

Third Quarter Report  
As of September 30, 2008



Left to right: Robin Delf-Conner and Robert Delf proprietors of Bob's Big M with Sherri Sheldon, LNB Wolcott Branch Manager and Robin Monsour, LNB customer.



**PROFILE**

Lyons Bancorp, Inc. is a holding company headquartered in Lyons, New York, which had assets of \$388 million at September 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. Werner, Jr.**  
Retired President & Chief Executive Officer,  
Lyons Bancorp, Inc. & The Lyons National Bank

**Corporate Offices**

Lyons Bancorp, Inc.  
35 William Street • PO Box 380  
Lyons, New York 14489 • (315) 946-4871  
www.lyonsbank.com

DEAR SHAREHOLDERS & FRIENDS,

Events moved quickly this summer. The sub-prime mortgage crisis deepened; the government guaranteed trillions of dollars of the debt of mortgage giants Fannie Mae and Freddie Mac; legendary investment bank Lehman Brothers went bankrupt, and Merrill Lynch disappeared in an emergency sale; the last two "Big Five" brokerage firms, Morgan Stanley and Goldman Sachs, converted to national banks; longtime banking stalwart Wachovia collapsed, and, last but certainly not least, the Treasury, Federal Reserve, and Congress crafted a \$700 billion rescue package. It was a busy three months.

As one cataclysmic event followed another, the question, "How is Lyons Bancorp doing?" was asked more than a few times. While we understand we are not an island unto ourselves, and at the risk of sounding trite and even elitist, the answer each time was and still is, "Very well, thank you." We can say that with confidence because we stick to the basic concepts of banking: 1.) know your customers; 2.) understand and take seriously your responsibility to protect depositors' money; 3.) don't put people (and yourself) in financial jeopardy by loaning money that can't be repaid; and 4.) don't make investments in securities that offer returns that seem to be "too good to be true" because they usually aren't! A boring strategy, maybe, but one that is time-tested and true.

Our earnings for the first nine months of 2008 increased 21% over those recorded for the same period last year — \$2,306,240 versus \$1,898,891. On a per share basis, the increase was 22% (\$2.71 versus \$2.22) because there are almost 10,000 fewer shares outstanding this year. Included in this year's earnings is a one-time tax-exempt \$250,000 gain on the settlement of a bank owned life insurance policy we recognized in the second quarter. Without that settlement, our earnings increased 8%. On a quarter-to-quarter basis, and again setting the one-time insurance settlement aside, our operating earnings increased 23%.

As our larger regional and money center banking brethren bid up the interest cost on deposits to address their liquidity needs, we fueled most of the growth of our loan portfolio by using the proceeds of maturing investments. This strategy helped our net interest

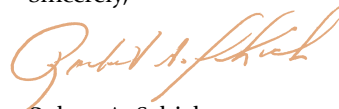
margin, and subsequently our net earnings, because loans are higher yielding assets than investments.

Sticking with the theme of safety first, we once again made a provision for loan losses (\$90,000) that was well in excess of our actual net losses of approximately \$24,000. On an annualized basis, our year-to-date net loan losses equate to 0.04% (four-tenths of one percent) of year-to-date average loans outstanding. This level is about one-third of The Comptroller of the Currency's benchmark of 0.12% for well-managed banks. Moreover, our total reserve for loan and lease losses as a percentage of period-ending loans is 1.70% — vastly higher than the average of our peers of 1.25% (as of 6/30/08). Our percentage of non-performing loans to period-end loans continues to decline at a time when those of our peers are rising. Moreover, being conservative, we include in our non-performing loan totals, loans that are, in fact, paying as agreed, but that our analysis identifies as lacking future cash flows to continue to pay. We believe many of our peers may wait until payments stop to change classifications.

We continue to work aggressively to reduce our efficiency ratio (non-interest costs per dollar of net revenue) by controlling expenses and improving operations that will enhance fee income. This strategy will remain paramount, especially in this time of economic weakness. For the quarter, our ratio fell from 79% to 75%. Every percentage point we can reduce the ratio adds \$.04 to annual EPS. If we can hold this ratio at its current level (our goal is to reduce it even further), all things being equal, our earnings could grow almost 5% annually.

Regardless of all of our efforts, we believe our current stock price reflects the market as a whole rather than our unique positive financial trends. Hopefully, as we continue the strategies we have in place, and the nation slowly works itself out of its economic malaise, shareholders will be rewarded with a more attractive valuation along with the regular quarterly dividend that you receive.

