2009 Annual Report

The Lyons National Bank, a Main Street Bank

...FOCUSED

RESPONSIBLE

CONSISTENT

TRUSTED.

LNB Bancorp.
It's all about people.

LNB Bancorp.
It's all about people.

PROFILE

Lyons Bancorp, Inc. is a bank holding company headquartered in Lyons, New York, with assets of $458 million at December 31, 2009. 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. The Lyons National Bank has two subsidiaries, Lyons Realty Associates Corp. and LNB Life Agency, Inc.

STOCK SYMBOL

LYBC

ANNUAL MEETING

The annual meeting of the stockholders will take place at 4:30 p.m. on May 26, 2010 at the historic Ohmann Theatre in Lyons, New York.

TABLE OF CONTENTS

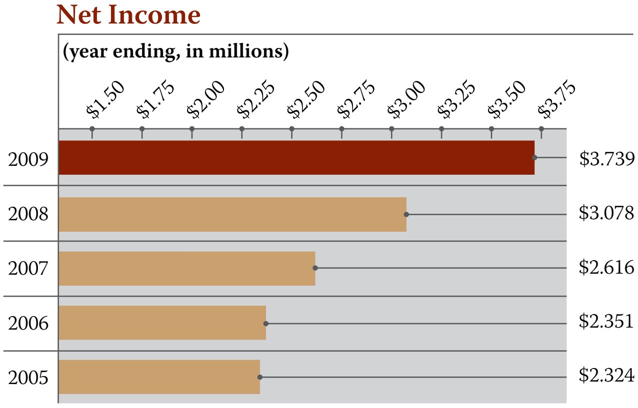
President's Message	**1**
Community Connection	**6**
2009 Financial Highlights	**8**
Board of Directors and Advisory Boards	**12**
Bank Officers and Supervisors	**14**
A Main Street Bank	**16**

2009 RESULTS

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

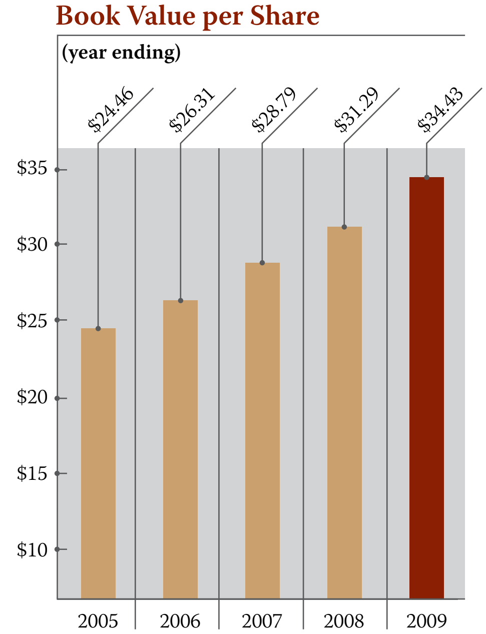
In last year's annual report, I summarized my remarks regarding our then-record financial results by saluting the staff's focus and positive, can-do attitude in the face of a "perfect storm." This year I'm not waiting until the end of my comments to sing their praises. 2008 saw the arrival of the storm, but 2009 proved, in many ways, that riding it out was even more intense and challenging. Yet I am pleased to report to you that our 2009 financial results were again record-breaking. And again, the focus, dedication, and hard work of the staff are the reasons for our success. I applaud them!

Net Income



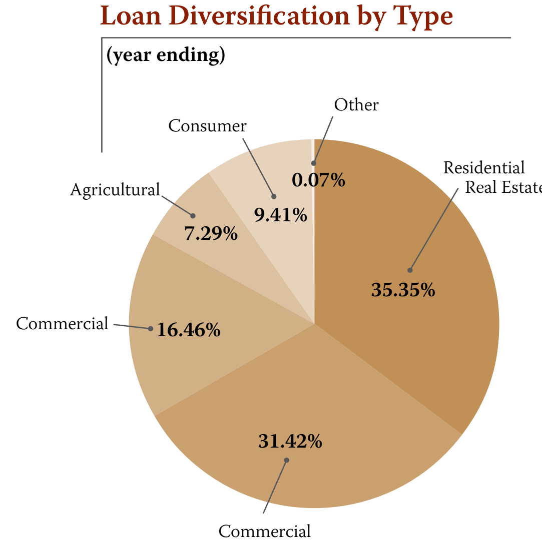
Our 2009 operating earnings were $3.739 million, a 21% increase over the $3.078 million we recorded in 2008. Moreover, in 2008 we booked a $250,000 settlement of a Bank Owned Life Insurance Policy. Excluding that one-time boost to 2008 income, after-tax earnings increased 32% in 2009 – a phenomenal achievement for a very financially stressful period. But, as a 3:00 AM infomercial might put it, that's not all. In 2009, we, like other community banks, were "asked" to make a special one-time additional premium payment to the Federal Deposit Insurance Corporation (FDIC) to cover losses incurred as a result of numerous bank failures – banks that didn't stick to basic banking principles. Our special assessment was approximately $200,000. I won't go through the math to illustrate what our earnings increase would have been without this special assessment because I fear another one in the near future. I hope I'm wrong, but the fact is that we healthy banks will have to pay for the sins of the less prudent.

