

# Third Quarter Report

As of September 30, 2010



“LNB’s expansion into the Seneca County market has and continues to provide businesses and consumers with unmatched customer service as well as supporting local community projects. Since the branch opened in June, LNB has invested over \$10,000 in the market, supporting 22 local not-for-profit organizations. This philosophy, along with better servicing our customer base, is why we have expanded into Seneca County. We hope you too will enjoy banking the way it ought to be.”

Jane M. Shaffer  
*LNB Seneca County Advisory Board  
Sessler Companies*

WOVEN INTO THE FABRIC  
OF THE COMMUNITY





## Profile

Lyons Bancorp, Inc. is a bank holding company headquartered in Lyons, New York, with assets of \$503 million at September 30, 2010. Lyons Bancorp, Inc. has one banking subsidiary, The Lyons National Bank.

The Lyons National Bank is a community bank with offices in Clyde, Lyons, Macedon, Newark, Ontario and Wolcott in Wayne County, Jordan in Onondaga County, Geneva in Ontario County, Penn Yan in Yates County and Seneca Falls in Seneca County. The Lyons National Bank has two subsidiaries, Lyons Realty Associates Corp., and LNB Life Agency, Inc.

## Stock Symbol

LYBC



### *Pictured, on the cover, from left to right:*

Salvatore N. Franzone, Ciccino's Pizzeria and Restaurant;  
Jane M. Shaffer, Sessler Companies; Gene Pierce, Knapp  
Winery & Vineyard Restaurant and Glenora Wine Cellars,  
Inc.; Kenneth (Lee) Patchen, Jr., Patchen Real Estate;  
Jill D. Hansen, LNB Seneca County Branch Manager;  
and Jeffrey A. Friend, District Manager

## Board of Directors

Robert A. Schick  
*President &  
Chief Executive Officer  
Lyons Bancorp, Inc. &  
The Lyons National Bank*

David J. Breen, Jr.  
*General Manager  
Herrema's Market Place*

Clair J. Britt, Jr.  
*Executive Vice President &  
Senior Commercial  
Lending Officer  
The Lyons National Bank*

Andrew F. Fredericksen, CPA  
*Senior Partner  
Fredericksen & Sirianni, LLP*

Dale H. Hemminger  
*President & General Manager  
Hemdale Farms & Greenhouses*

James A. Homburger  
*Real Estate Broker*

Thomas L. Kime  
*Executive Vice President &  
Chief Operating Officer  
The Lyons National Bank*

Theodore J. Marshall  
*President of Patriot Tank Lines  
Past President & Chief Executive  
Officer Marshall Companies*

James E. Santelli  
*Retired Vice President &  
Co-owner, Santelli Lumber Co.*

John J. Werner, Jr.  
*Retired President &  
Chief Executive Officer  
Lyons Bancorp, Inc. &  
The Lyons National Bank*

Carol A. Snook  
*Banking Officer &  
Corporate/Executive Secretary  
The Lyons National Bank*

## Geneva Advisory Board

Peter J. D'Amico, Jr.  
*D'Amico Chrysler Dodge Jeep*

Jason S. Feinberg  
*Finger Lakes Health*

Robert S. Flowers  
*Hobart and  
William Smith Colleges*

Joseph A. Fragnoli  
*Super Casuals*

Carl W. Fribolin  
*White Springs Winery*

Bernard G. Lynch  
*Lynch Furniture*

## Penn Yan Advisory Board

Bonnie B. Curbeau  
*Curbeau Realty*

Michael D. Linehan  
*Yates County  
Chamber of Commerce*

James H. Long  
*Long's Cards and Books*

Paul W. Marble, Jr.  
*Marble's Automotive  
and Glass*

Henry H. Martin  
*Dairy farmer*

Neil J. Simmons  
*Simmons Vineyards*

## Seneca County Advisory Board

Daniele Bonafiglia-Wirth  
*BonaDent Dental  
Laboratories Inc.*

Salvatore N. Franzone  
*Ciccino's Pizzeria  
and Restaurant*

Kenneth (Lee) Patchen, Jr.  
*Patchen Real Estate*

Gene Pierce  
*Knapp Winery & Vineyard  
Restaurant and Glenora  
Wine Cellars, Inc.*

Jane M. Shaffer  
*Sessler Companies*

Bryan G. vonHahmann  
*Dairylea Cooperative Inc.*

Earl (Red) T. Wadhams  
*Wadhams Enterprises, Inc.*

Dear shareholders & friends,

WOVEN INTO THE FABRIC  
OF THE COMMUNITY

I am excited and proud to report to you that the Bank reached another milestone in the third quarter – **\$500 million in assets!** A remarkable feat in itself for a conservative upstate hometown bank, this benchmark was achieved during a period of economic stagnation and uncertainty and amidst extensive competition from other banks and non-banks alike. The overall “banking pie” is not growing, and these competitors are aggressively courting whatever banking business is available. Our growth is further testimony to our culture of building strong customer relationships through exceptional customer service and the value-added products and services offered by our focused and dedicated staff.