Sincerely,



Robert A. Schick  
President and Chief Executive Officer

LYONS BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL INFORMATION UNAUDITED

	As of and for the Nine Months ended September 30,	
	2008	2007
<b>Condensed Income Statement:</b>		
Net interest income	\$ 9,972,287	\$ 9,421,667
Less: Provision for loan losses	240,000	250,000
Net interest income after provision for loan losses	\$ 9,732,287	\$ 9,171,667
Securities gains/(losses)	68,832	(18,352)
Noninterest income	2,984,665	2,696,489
Noninterest expense	9,784,544	9,621,315
Income before income taxes	\$ 3,001,240	\$ 2,228,489
Income taxes	695,000	329,598
Net income	\$ 2,306,240	\$ 1,898,891
<b>Share and Per Share Data:</b>		
Average common shares outstanding (basic)	851,216	856,309
Average common shares outstanding (dilutive)	851,216	856,309
Period-end common shares outstanding (common)	847,200	855,795
Period-end common shares outstanding (dilutive)	847,200	855,795
Net income per common share (basic)	\$ 2.71	\$ 2.22
Net income per common share (dilutive)	\$ 2.71	\$ 2.22
Cash dividend declared	\$ 0.85	\$ 0.81
Book value per common share (basic)	\$ 30.45	\$ 27.47
Book value per common share (dilutive)	\$ 30.45	\$ 27.47
Last stock trade	\$ 28.50	\$ 27.80
<b>Period-end balances:</b>		
Assets	\$ 387,507,427	\$ 373,626,349
Earning assets	\$ 358,239,155	\$ 343,166,808
Loans	\$ 234,790,971	\$ 220,689,231
Allowance for loan losses	\$ 4,003,039	\$ 3,954,375
Deposits	\$ 341,026,463	\$ 334,421,579
Shareholders' equity	\$ 25,794,369	\$ 23,506,029
<b>Average Balances:</b>		
Assets	\$ 387,994,571	\$ 362,021,276
Earning assets	\$ 357,580,776	\$ 334,182,235
Loans	\$ 223,431,116	\$ 208,232,717
Allowance for loan losses	\$ 3,914,265	\$ 4,010,853
Deposits	\$ 345,169,879	\$ 323,027,352
Shareholders' equity	\$ 25,609,703	\$ 22,885,541
<b>Key Ratios:</b>		
Earnings:		
Return on average assets	0.79%	0.70%
Return on average equity	12.03%	11.09%
Net interest margin	3.73%	3.77%
Efficiency ratio*	77.00%	79.40%
Asset quality:		
Net loan charge-offs to average loans	0.04%	0.09%
Allowance for loan losses to period-end loans	1.70%	1.79%
Non-performing loans to period-end loans	1.31%	1.14%

\*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

	As of and for the Three Months ended	
	September 30, 2008	June 30, 2008
<b>Condensed Income Statement:</b>		
Net interest income	\$ 3,504,466	\$ 3,293,851
Less: Provision for loan losses	90,000	90,000
Net interest income after provision for loan losses	\$ 3,414,466	\$ 3,203,851
Securities losses	(11,410)	(16,580)
Noninterest income	916,171	1,197,841
Noninterest expense	3,323,960	3,338,160
Income before income taxes	\$ 995,267	\$ 1,046,952
Income taxes	260,000	200,000
Net income	\$ 735,267	\$ 846,952
<b>Share and Per Share Data:</b>		
Average common shares outstanding (basic)	847,192	851,228
Average common shares outstanding (dilutive)	847,192	851,228
Period-end common shares outstanding (common)	847,200	847,114
Period-end common shares outstanding (dilutive)	847,200	847,114
Net income per common share (basic)	\$ 0.87	\$ 0.99
Net income per common share (dilutive)	\$ 0.87	\$ 0.99
Cash dividend declared	\$ 0.29	\$ 0.28
Book value per common share (basic)	\$ 30.45	\$ 29.20
Book value per common share (dilutive)	\$ 30.45	\$ 29.20
Last stock trade	\$ 28.50	\$ 29.60
<b>Period-end balances:</b>		
Assets	\$ 387,507,427	\$ 383,273,737
Earning assets	\$ 358,239,155	\$ 349,553,132
Loans	\$ 234,790,971	\$ 225,858,397
Allowance for loan losses	\$ 4,003,039	\$ 3,937,508
Deposits	\$ 341,026,463	\$ 340,206,707
Shareholders' equity	\$ 25,794,369	\$ 24,735,744
<b>Average Balances:</b>		
Assets	\$ 387,351,877	\$ 387,357,658
Earning assets	\$ 357,043,861	\$ 357,623,213
Loans	\$ 230,646,679	\$ 221,856,798
Allowance for loan losses	\$ 3,982,923	\$ 3,891,447
Deposits	\$ 342,254,016	\$ 344,231,897
Shareholders' equity	\$ 25,334,687	\$ 25,924,498
<b>Key Ratios:</b>		
Earnings:		
Return on average assets	0.76%	0.88%
Return on average equity	11.55%	13.14%
Net interest margin	3.90%	3.70%
Efficiency ratio*	75.19%	78.70%
Asset quality:		
Net loan charge-offs to average loans	0.01%	0.00%
Allowance for loan losses to period-end loans	1.70%	1.74%
Non-performing loans to period-end loans	1.31%	1.47%

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