Book Value per Share



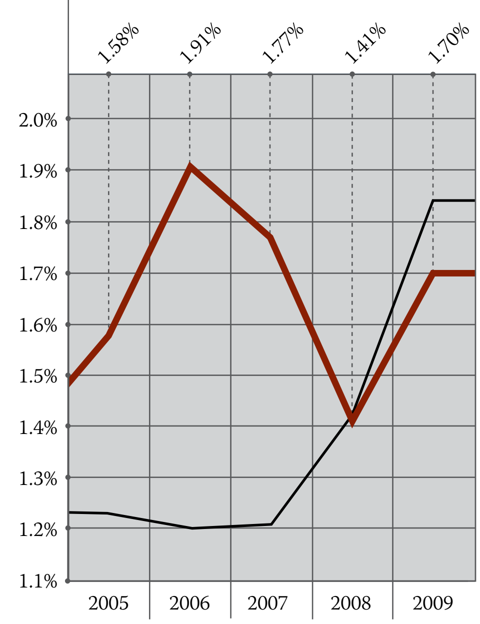
At December 31, 2009 our total assets were $458 million versus $411 million at the end of 2008, an 11% increase. Our loan portfolios grew by 17%. Commercial and agricultural loans grew by 25%, and consumer loans and residential mortgages grew by 9%. While we originated approximately $82 million in residential mortgages last year, a record for us, we sold (but maintained the servicing to) almost 75% of the $82 million. At the current historically low level of interest rates, we are not willing to incur the long-term interest rate risk associated with a 30-year mortgage. We continue to underwrite the vast majority of our residential mortgages, including those we sell, to stringent secondary market qualifications. Where we don't adhere to these requirements, there is always a mitigating factor or two that minimizes our credit risk. As a result, at year-end we had no property in Other Real Estate Owned (OREO) and were in the process of foreclosing on only two properties. (As of the date of this report, we have foreclosed on both properties,

Loan Diversification by Type



Allowance for Loan Losses

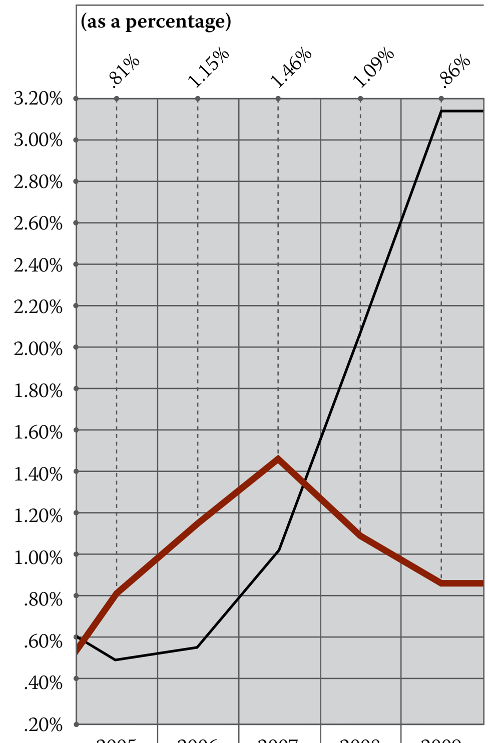
(period ending, as a % to total loans)



	2005	2006	2007	2008	2009
LNB	1.58%	1.91%	1.77%	1.41%	1.70%
Peer	1.22%	1.20%	1.21%	1.42%	1.81%

Non-accruing Loans to Total Loans

(as a percentage)



	2005	2006	2007	2008	2009
LNB	.81%	1.15%	1.46%	1.09%	.86%
Peer	.49%	.55%	1.03%	2.07%	3.14%

sold them, and incurred minimal losses.) Our area of the country is not one of those that experience boom-bust cycles. Nevertheless, the "trickle down" effect of a contracting national economy has resulted in local layoffs and unemployment for a few of our customers. We are working with some mortgages (64 mortgages – out of a portfolio of over 1,500 mortgages) to modify the terms of their mortgages. These mortgages were sold to the Federal Home Loan Mortgage Corporation (Freddie Mac) without recourse to us. We will incur some minor expenses but these are our neighbors. We're happy to help them through their stressful time.

As the Wall Street banks restricted their small business lending, we seized the opportunity to expand our market share of local commercial and agricultural loans. We didn't abandon our conservative credit practices, though; we "passed" on more credits than we underwrote. Furthermore, we often used credit enhancements and loan guarantees. Prudently, as our loan portfolios grew, we added additional reserves to our Allowance for Loan and Lease Losses (ALLL). In 2009, we funded our ALLL by $1.725 million. These funds came from operating earnings and profits we took from restructuring our investment portfolio. At year-end, our ALLL totaled almost $5 million or 1.70% of period-ending loans, in line with our peer group average of 1.81%.

We continued our past practice of aggressively adding to our ALLL during times of strong earnings performance, even as the credit quality of our loan portfolio, as measured by three closely watched industry metrics, improved. Both our percentage of Net Loan Charge-offs to Average Loans and Non-performing Loans to Period-end Loans fell in 2009, to 0.11% and 0.86% respectively. By way of comparison, our peer group ratios for these measurements were 1.06% and 3.14%, respectively. We also experienced a drop in the indicator of possible future loans issues, Gross Loans 30-89 Days Past Due. Our percentage for this indicator was 0.33% at year-end as compared to 1.44% for our peer group. This performance calls for more vigilance, not less. By no means will we relax our credit standards for new loans or the constant monitoring of existing loans, as plenty of economic uncertainty remains ahead. To spearhead our program, in mid-summer we hired Phillip McCann as Senior Vice President and

Chief Credit Officer. Phil is a 15-year veteran banker with vast experience in credit review and loan documentation. He is also a strong advocate of using credit enhancements wherever possible. We welcome Phil to our management team.

Our deposits grew by more than 7%, from $357 million to $382 million, and we again gained market share in each branch. Equally importantly, at the same time that we were gaining deposits, we reduced their cost. Lowering the overall average cost (interest we paid on deposits) and increasing the percentage of checking accounts (non-interest-bearing) to total deposits resulted in our tax-equivalent net interest margin increasing from 3.78% to 3.82%.

We continued to make strides towards reaching our long-term efficiency ratio goal of 65%. The efficiency ratio measures the percentage of each dollar of earned income that is used to pay expenses; obviously, the lower the percentage, the better. At the end of 2007, our ratio was 79%. At the end of 2008 it was 76%. On December 31, 2009 it was slightly less than 72%. While future expansion plans and possible new regulations will test our ability to continue reducing this ratio, it's imperative that we stay focused on our long-term goal.

As we were putting the 2009 budget together in the fall of 2008, the management team had to face an economic environment that included the crumbling of Wall Street and mega banks, a stock market in freefall, and rising unemployment and foreclosures. The spirit of the country seemed pretty much broken. The question we had to ask ourselves was, "How can we expect 2009 to be another financially successful year?" Our answer was: We know the staff is not ready to go into survivor mode, and that with every challenge there are new opportunities; we just have to work a little harder and a little smarter. Judging by the results, we obviously worked a lot harder and a lot smarter!