Equally exciting is the growth in our net income. For the three months ended September 30, our earnings per share increased 5.1% over those recorded for the prior three months ended June 30. In dollars, the Bank earned \$1.056 million in the third quarter versus \$1.007 million in the second quarter. 2010 year-to-date earnings per share are \$3.57 versus \$3.12 for the first nine months of 2009 – an increase of more than 14%.

In the third quarter, we realized sizable securities gains (\$727,000) as we restructured our investment portfolio to better align it with our philosophy on the outlook for interest rates. We allocated all of these gains to the Bank’s provision for loan losses. As a result, the percentage of the Bank’s Allowance for Loan Losses to period-ending loans stands at 2.20%, well in excess of our June 30, 2010 custom peer group average of 1.53% according to The Comptroller of the Currency, our lead federal regulator. While we realized a decline in the percentage of non-performing loans to total period ending loans in the third quarter (normally affording us the opportunity to scale back our provision) it is our contention that the present economic challenges are far from being solved. Hence, we held fast to our conservative approach towards credit risk by adding slightly more than \$1 million to our provision during the quarter. Year-to-date we have set aside almost \$2.2 million in our provision.

For the quarter, our net interest income (the difference between the interest we earn on our loans and investments and the interest we pay our depositors) fell slightly as a result of lower re-pricing of many of our outstanding loans (mortgage refinancing) and re-investment of maturing securities at lower current rates. Having previously re-priced many of our deposits lower, the falling yields on our assets narrow our interest spread and, hence, our net interest income. This will continue to be a challenge for us, as well as all other financial institutions, until the economy gains some meaningful upward momentum.

Our non-interest expenses increased slightly in the third quarter. No one category of expense was solely responsible for the increase. We hired additional staff for our new Seneca County Branch when we opened our temporary office in mid-June. Furthermore, we broke ground at our permanent location in early September, and hope to move to that site by year’s end. As I mentioned last quarter, based on history, we will easily earn back our investment as the new branch matures.

Our increased earnings resulted in a higher return on average equity: 12.86% from 12.78% we reported in the second quarter. As always, we remain very focused on the level of earnings we generate, since they are the source of dividends we pay on our common stock. While we face the challenges of a stagnant economy, political ineptitude on all levels of government and the intended and unintended consequences of every growing regulation, we are well aware of the investment you have made in our Bank and the confidence you have shown in us. We thank you and will continue to work diligently to safeguard and grow that investment as we set our sights on that next achievable benchmark.

Sincerely,



Robert A. Schick

*President and Chief Executive Officer*

**Lyons Bancorp, Inc. and Subsidiaries**  
**Consolidated Financial Information Unaudited**

Condensed Income Statement	As of and for the Nine Months Ended September 30, (Dollars in thousands)	
	2010	2009
Net interest income	\$ 12,790	\$ 10,865
Provision for loan losses	2,165	805
Net interest income after provision for loan losses	\$ 10,625	\$ 10,060
Securities gains	727	402
Non-interest income	3,753	3,827
Non-interest expense	10,991	10,497
Income before income taxes	\$ 4,114	\$ 3,792
Income taxes	1,048	1,135
Net income	\$ 3,066	\$ 2,657

**Share and Per Share Data**

Average common shares outstanding (basic)	858,272	850,926
Average common shares outstanding (dilutive)	858,272	850,926
Period-end common shares outstanding (common)	858,908	856,115
Period-end common shares outstanding (dilutive)	858,908	856,115
Net income per common share (basic)	\$ 3.57	\$ 3.12
Net income per common share (dilutive)	\$ 3.57	\$ 3.12
Cash dividend declared	\$ 0.96	\$ 0.88
Book value per common share (basic)	\$ 37.83	\$ 34.05
Book value per common share (dilutive)	\$ 37.83	\$ 34.05
Last stock trade	\$ 35.30	\$ 35.00

**Period-end Balances**

Assets	\$ 503,399	\$ 448,601
Earning assets	\$ 471,387	\$ 415,916
Loans	\$ 300,811	\$ 275,508
Allowance for loan losses	\$ 6,622	\$ 4,052
Deposits	\$ 423,622	\$ 377,555
Shareholders' equity	\$ 32,490	\$ 29,150

