

Second Quarter Report
As of June 30, 2008



Left to right: David and Diane Wetmore, owners of Upstate Refractory Services in Newark; Jarrod Crawford, Newark Branch Manager; and Anna Bridger, LNB Commercial Loan Officer.



PROFILE

Lyons Bancorp, Inc. is a holding company headquartered in Lyons, New York, which had assets of \$383 million at June 30, 2008. 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 and Penn Yan in Yates County. Subsidiaries of the Lyons National Bank are Lyons Realty Associates and LNB Life Agency, Inc.

STOCK SYMBOL

LYBC



BOARD OF DIRECTORS

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

Clair J. Britt, Jr.
Executive Vice President & Senior Commercial
Loan 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 & Chief Executive Officer, Marshall Companies

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

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

Carol A. Snook
Corporate/Executive Secretary, The Lyons National Bank

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

Corporate Offices

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DEAR SHAREHOLDERS & FRIENDS,

Our second quarter earnings increased approximately 17% from the first quarter of 2008, rising to \$846,952 from \$724,021. They were aided by a one-time Bank Owned Life Insurance settlement. We used the majority of the proceeds from the settlement to re-purchase shares of our stock in the open market at favorable prices to book value. On a per share basis, earnings were \$.99 versus \$.85 last quarter. When compared to the second quarter of 2007, earnings increased a strong 64%, including the life insurance settlement, and approximately 15% without it.

Lyons National Bank's assets and deposits declined by roughly \$10 million in the second quarter. This was a planned balance sheet strategy. We allowed municipal term deposits to run off due to the increased interest cost to maintain them. These deposits have become more expensive lately as our larger bank brethren have aggressively bid up rates to fund the myriad mortgages they originated and had originally planned to sell – until the secondary mortgage market collapsed. With limited secondary market access, these banks were forced to fund the mortgages on their balance sheets. Fortunately, our excellent liquidity levels allowed us to match our municipal deposit decline with a like amount of reduced Federal Funds Sold. This strategy helped our net interest margin because we avoided the elevated interest cost on the municipal deposits (actually higher than the interest we would have earned on the Federal Funds Sold). For the quarter, our net interest margin was 3.70% versus 3.57% in the first quarter. Away from municipal term deposits, deposits from individuals and corporations continued to increase in the second quarter.

The balance sheet strategy did not inhibit loan origination. Our loan portfolio grew by 3% in the second quarter. We continue to strive to balance the mix of our loan portfolio evenly between consumer loan products and those we offer our commercial and agricultural customers. We registered a 54%/46% commercial/consumer mix on June 30, 2008. Contrary to many other financial institutions, our loan quality was stable during the quarter. We charged off a minuscule \$4,000 of loans in the second quarter, and the ratio of our non-performing loans to period ending loans declined to 1.47% from 1.51%. Plus, we continue to maintain a healthy Loan Loss Reserve of almost \$4 million, equal to 1.74% of outstanding

loans at quarter-end.

Although shareholder equity declined in the second quarter, it was entirely due to the change in the unrealized gains in our investment portfolio. Bond prices fell as market participants speculated that the Federal Reserve is finished lowering interest rates and, may in fact, begin to raise interest rates later this year or early next year. Given the uncertain state of the overall economy, only time will tell if this calculation is accurate. In the meantime, the market will fluctuate and so will our unrealized gains.

Our stock price remains under pressure as the market paints all financial stocks with the same brush. We suffer along with the bad actors even though we did not make, nor do we hold, any sub-prime residential mortgages. On top of this, our earnings have held up and our dividend is secure. We remain confident that the long-term value of our stock will shine through once the market turmoil has settled down.

On June 25, the Office of the Comptroller of the Currency, our main banking regulator, officially notified us that we fully satisfied all the articles of the agreement we signed with them back in November of 2005. Subsequently, and using their vernacular, they have lifted the agreement and they no longer consider us a "troubled bank." We again meet their definition and standard as a "well capitalized and well managed" bank. This classification will immediately begin to pay dividends for us in the marketplace. Not only will we find a reduced cost of operations due to lower FDIC insurance premiums, but we will be able to take advantage of opportunities on a much more flexible and rapid basis.

On a sad note, in April we lost two well-respected past directors, Anthony Paliotti and Albert Fenyvessy. Both of these retired gentlemen provided the Bank with sound advice and judgment throughout their long and distinguished careers on the Board. We'll miss them both and extend our sympathy and prayers to their families.