2010 – A CHALLENGING FUTURE

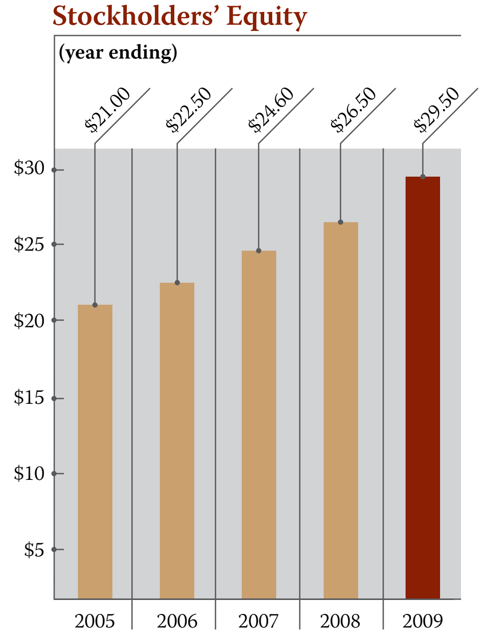
The statement, "Every new year presents new challenges and subsequent opportunities," is trite, to say the least. But the financial chaos of the past few years has forever changed the banking industry and the economy in ways not even the most creative novelist could have imagined. And while we did not participate in the activities that led up to the debacle, the resulting changes will not leave us unscathed. We again will have to be on our "A" game in order to successfully navigate the many challenges that will arise, and find and take advantage of the new opportunities presented.

Probably the most daunting challenge, will be finding a way to grow and increase earnings in a persistently anemic economy. While most of the pundits are predicting, and we agree, that the worst of the current economic cycle is behind us, the recovery is hamstrung by stubbornly high unemployment. Until meaningful job creation is achieved, consumer spending will likely lag, and with it, the demand for loans of all types. However, we remain confident that we can grow our balance sheet and income statement in 2010, though the degree of growth may be somewhat less than what we accomplished in 2009.

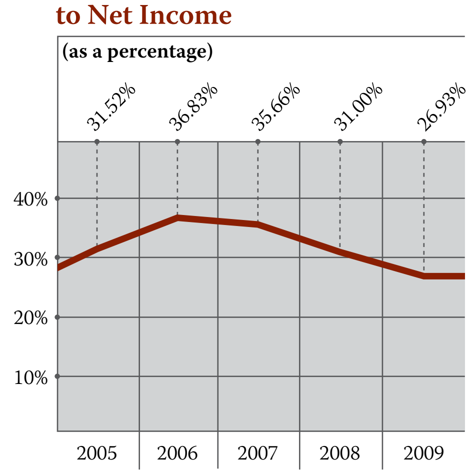
To maintain our growth momentum, we submitted an application to The Comptroller of the Currency asking for permission to open our 11th branch office, to be located in Seneca County. We anticipate approval in early March, and after obtaining the necessary local building permits, expect to open by late summer. Our site is just off the New York State Thruway on the corner of Route 414 and Balsey Road. It will be part of a larger development that includes other businesses and a new hotel. It is also in close proximity to a recently built Super Wal-Mart. We chose Seneca County for expansion because it is adjacent to Ontario County and a natural eastern extension and fill-in of our present footprint. We already have a large customer base in the County and its latest reported bankable deposits approximate $400 million. Our five-year goal is to obtain at least 10% of that marketplace. Helping us accomplish this goal will be our newly-formed third advisory board, consisting of the distinguished group pictured on page 13.

The Wall Street banks will need additional time to repair their balance sheets and rebuild their capital base. Therefore, our window of opportunity to "court their customers" will continue into 2010, but as in 2009, we will stay true to our conservative credit standards. When considering commercial and agricultural credits, we will incorporate the use of credit enhancements such as guarantees offered by the SBA, USDA and FSA. On the consumer loan side, we plan to hire an additional residential mortgage originator to cover our Wayne County markets. The western Wayne County towns, as well as those on the eastern side of Monroe County, offer excellent growth opportunities.

Stockholders' Equity



Dividends Declared to Net Income



Gaining a larger "share of wallet" of our existing customers is a high priority for 2010. The upgrade of our core system a couple of years ago affords us the ability to better track and monitor not only what LNB banking products and services our customers use, but also what they don't. The information in our system allows each branch officer to "mine" their existing customer base. And as we all know, selling to friend is much easier than courting a stranger.

As demonstrated by the capital ratios shown in our accompanying consolidated financial statements, we meet all the criteria established by the regulators to be deemed "Well Capitalized". Moreover, our continued annual increase in profitability adds to our retained earnings. To supplement our growth in retained earnings and fund our planned expansion, early in 2010, we closed on another capital raising initiative – our fifth in ten years. This offer was a private placement of convertible trust preferred securities to accredited investors. We raised almost $3 million in new capital that will allow us to grow by approximately $30 million and still maintain our leverage capital ratio in the eight percent range. Our next step is to re-evaluate the costs/benefits of a dividend reinvestment plan which we expect will provide you, our shareholders, the opportunity to reinvest your dividend in our Company. 2009 represents the 7th consecutive year of dividend increases – a record we hope to extend.

