Then:
Prominent community members ready to do business at the Bank of Wayne, an early predecessor to the Lyons National Bank.

2010 Annual Report

Now:
Jeff Friend, District Manager Geneva and Seneca County Branches, talking business with LNB customers Frank DeJohn (center) and Jack Pross (right).

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 $514 million at December 31, 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 our newest office in Seneca 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 25, 2011 at the historic Ohmann Theatre in Lyons, New York.

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A Special Year, A Special Report

The Lyons National Bank reached a milestone of over $500 million in assets this year. In honor of this historical event we have decided to share a brief pictorial of our history in this special report. You will find scattered throughout these pages artifacts collected since our founding in 1852, revealing some insight on our past.

In today's hi-tech world, imagine a time when a wax seal was all it took to corroborate a deal. Pictured is the seal for The Lyons National Bank.

IN REMEMBRANCE OF EARL "RED" T. WADHAMS – MARCH 5, 1931 - OCTOBER 15, 2010

In October, we lost a dear friend and trusted advisor, Earl "Red" T. Wadhams. Red was the owner of Wadhams Enterprises in Phelps and a member of both our Geneva and Seneca County Branch Advisory Boards.

Red purchased his first truck after graduation from high school in 1949, and started hauling milk that fall. While he worked for many farms, it was "dairy farm number 33" where he met Alice Kidd. The two were married on October 31, 1953.

Red worked seven days a week, 365 days a year, and purchased additional routes with his earnings. His hard work created Wadhams Enterprises, a multi-million dollar transportation company that operates throughout the Northeast.

He found time to serve as a town councilman in Junius for 13 years (town supervisor in 1987). He was a volunteer fire chief and served on the Waterloo School Board and the Seneca County Farm Extension Committee. He was a board member of Geneva General Hospital and The Lyons National Bank, and a founding board member of the Waterloo Education Foundation.

For 42 years, Red was a member of the Waterloo Lions Club, heading the Annual Lions Club golf tournament that earned thousands of dollars for the community and club for 13 of those years.

Countless times, Red donated a truck for Boy Scout paper drives, drove a farm tractor pulling a float for his grandchildren's homecoming parades, or volunteered his time at Thanksgiving dinners for seniors.

Red was recognized by the Seneca County Chamber as Citizen of the Year in 2001. Additionally, Wadhams Enterprise was selected as 2007 Business of the Year in Seneca County.

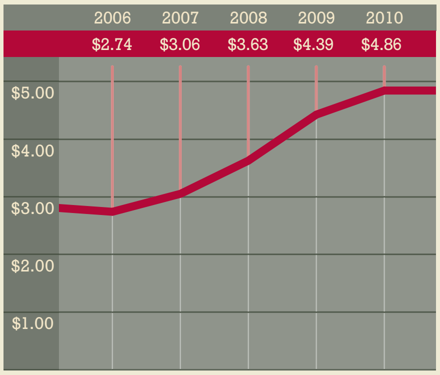
We are better bankers, but more importantly, better individuals because of the influence Red had on us.

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

2010 IN RETROSPECT...

The theme of this year's annual report blends our recent history, namely our continued financial success and growth – notably including the $500 million total asset milestone – with a reflection on our past. The brief pictorial is but an abridgment of our history. More detailed accounts of the path the Bank pursued over the years can be found in a number of locally written books depicting life in the 19th and 20th century here in Lyons and Wayne County. No matter where your research takes you however, one common theme about the Bank keeps reappearing over the years; our success is firmly grounded in the Bank's commitment to hometown values.