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 Six Months ended June 30,	
	2008	2007
Net interest income	\$ 6,467,821	\$ 6,150,340
Less: Provision for loan losses	150,000	250,000
Net interest income after provision for loan losses	\$ 6,317,821	\$ 5,900,340
Securities gains/(losses)	80,242	(51,221)
Noninterest income	2,068,494	1,790,663
Noninterest expense	6,460,584	6,223,040
Income before income taxes	\$ 2,005,973	\$ 1,416,742
Income taxes	435,000	284,961
Net income	\$ 1,570,973	\$ 1,131,781
Share and Per Share Data:		
Average common shares outstanding (basic)	853,250	856,570
Average common shares outstanding (dilutive)	853,250	856,570
Period-end common shares outstanding (basic)	847,114	855,795
Period-end common shares outstanding (dilutive)	847,114	855,795
Net income per common share (basic)	\$ 1.84	\$ 1.32
Net income per common share (dilutive)	\$ 1.84	\$ 1.32
Cash dividend declared	\$ 0.56	\$ 0.535
Book value per common share (basic)	\$ 29.20	\$ 26.93
Book value per common share (dilutive)	\$ 29.20	\$ 26.93
Last stock trade	\$ 29.60	\$ 33.00
Period-end Balances:		
Assets	\$ 383,273,737	\$ 370,919,342
Earning assets	\$ 349,553,132	\$ 342,994,097
Loans	\$ 225,858,397	\$ 212,801,370
Allowance for loan losses	\$ 3,937,508	\$ 4,043,742
Deposits	\$ 340,206,707	\$ 330,509,581
Shareholders' equity	\$ 24,735,744	\$ 23,047,696
Average Balances:		
Assets	\$ 388,319,450	\$ 356,349,954
Earning assets	\$ 357,852,183	\$ 329,633,671
Loans	\$ 219,783,688	\$ 203,971,653
Allowance for loan losses	\$ 3,879,559	\$ 4,000,741
Deposits	\$ 346,643,832	\$ 316,947,097
Shareholders' equity	\$ 25,747,783	\$ 22,957,115
Key Ratios:		
Earnings:		
Return on average assets	0.81%	0.64%
Return on average equity	12.27%	9.94%
Net interest margin	3.63%	3.76%
Efficiency ratio*	77.97%	78.37%
Asset quality		
Net loan charge-offs to average loans	0.03%	0.04%
Allowance for loan losses to period-end loans	1.74%	1.90%
Nonperforming loans to period-end loans	1.47%	1.54%

* Calculated by dividing total noninterest expense by net interest income plus noninterest 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	
	June 30, 2008	March 31, 2008
Net interest income	\$ 3,293,851	\$ 3,173,970
Less: Provision for loan losses	90,000	60,000
Net interest income after provision for loan losses	\$ 3,203,851	\$ 3,113,970
Securities gains/(losses)	(16,580)	96,822
Noninterest income	1,197,841	870,653
Noninterest expense	3,338,160	3,122,424
Income before income taxes	\$ 1,046,952	\$ 959,021
Income taxes	200,000	235,000
Net income	\$ 846,952	\$ 724,021
Share and Per Share Data:		
Average common shares outstanding (basic)	851,228	855,271
Average common shares outstanding (dilutive)	851,228	855,271
Period-end common shares outstanding (basic)	847,114	855,489
Period-end common shares outstanding (dilutive)	847,114	855,489
Net income per common share (basic)	\$ 0.99	\$ 0.85
Net income per common share (dilutive)	\$ 0.99	\$ 0.85
Cash dividend declared	\$ 0.28	\$ 0.28
Book value per common share (basic)	\$ 29.20	\$ 30.47
Book value per common share (dilutive)	\$ 29.20	\$ 30.47
Last stock trade	\$ 29.60	\$ 30.60
Period-end Balances:		
Assets	\$ 383,273,737	\$ 391,657,267
Earning assets	\$ 349,553,132	\$ 360,873,839
Loans	\$ 225,858,397	\$ 219,708,426
Allowance for loan losses	\$ 3,937,508	\$ 3,857,116
Deposits	\$ 340,206,707	\$ 350,936,904
Shareholders' equity	\$ 24,735,744	\$ 26,066,415
Average Balances:		
Assets	\$ 387,357,658	\$ 389,281,241
Earning assets	\$ 357,623,213	\$ 358,081,155
Loans	\$ 221,856,798	\$ 217,710,579
Allowance for loan losses	\$ 3,891,447	\$ 3,867,671
Deposits	\$ 344,231,897	\$ 349,055,766
Shareholders' equity	\$ 25,924,498	\$ 25,571,065
Key Ratios:		
Earnings:		
Return on average assets	0.88%	0.75%
Return on average equity	13.14%	11.39%
Net interest margin	3.70%	3.57%
Efficiency ratio*	78.70%	77.20%
Asset quality		
Net loan charge-offs to average loans	0.00%	0.03%
Allowance for loan losses to period-end loans	1.74%	1.76%
Nonperforming loans to period-end loans	1.47%	1.51%

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