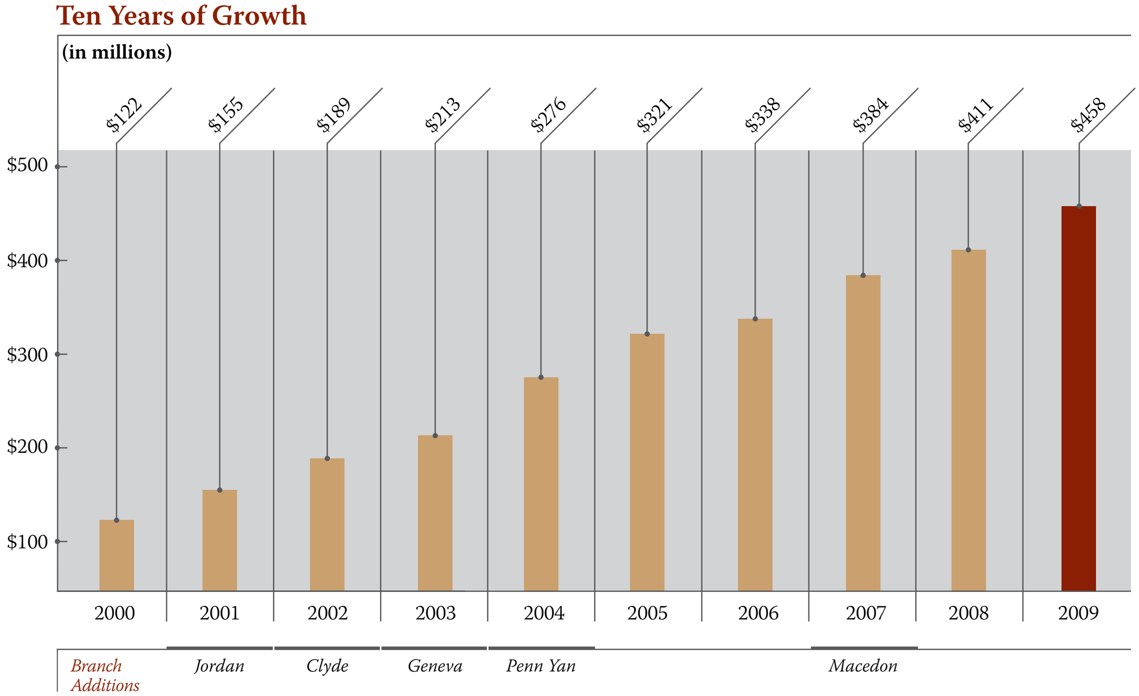
Productivity is as important as growth in generating profits. Earlier I outlined the positive trend of our efficiency ratio. Opening a new branch will initially have a negative impact on this ratio, as building and operating costs are upfront expenses. But as in other markets where we met or exceeded our growth goals, the longer-term increased earnings from a $40 million branch quickly mitigates those expenses. In the meantime, we are constantly looking for ways to use technology to improve productivity and reduce current expenses. One such initiative involves changing our telecommunication lines to fiber. Doing so not only increases data transfer speed to our outlying branches, thereby increasing staff productivity, it also affords us the opportunity to eliminate long-distance calls between offices. In another upgrade, we are moving to a secured server platform for our board and committee meetings. No longer will we be printing mountains of paper reports and presentations. Rather, directors and staff will go online to review reports, eliminating the need for most copiers, associated paper and toner and reducing equipment maintenance expenses. In 2010, we will also be reexamining our organizational chart and workflow to ensure we are processing work in the most efficient way possible.

While a weak economy presents challenges to growth, complying with additional regulations adds costs and limits flexibility – potentially reducing our advantage over bigger institutions. We realize the need for, and even endorse, some new regulations, as past excesses and abuses were obvious. However, we ask those who propose regulations to do two things *before* enacting a new law. First, thoroughly review the proposal to ensure there is truly a need, that an appropriate current regulation is not already in place, and that the proposal is not saddled with severe unintended consequences. Second, make sure the regulation covers every business within the industry: banks, credit unions, mortgage brokers, check cashers, etc. All need to operate under the same rules. A strong case can easily be made that the majority of the chaos of the last few years was caused by those outside the current regulatory umbrella. Level the playing field and the message will be consistent; then consumers will be less confused and better informed.

While the financial storm seems to have passed, turbulent waters still lie ahead. However, I am confident that we have the tools to successfully navigate our way through. We have a sound game plan to generate earnings, a staff with a proven track record, enhanced technology to meet future needs, and a fortress balance sheet characterized by strong reserves and a healthy capital position.

2010 marks the start of a new decade. The previous one saw us grow from $122 million to nearly one-half billion dollars in assets. Our next target is obvious. With the resources – people, systems, and capital – we have in place and the support of our shareholders, the goal is well within reach. I am truly excited to be working in such a dynamic organization that has shown its strength while others have faltered. Together, we are poised to build on our success in the years to come.

Ten Years of Growth



LNB donated $30,000 to the Boys and Girls Clubs of Geneva towards a Senior Room at the new Geneva Community Center. Pictured: (from left to right) Evelyn Buisch, Assistant Branch Manager of the Geneva Office; Robert Schick, President and CEO, Lyons National Bank; Jeff Friend, Vice President and Branch Manager of the Geneva Office; Robin Glasgow, Executive Director of the Boys and Girls Clubs of Geneva.

American Heart Association's National Wear Red Day was held in the Geneva Office on February 5, 2009, raising awareness that heart disease is the number one killer of Women in America. Pictured: (back row, from left) Shannon Brown, Joyce Marble, Heidi Brown, Katie Bissell, Tara Rago, Courtney Bruno, Michelle Verstraete, Terri Martin, Ruth Columbus and Evelyn Buisch. (front row, from left) Kim Kelley, Jenn Dunn, Ashley Sindoni and Melonie Tiffany.

Our team members at the Wayne ARC Golf tournament. Pictured: (from left to right) Scott MacKenzie, Vice President and Agricultural/ Commercial Officer; Jim King, Vice President and Commercial Loan Officer; Jarrod Crawford, Assistant Vice President and Newark Branch Manager; and Paul Staples, a customer of LNB.

Pictured here with Jean Tsepas, Branch Manager (center) are Donald and Millicent Lewis, winners of the outdoor grill donated by Secor Hardware. During our Spring Loan Sale, entrants could win the grill in a drawing for a dollar donation to Pines of Peace Hospice Care Home in Ontario. Our Ontario Branch raised $468 for the hospice.

LNB staff and their families demonstrate community pride by celebrating with the City of Lyons in their annual Peppermint Days. Fun was had by all who marched in the parade with the float they made for LNB.

Our Jordan and Clyde Branch Manager and Board Member of Dollars for Scholars, William Dungey (left) presented the Jordan Elbridge High School Dollars for Scholars scholarship to Senior Greg McClean (right) on scholarship night. Each year a scholarship is presented to a student from the Jordan Branch of LNB.

