CPP ANNUAL USE OF CAPITAL SURVEY - 2011

NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Alliance Financial Services, Inc. and Subsidiary Alliance Bank

Point of Contact:	Stephen Byelick	RSSD: (For Bank Holding Companies)	1127146
UST Sequence Number:	1253	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	12,000,000	FDIC Certificate Number: (For Depository Institutions)	10973
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	N/A	City:	Saint Paul
Date Repaid[1]:	N/A	State:	Minnesota

[1]If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

X **Increase lending or reduce lending less than otherwise would have occurred.**

Alliance Bank (the "Bank") made $104.3 million in new loans and renewed $292.6 million of existing loans in calendar 2011. Without the CPP funds the Bank would have ceased making new loans and reduced the renewals significantly.

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☐ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

☐ **Increase securities purchased (ABS, MBS, etc.).**

☐ **Make other investments.**

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X **Increase reserves for non-performing assets.**

In 2011 the Bank recorded provisions for loan losses of $4.4 million and recorded write downs and losses on sale of other real estate properties which totaled $3.6 million.

X **Reduce borrowings.**

In 2011 Alliance Financial Services reduced secured debt by $4.7 million, which could not have been done without the CPP funds.

X **Increase charge-offs.**

The Bank took $8.9 million in net charge-offs on loans in 2011. In addition the bank took $3.6 million in write-downs on other real estate properties The CPP funds allowed the Bank to take these charge-offs/write-downs and still maintain strong regulatory capital ratios.

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☐ **Purchase another financial institution or purchase assets from another financial institution.**

☒ **Held as non-leveraged increase to total capital.**

$6.0 million of the CPP funds were added to the Bank's capital to strengthen the Bank's regulatory capital ratios during this period of high charge-offs and write-downs. The Bank's Tier I leverage ratio was 10.33% at 12/31/11, without the CPP funds the ratio would have been 9.34%

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The CPP funds allowed the Bank to avoid layoffs and branch office closures which may have been necessary without the use CPP funds to strengthen the Bank's regulatory capital ratios. The Bank's ability to maintain strong regulatory capital ratios allowed it to lend to new customers in the market areas it serves and to renew loans to existing customers in its market area thereby retaining those customer relationships.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

During 2011 the Bank was able to add a mortgage lender and an SBA lender to serve the credit needs of consumers and small businesses in the communities it serves. Without the CPP funds the Bank would not have added these positions. The Bank's strong capital ratios, because of the CPP funds, also allowed the Bank to make $104.3 million in new loans and renew $292.6 million of existing loans in calendar 2011.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.