**Average Balances**

Assets	\$ 480,695	\$ 427,139
Earning assets	\$ 449,268	\$ 397,924
Loans	\$ 293,122	\$ 253,281
Allowance for loan losses	\$ 5,562	\$ 3,779
Deposits	\$ 414,132	\$ 377,127
Shareholders' equity	\$ 31,638	\$ 27,944

**Key Ratios**

*Earnings*

Return on average assets	0.85%	0.83%
Return on average equity	12.96%	12.71%
Net interest margin	3.81%	3.65%
Efficiency ratio*	68.35%	74.26%

*Asset quality*

Net loan charge-offs to average loans	0.16%	0.09%
Allowance for loan losses to period-end loans	2.20%	1.47%
Non-performing loans to period-end loans	1.87%	0.88%

\*Calculated by dividing total non-interest expense by net interest income plus non-interest income (adjusted for certain items).

**Lyons Bancorp, Inc. and Subsidiaries**  
**Consolidated Financial Information Unaudited**

Condensed Income Statement	As of and for the Three Months Ended (Dollars in thousands)	
	September 30, 2010	June 30, 2010
Net interest income	\$ 4,245	\$ 4,303
Provision for loan losses	1,045	620
Net interest income after provision for loan losses	\$ 3,200	\$ 3,683
Securities gains	727	0
Non-interest income	1,323	1,269
Non-interest expense	3,790	3,690
Income before income taxes	\$ 1,460	\$ 1,262
Income taxes	404	255
Net income	\$ 1,056	\$ 1,007

**Share and Per Share Data**

Average common shares outstanding (basic)	858,564	858,204
Average common shares outstanding (dilutive)	858,564	858,204
Period-end common shares outstanding (common)	858,908	858,194
Period-end common shares outstanding (dilutive)	858,908	858,194
Net income per common share (basic)	\$ 1.23	\$ 1.17
Net income per common share (dilutive)	\$ 1.23	\$ 1.17
Cash dividend declared	\$ 0.33	\$ 0.33
Book value per common share (basic)	\$ 37.83	\$ 37.08
Book value per common share (dilutive)	\$ 37.83	\$ 37.08
Last stock trade	\$ 35.30	\$ 36.67

**Period-end Balances**

Assets	\$ 503,399	\$ 487,729
Earning assets	\$ 471,387	\$ 455,949
Loans	\$ 300,811	\$ 296,491
Allowance for loan losses	\$ 6,622	\$ 5,711
Deposits	\$ 423,622	\$ 423,064
Shareholders' equity	\$ 32,490	\$ 31,819

**Average Balances**

Assets	\$ 493,239	\$ 485,521
Earning assets	\$ 461,999	\$ 454,062
Loans	\$ 297,327	\$ 293,603
Allowance for loan losses	\$ 6,316	\$ 5,321
Deposits	\$ 423,825	\$ 421,810
Shareholders' equity	\$ 32,577	\$ 31,615

**Key Ratios**

*Earnings*

Return on average assets	0.85%	0.83%
Return on average equity	12.86%	12.78%
Net interest margin	3.65%	3.80%
Efficiency ratio*	70.13%	68.38%

*Asset quality*

Net loan charge-offs to average loans	0.05%	0.01%
Allowance for loan losses to period-end loans	2.20%	1.93%
Non-performing loans to period-end loans	1.87%	1.98%

\*Calculated by dividing total non-interest expense by net interest income plus non-interest income (adjusted for certain items).

**Main Office**

35 William Street  
Lyons, NY 14489  
(315) 946-4871

**Clyde Office**

4 Williams Street  
Clyde, NY 14433  
(315) 923-2100

**Geneva Office**

399 Exchange Street  
Geneva, NY 14456  
(315) 781-5000

**Jordan Office**

2 North Main Street  
Jordan, NY 13080  
(315) 689-9530

**Lyons Office**

Corner Routes 14&31  
Lyons, NY 14489  
(315) 946-4505

**Macedon Office**

359 NYS Route 31  
Macedon, NY 14502  
(315) 986-9681

**Newark Office**

750 West Miller Street  
Newark, NY 14513  
(315) 331-0296

**Ontario Office**

Tops Plaza  
6256 Furnace Road  
Ontario, NY 14519  
(315) 524-9661

**Penn Yan Office**

205 Liberty Street  
Penn Yan, NY 14527  
(315) 536-2300

**Seneca County Office**

*Interim Location*  
2041 Routes 5 & 20  
Seneca Falls, NY 13148  
(315) 568-1500

**Wolcott Office**

5996 New Hartford Street  
Wolcott, NY 14590  
(315) 594-6002

[www.BankwithLNB.com](http://www.BankwithLNB.com)