LNB donated $5,000 to the Wayne County Historical Society towards their Educators' Newsletter. Pictured: (from left to right) Robert Schick, President and CEO of The Lyons National Bank, and Larry Ann Evans, Executive Director of the Wayne County Historical Society.

LNB donated monies to contribute to the 2010 Wayne County Fair. Pictured: (from left to right) Beth Claypoole and Amy Rugenstein of Cornell Cooperative Extension; Jarrod Crawford, Assistant Vice President and Branch Manager of the Newark Office and Ashley Sindoni, Marketing Assistant.

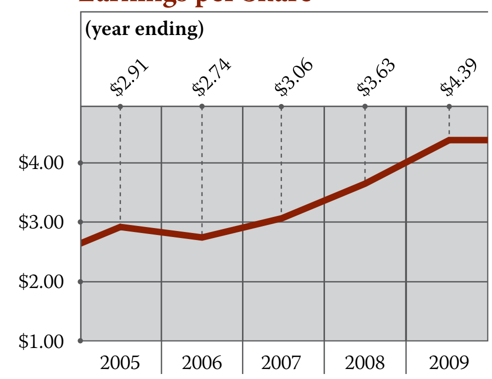
RESULTS OF OPERATIONS

Diana R. Johnson
Executive Vice President & Chief Financial Officer Lyons Bancorp, Inc. and The Lyons National Bank

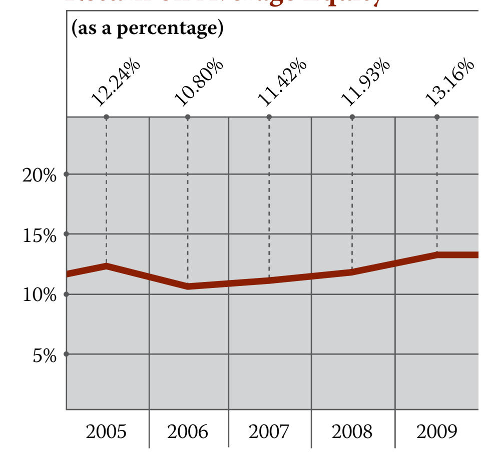
For the year ended December 31, 2009, we recorded earnings of $3.7 million, an increase of $661,000 or 21.5% over 2008. This translates into earnings per share of $4.39 or a 20.9% increase year over year. Return on average assets was 0.86% versus 0.79% for 2008, and return on average equity was 13.16% versus 11.93% for 2008. Each of these strong measures serves to underscore the success of our "Main Street" focus and successful business model of traditional community banking.

Our largest revenue source is net interest income. Net interest income is the difference between the interest earned on our interest-earning assets, primarily loans and investment securities, and the interest paid on our interest-bearing liabilities, primarily deposit accounts and borrowings. Net interest income for 2009 was $15.1 million, an increase of $1.6 million or 12.1% over 2008. This increase was due primarily to strong growth of our earning assets funded by steady deposit growth, as well as an improvement in our tax-equivalent net interest margin. Average earning assets increased $40.3 million or 11.1% during 2009, while average deposits increased $31.6 million or 9.1% year over year. Our tax-equivalent net interest margin increased four basis points, to 3.82% in 2009, compared to 3.78% in 2008.

Earnings per Share



Return on Average Equity

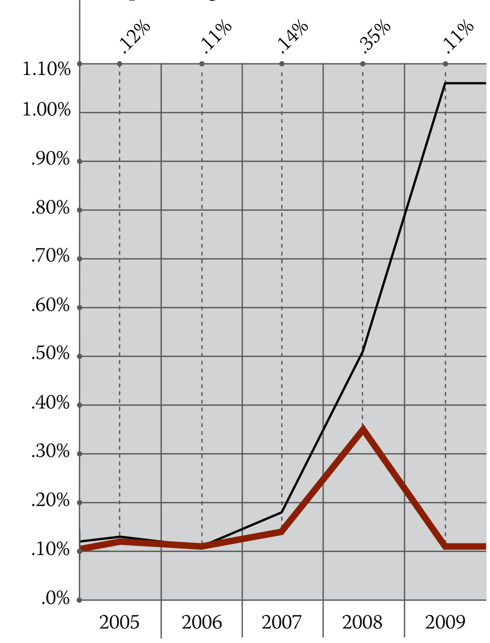


Our provisions for loan losses are based upon our assessment of a variety of factors, including loan credit quality, the general economic environment and growth in our loan portfolio. In 2009, we provided $1.7 million for loan losses, compared to $405,000 in 2008. As we continue to grow our loan portfolio, coupled with the uncertainty of these economic times, we felt it prudent to increase our provision accordingly. However, improvements in key ratios that measure our credit quality reflect our conservative underwriting and proactive collection efforts. At December 31, 2009 our non-performing loans totaled 0.86% of total loans, an improvement of 23 basis points from December 31, 2008 and well below 3.14% that represent our peer's performance. Our net charge offs to average loans during 2009 totaled 0.11%, compared to 0.35% in 2008 and 1.06% for our peers.

Non-interest income is an important revenue source for us, and consists primarily of service charges on deposit accounts, financial services fees, loan servicing fees, cardholder fees, gains and losses on the sale or calls of securities, and gains on sale of loans. In 2009, non-interest income totaled $6.0 million or 28.2% of all revenue sources. This is an increase of $2.1 million or 52.7% over 2008 levels. Every major category of non-interest income saw improvement. Service charges on deposit accounts increased $457,000 compared to 2008, primarily due to a resumption of charging for overdrafts incurred with debit card transactions. Loan servicing fees increased $185,000 compared to 2008, due primarily to increased residential mortgage originations and fees relating to the application and servicing of those loans. Cardholder fees, which includes primarily ATM cards and related interchange income, increased $44,000 or 8.0% year over year, due to increased customer activity. Our financial services area has become an important contributor to the products and services we offer to our customers. In 2009, we generated $524,000 in revenue relating to financial services, an increase of $86,000 or 19.6%. During 2009, we recognized approximately $811,000 in gains on sales of investments due to both higher levels of securities being called, and a restructuring of our investment portfolio. Last, but certainly not least, due to low interest rates as well as federal tax credits for home buyers, we closed a record number of residential mortgage loans during 2009, and sold most of our residential mortgage loan production into the secondary market, while retaining the servicing of those loans. In 2009 we sold $63.2 million of residential mortgage loans, compared to $11.9 million in 2008, and gains on the sales of those mortgage loans were $748,000 in 2009, compared to $105,000 in 2008.