Earnings per Share
(year ending)

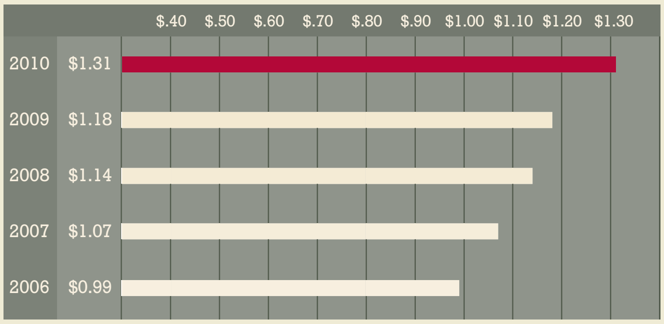


Looking to the future and seeking to better define ourselves, at mid-year 2010, we introduced our new logo and brand mark. In December, we incorporated this mark into a lapel pin that each employee wears daily. It is our way of telling others that we work at The Lyons National Bank and are proud of what we have accomplished.

This pride is reflected in the hard work and focus of our staff that resulted in yet another financially excellent year. 2010 was the 16th consecutive year of record dollar earnings. Our net operating earnings were $4.168 million, an 11% increase over the $3.739 million we recorded in 2009. Net income per common share was $4.86 versus $4.39 in 2009, a record high for the 15th time in the last 16 years. The successful warrant conversion at the end of 2005 increased the average number of common shares outstanding during 2006, causing a small decline in earnings per share that year.

This pin, owned by Linda Wilkes, LNB employee for 35 years, is garnished with three diamond stones representing over 30 years of service.

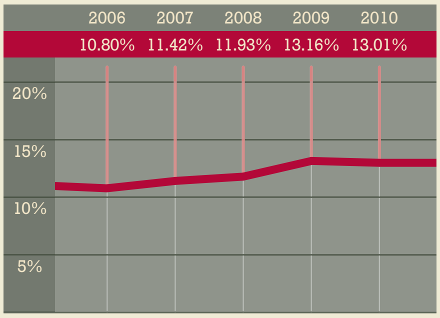
Annual Cash Dividend Paid



Record earnings encouraged us to again raise the cash dividend – this time by 10% to $.33 per share per quarter ($1.32 annually). Your Board has now increased the dividend in each of the last 10 years. And, as a result of our record-performing year, the Board declared an additional special cash dividend of $.05 per share in October. This extra dividend was paid to all shareholders on December 29, 2010.

These "deposit of bond" checks, secured by Lyons Bank, are dated 1862. When a man's name was his bond, "DW Parshall" is printed on the back of each and will pay to the bearer on demand five cents, ten cents and twenty-five cents when presented in sums of one or more dollars.

Return on Average Equity
(as a percentage)



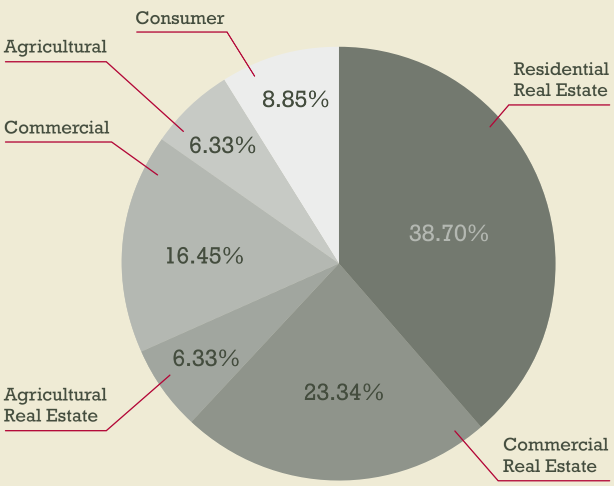
In June, US Banker Magazine honored Lyons Bancorp as one of the top 200 community banks in the country based on an average of the prior three years' Return on Average Equity (ROAE). ROAE is an industry metric of particular interest to you as it measures the annual rate of return on your investment in the Bank. The community banks in the study were defined as those less than $2 billion in size with publicly listed stocks. Out of all such banks in the United States, Lyons Bancorp ranked 54th. While our ROAE metric for 2010 dipped at little below 2009's number – 13.01% for 2010 versus 13.16% for 2009 as a result of capital raising efforts early in the year – it exceeded the 12.17% three-year average cited in the report.

