensation requirements associated with the CCP funding in accordance with the guidelines currently available on the Treasury Department website. This process and procedures document is a confidential and a sensitive company record but will be made available upon appropriate request. The Compensation Committee of Alliance's Board has reviewed this policy and procedures memorandum and has been briefed on its ongoing compliance responsibilities (including its risk assessment duties) under the CCP. The SEO's all signed agreements subjecting their compensation to the EESA restrictions. In addition, the SEO's of Alliance signed waivers related to executive compensation required by the Treasury in connection with the closing of the issuance of the Preferred Shares in December 2008.
2. Alliance is aware of the provisions of Title VII of the American Recovery and Reinstatement Act of 2009. It further acknowledges that the compliance requirements discussed in Paragraph 1 above may be amended when the Treasury issues regulations and guidance in the future. Alliance intends to consult with counsel and to comply with these new requirements. The Compensation Committee of our Board is closely monitoring these new requirements and will take the lead in overseeing the compliance by Alliance therewith.

Subject to appropriate confidentiality arrangements and assurances such as described in the Questions and Answers Regarding the February 6, 2009 SIG TARP Letter as issued by Treasury, the following documentation is available in support of Alliance's participation in the CCP program and the initiatives described herein:

1. Presentation Dated December 16, 2008
2. Strategy For Deployment of Proceeds dated January 2009
3. Executive Compensation Compliance Report
4. Form of EESA Agreements

We hope this letter is responsive to your requests. Please do not hesitate to contact me, John Watt or Dan Mohr if you have further questions.

I certify that I have reviewed this response and the supporting documents, and, based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made in light of the circumstances under which such statements were made, not misleading.



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