Net Charged-off Loans to Average Loans

(as a percentage)



	2005	2006	2007	2008	2009
LNB	.12%	.11%	.14%	.35%	.11%
Peer	.13%	.11%	.18%	.51%	1.06%

Controlling non-interest expense continues to be a major focus for us, as we look to capitalize from our solid infrastructure and improve efficiencies. Non-interest expense consists primarily of compensation and employee benefits, occupancy and equipment expenses, professional fees, data processing, FDIC and OCC assessments, and other operating expenses. In 2009, total non-interest expense was $14.0 million, an increase of $1.0 million or 8.0% over 2008. We achieved improvement in our efficiency ratio, reducing the ratio from 76% to 72% during 2009, due to continued growth of our core business without adding additional overhead to do so. Compensation expense totaled $6.0 million in 2009, an increase of $271,000 or 4.7% from 2008. This increase is due primarily to annual salary increases, while holding employment levels steady year over year. Pension and benefits expense was $2.0 million, an increase of $335,000 or 20.7% over 2008. This is due primarily to an increase in our pension costs, as the fair value of our pension assets declined in 2008, necessitating the recognition of additional expense in 2009. To that end, we made a decision to fully fund our pension plan in 2009, investing $1.9 million to accomplish this. Occupancy expense totaled $1.7 million, a decrease of $72,000 or 4.0%, due primarily to lower insurance, utility and maintenance costs during 2009. Professional fees totaled $796,000, an increase of $132,000 or $19.9%, due primarily to costs associated with the retention of a firm that assisted with the review of revenue-enhancing and cost-reducing programs. Data processing expense totaled $897,000, an increase of $261,000 or 41.0%. This increase was due primarily to a reduction of costs in 2008 relating to our conversion to a new core processing system late in 2007. Finally, FDIC and OCC assessments totaled $819,000, an increase of $336,000 or 69.6% over 2008. The FDIC levied a special assessment on all banks equal to five basis points of total assets less Tier I capital, payable September 30, 2009, in order to address the level of the Deposit Insurance Fund. Our special assessment was approximately $200,000 and accounts for more than half of the increase year over year. The remainder of the increase is due to strong overall deposit growth, as well as our decision to provide full FDIC insurance coverage for our customer's transaction accounts, regardless of their balance.

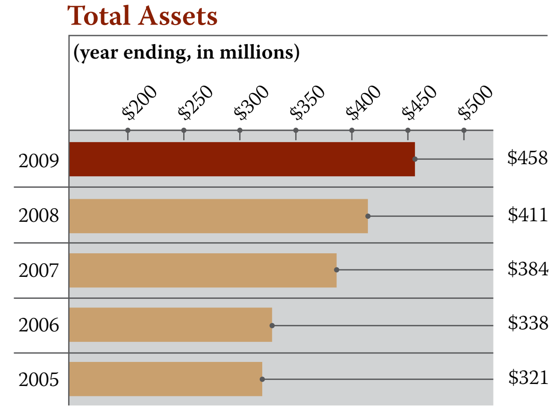
Income tax expense was $1.6 million for 2009, compared to $932,000 in 2008. As our level of taxable income increases at a quicker pace than our tax advantaged income, our effective tax rate continues to rise. We continue to invest in our communities by purchasing tax advantaged municipal securities, while our investment in our Geneva facility provides us with New York State Empire Development Zone tax credits.

ANALYSIS OF FINANCIAL CONDITION

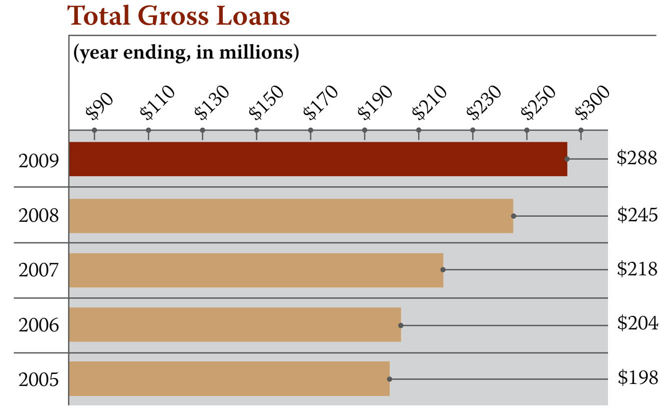
During 2009 we experienced solid loan and deposit growth across our organization. Total assets on December 31, 2009 were $457.8 million, an increase of $46.3 million or 11.3% from $411.5 million recorded on December 31, 2008. Average interest bearing assets grew $40.3 million during 2009 and was funded primarily by growth in deposits.

Total loans were $288.2 million at December 31, 2009, an increase of $42.8 million or 17.4% from December 31, 2008. Loan quality remained strong, with total non-performing loans of $2.5 million at December 31, 2009, compared to $2.7 million at December 31, 2008. Net charge-offs for 2009 were $285,000 during 2009, or 0.11% of average loans, well below our peer group of 1.06%. We are well positioned to continue prudent lending to the individuals, families and businesses here in our Upstate New York marketplace and look forward to another year of solid loan growth.

Total Assets



Total Gross Loans



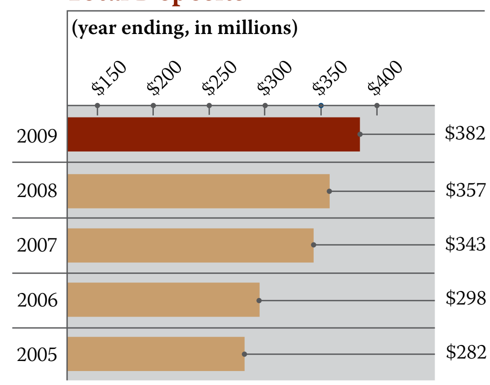
We maintain an investment portfolio to provide us with important liquidity considerations and earnings potential. Our investment portfolio consists primarily of United States Agency debt, mortgage-backed securities either guaranteed by the U.S. government or issued by the Federal Home Loan Bank, and state and local government debt. As of December 31, 2009, our investment portfolio totaled $135.8 million, an increase of $1.3 million over December 31, 2008, and had an average yield of 3.80% during 2009. Substantially all of our investments are classified as available for sale, and may be used as collateral for public fund deposits.