To support our continued growth, in February 2010, we raised almost $3 million in additional equity in the form of a private placement sold only to accredited investors. These securities mature in 2040 and can be converted at anytime by the purchaser into Lyons Bancorp common stock. The Bank reserved the right to redeem these securities anytime after February 15, 2015.

The "expected growth" I continuously alluded to in my quarterly updates last year did indeed occur. We began 2010 with total assets of $458 million and ended the year with $514 million in assets – a 12% increase. All categories of loans increased. Retail loan growth was the star, outpacing advances in commercial and agricultural loans.

We continue to be a major player in the residential mortgage market. In 2010, we closed $82 million in residential mortgages. While we refinanced some of our existing mortgages, we also amplified both our "on balance sheet" portfolio and our "sold but retained servicing" residential mortgage portfolio. At year-end, our residential mortgage "sold but retained servicing" portfolio exceeded $112 million, more than double the size of this portfolio three short years ago. More important than just growth is the excellent quality of the mortgages in both of our portfolios. Three-quarters of all of the mortgages held in these portfolios were to individuals with credit scores of 720 or higher; 85% were to individuals with credit scores of 680 or higher. Furthermore, the average loan-to-value (LTV) of the mortgages held in our "on balance sheet" portfolio was 72% at year-end and the average LTV of the mortgages in our "sold but retained servicing" portfolio was 69%. The average annual debt service-to-income (D/I) ratio of our residential mortgage customers is approximately 35%, well under the targeted industry standard.

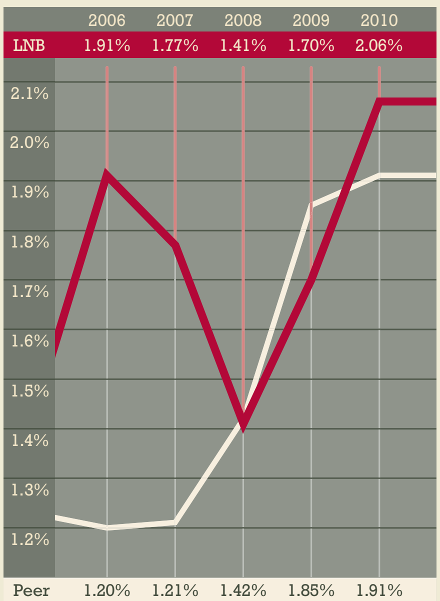
Loan Diversification by Type
(year ending)



As the economy gained some traction at mid-year, we again restructured the Bank's investment portfolio to position it for the future. Our investment portfolio acts as the Bank's balance sheet lever; in good economic times when loan demand is strong, we reduce the size of this portfolio by investing cash flows from maturing securities into higher yielding loans. Conversely, in weaker economic times, such as the last 2 ½ years, we intentionally increase the portfolio, absorbing the excess growth of our deposits. The restructuring resulted in securities gains of over $700,000. Following our conservative credit approach, and as we did in 2009, these gains were directed to the Bank's provision for loan losses (along with other dollars). Due to the imprecise nature of the loan loss estimation process and ever-changing economic conditions, we have increased the unallocated portion within the Allowance for Loan Losses. At year-end, the Bank's Allowance for Loan Loss equaled a healthy 2.06% of total loans. This is an increase from 1.70% at the end of 2009 and exceeds our peers, many of whom have far worse asset quality issues.

Allowance for Loan Losses

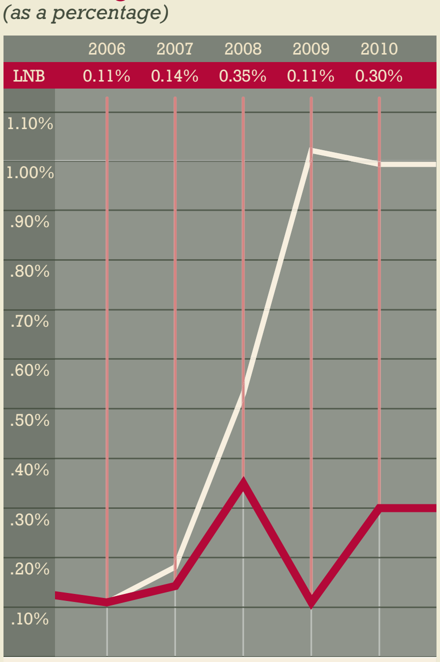
(period ending, as a % of total loans)