Deposits generated within our branch markets are the major source of funds for our lending and investment activities. Total deposits at December 31, 2009 were $382.3 million, an increase of $25.6 million or 7.2% over December 31, 2008. We were successful in growing our core deposit base by continuing to provide sound and trusted financial advice during these uncertain times. While much of our efforts continued to focus on relationship building during 2009, we welcomed many new customers who found our Main Street approach a fresh and reassuring change. In addition, internet banking usage continues to increase year over year, providing our customers instant access to their accounts while allowing us be more efficient in delivering products, services and information.

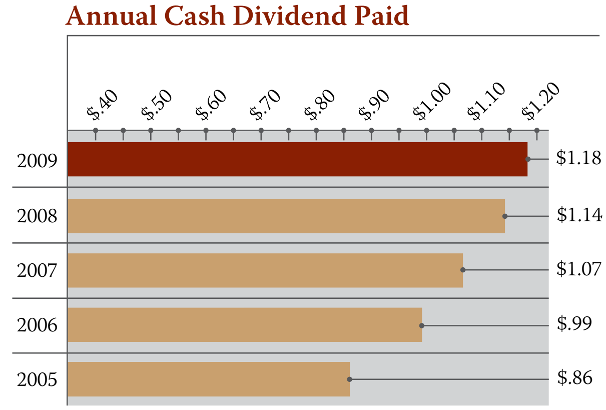
Stockholders' equity was $29.5 million at December 31, 2009, an increase of $3.0 million or 11.2% from December 31, 2008. Our Board of Directors is committed to providing a solid return to our shareholders and authorized a total of $1.18 per share in dividends to be paid during 2009. This represents a yield of 3.58% based on a current market price of $33.00 per share and represents a dividend payout ratio of 26.9%.

Please refer to our Consolidated Financial Report as of December 31, 2009 for more information regarding our 2009 results.

Total Deposits



Annual Cash Dividend Paid



SELECTED FINANCIAL DATA

(in thousands, except per share data)	Year Ended December 31, 2009	2008	2007	2006	2005
Financial Statement Highlights					
Assets	**$ 457,787**	$ 411,490	$ 384,405	$ 338,062	$ 321,273
Loans, gross	**288,226**	245,457	217,834	203,627	197,890
Deposits	**382,334**	356,767	342,730	297,923	281,968
Other borrowings	**36,046**	17,642	7,489	9,098	9,655
Stockholders' equity	**29,515**	26,544	24,625	22,537	20,995
Interest and dividend income	**19,829**	20,788	21,999	19,493	16,330
Interest expense	**4,692**	7,286	9,459	7,150	5,036
Net interest income	**15,137**	13,502	12,540	12,343	11,294
Provision for loan losses	**1,725**	405	250	987	943
Net securities gains	**811**	71	20	0	146
Net income	**3,739**	3,078	2,616	2,351	2,324
Per Share Information					
Earnings per share	**4.39**	3.63	3.06	2.74	2.91
Cash dividends paid per share	**1.18**	1.14	1.07	0.99	0.86
Book value per share	**34.43**	31.29	28.79	26.31	24.46
Selected Ratios					
Return on average assets	**0.86%**	0.79%	0.71%	0.71%	0.75%
Return on average equity	**13.16%**	11.93%	11.42%	10.80%	12.24%
Leverage ratio (Bank)	**8.01%**	8.32%	8.24%	8.62%	8.10%
Dividend payout ratio	**26.64%**	31.25%	35.02%	36.12%	29.44%
Other Selected Data *(in whole numbers)*					
Employees (full time equivalent)	**129**	131	133	121	108
Banking Offices	**10**	10	10	10	10

Board of Directors left to right: James E. Santelli, Theodore J. Marshall, Andrew F. Fredericksen, Clair J. Britt, Jr., Robert A. Schick, Dale H. Hemminger, Carol A. Snook, Thomas L. Kime, James A. Homburger, John J. Werner, Jr. and David J. Breen, Jr.

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 & 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.
Jason S. Feinberg
Robert S. Flowers
Joseph A. Fragnoli
Carl W. Fribolin
Bernard G. Lynch

Seated left to right: Peter J. D'Amico, Joseph A. Fragnoli, Carl W. Fribolin and Bernard G. Lynch; standing left to right: Robert S. Flowers and Jason S. Feinberg

PENN YAN ADVISORY BOARD

Bonnie B. Curbeau
Michael D. Linehan
James H. Long
Paul W. Marble, Jr.
Henry H. Martin
Neil J. Simmons
William H. Sutherland

Seated left to right: Paul W. Marble, Jr., James H. Long, Bonnie B. Curbeau; standing left to right: William H. Sutherland, Michael D. Linehan and Neil J. Simmons (not pictured Henry H. Martin)

SENECA COUNTY ADVISORY BOARD

Daniele Bonafiglia-Wirth
Salvatore N. Franzone
Kenneth (Lee) Patchen, Jr.
Eugene Pierce
Jane M. Shaffer
Bryan G. vonHahmann
Earl (Red) T. Wadhams

Seated left to right: Eugene Pierce, Jane M. Shaffer, Kenneth (Lee) Patchen, Jr.; standing left to right: Daniele Bonafiglia-Wirth, Bryan G. vonHahmann and Salvatore N. Franzone (not pictured Earl (Red) T. Wadhams)

BANK OFFICERS AND SUPERVISORS

ADMINISTRATION

Robert A. Schick
President & Chief Executive Officer

Thomas L. Kime
Executive Vice President & Chief Operating Officer

Carol A. Snook
Banking Officer & Corporate/Executive Secretary

AUDIT & COMPLIANCE

Ruth M. Columbus
Assistant Vice President & Director of Internal Audit

Joyce A. Marble
Assistant Vice President & Compliance/BSA Officer

Melonie L. Tiffany
Banking Officer & Staff Auditor

BRANCH DIVISION

Thomas D. Muller
Senior Vice President & Director of Branch Sales

Susan K. Andersen
Vice President & Branch Manager – Penn Yan

Jeffrey A. Friend
Vice President & Branch Manager – Geneva

Jarrod D. Crawford
Assistant Vice President & Branch Manager – Newark

William L. Dungey
Assistant Vice President & Branch Manager – Clyde/Jordan

Sherri A. Sheldon
Assistant Vice President & Branch Manager – Wolcott

Jean E. Tsepas
Assistant Vice President & Branch Manager – Ontario

Darlene M. Whitcomb
Assistant Vice President & Branch Manager – Lyons

James S. Bilotta
Banking Officer & Branch Manager – Macedon

Cathy J. DeMay
Banking Officer & Assistant Branch Manager – Ontario

Julie B. Downey
Banking Officer & Assistant Branch Manager – Main Office

Susan L. Snyder
Banking Officer & Assistant Branch Manager – Penn Yan

Kathleen A. Wind
Banking Officer & Assistant Branch Manager – Newark

COMMERCIAL LENDING DIVISION

Clair J. Britt, Jr.
Executive Vice President &
Senior Commercial Lending Officer

James H. King
Vice President & Commercial Loan Officer

Scott A. Mackenzie
Vice President & Agricultural/
Commercial Loan Officer

Gregory R. MacDonald
Assistant Vice President & Agricultural/
Commercial Loan Officer

Darrin Brentnall
Assistant Vice President & Commercial Loan Officer

Anna M. Bridger
Assistant Vice President & Commercial Loan Officer

John O'Connor
Assistant Vice President & Commercial Loan Officer

Lynnette M. Zelias
Banking Officer & Commercial Loan Operations Manager

CREDIT ADMINISTRATION

Phillip M. McCann
Senior Vice President & Chief Credit Officer

Pamela J. Lee
Vice President & Portfolio Monitoring Officer

FINANCE DIVISION

Diana R. Johnson
Executive Vice President & Chief Financial Officer

Chad J. Proper
Banking Officer & Financial Analyst

Brenda L. Cordero
Accounting Manager

Executive Management seated, left to right: *Robert A. Schick, Diana R. Johnson;* *standing, left to right:* *Thomas L. Kime, Stephen V. DeRaddo, Phillip M. McCann, and Clair J. Britt, Jr.*

FINANCIAL SERVICES

Robert T. Koczent
Vice President & Director of Financial Services

Gary F. Teague
Financial Consultant

HUMAN RESOURCES

Kimberly A. Kelley
Assistant Vice President & Director of Human Resources

Trevor Thomas
Assistant Vice President & Director of Training

MARKETING DIVISION

Shelly M. Nicoletta
Banking Officer & Director of Marketing

OPERATIONS & IT DIVISION

Cheryl M. Graham
Assistant Vice President & Policies and Procedures Manager

Todd F. Juffs
Assistant Vice President & MIS Officer

RETAIL LENDING DIVISION

Stephen V. DeRaddo
Executive Vice President & Senior Retail Lending Officer

Robert T. MacDonell
Vice President & Consumer Loan Officer

Joshua N. Miller
Vice President & Mortgage Loan Officer

Thomas R. David
Assistant Vice President & Mortgage Loan Officer

Timothy H. Lead
Assistant Vice President & Mortgage Loan Officer

Hope A. Alexanian
Assistant Vice President & Retail Loan Operations Manager

SECURITY & FACILITIES DIVISION

Michael J. Colacino
Security Officer & Facilities Manager

THE LYONS NATIONAL BANK,
A MAIN STREET BANK

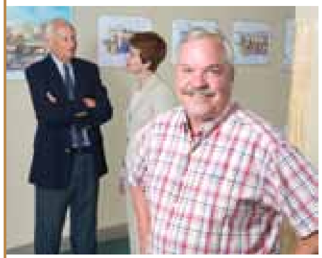
Main Street Banks are hometown banks that immerse themselves in the communities they serve. As a Main Street Bank, we partner with local citizens, business owners and service organizations through advisory boards to better understand and anticipate future financial opportunities and needs. These relationships create a healthy environment for growth and help ensure the prosperity of the region.

"Our local Board members define us as a true Main Street bank…

…FOCUSED,

Our local Board members keep us focused on meeting the needs of the local marketplace, making sound banking decisions and doing what is right for our customers, the community and the Bank.

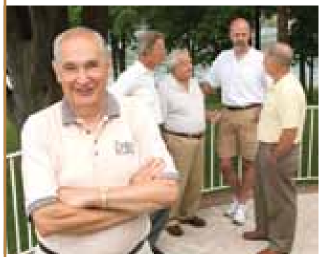
"It is a pleasure to work with a bank dedicated to the success of a community."
Carl W. Fribolin, owner of White Springs Winery



RESPONSIBLE,

Responsible banking practices have kept LNB in a strong financial position. We did not participate in the practices that caused the current banking problem and we chose not to participate in the Federal bailout program.

"If you want a bank that is connected to your community, stop by one of our offices or feel free to ask one of our local Board members and your local community leader about us."
Paul Marble, owner of Marble's Automotive and Glass



CONSISTENT,

We've never stopped lending. LNB has consistently provided solid consumer and business loans vital for the restoration of our local economy and will continue to do so going forward.

"If you are looking for a hometown bank committed to serving its customers with sensible banking products and focused on doing what is right for its communities then turn to The Lyons National Bank – the bank where it really is all about people, LNB and You."
Theodore J. Marshall, President of Patriot Tank Lines

TRUSTED."

Our conservative approach and sound financial position along with FDIC insurance coverage make us a safe, trusted option for all of your banking needs.

"I appreciate the opportunity to further highlight my community and some of the great organizations that make it up. I believe in each one and have been an active volunteer with them. Each of these organizations' mission is unique to themselves, but they are all community based. I feel that it is everyone's civic responsibility to weave themselves into the fabric of their community."
Jane M. Shaffer, Vice President of Sessler Wrecking

LNB Bancorp.
It's all about people.

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

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

www.lyonsbank.com

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