Not all of our corporate and individual customers shared equally in the slowly improving economy last year. Consequently, we experienced higher loan losses in 2010, justifying our increased loan loss provisions. For the year, the percentage of loans we charged off was 0.30% of average loans outstanding, an increase from 0.11% for 2009. Taking advantage of our strong earnings, we aggressively addressed a couple of our troubled loans by placing them on nonaccruing status even though payments were current. As a result, non-performing loans grew to 1.79% of period-end loans, an increase from 0.86% in 2009. We monitor loans in this category very carefully and will continue to be proactive in determining the appropriate course of action to take.

Net Charged-off Loans to Average Loans

(as a percentage)



Strong core deposit growth (more than 10%) supported our increased asset size. We obtained this growth by expanding our market share within our existing nine-branch network and by opening our tenth branch office. In June, we opened a temporary branch facility in Seneca County while we built our permanent location a few hundred yards away. By year-end, when we were preparing the new office for opening celebrations, Jill Hansen, our Branch Manager, and Jeff Friend, our Regional Branch Executive, had guided the growth of this office to over $22 million in deposits. This level far exceeded our original budgeted goal of $6 million. Congratulations to Jill, Jeff, and the staff on their accomplishment.

This change purse is the first artifact in the bank's possession to declare Capital and Surplus, $110,000. Although the date is unknown it is estimated to be the late 1800s to early 1900s.

All of our accomplishments dovetailed in September, helping the Bank surpass a milestone we set for ourselves a few years ago: breaching the $500 million asset size barrier. We realize that in today's banking environment, where there are four U.S. banks that exceed $1 trillion in size (two of which compete directly with us), we remain a very small player in the overall world of finance. However, in the local world of Wayne County and the Finger Lakes, our newly achieved size allows us to reach out and touch many more local individuals and businesses in ways we could not do before. Our larger balance sheet will generate more profits that can be used to invest in newer and more advanced technology, expand our geographic footprint into other markets, keep the salaries and benefits of our current employees competitive and allow us to hire additional talent, and on a less positive side, help pay for the ever mounting burdens of government regulations. No, $500 million in assets doesn't make us a force on Wall Street, but it does allow us to flex our muscles just a little bit more on Main Street – and if we continue to hew to the culture that got us to this point, that's a good thing for just about everybody!

OPPORTUNITIES/HEADWINDS 2011

The focus and dedication of our staff and our commitment to our Main Street values has served us well through the worst economic times since the Great Depression. With this combination working for us, we continued to generate record earnings and growth in the last two years while other banks – both large and small – could not. As we enter 2011, we have no intention of changing what's working for us. We will remain diligent in our quest for new opportunities, but we are also aware that there are still headwinds blowing against our forward momentum.

Capital and Surplus has grown to $120,000 (earliest recorded date available was 1915) and 3% interest was paid on Certificates of Deposit.

It has been a long time since Upstate New York has been a Mecca of economic growth. Going forward, even as the national economy improves, local growth will likely lag that of the country as a whole. In fact, the draconian budget cuts facing New York State itself will find their way down to local governments, further exacerbating our fragile economy. One area where we believe we are positioned well to take advantage of current market dynamics is in agriculture lending. We have in place a team of seasoned and talented professionals managing a well-diversified agricultural loan portfolio. As the number of developing nations keeps increasing and their populations aspire to better diets, the most efficient of our agricultural customers should reap the benefits of the subsequent worldwide demand for food and agricultural equipment. We stand ready to assist our farmers in their well-thought-out expansion efforts.

Our well-defined residential mortgage sales efforts present another area of excellent growth prospects. Over the past four years, we built an infrastructure of people and technology that served us well when mortgage rates declined to their historical lows and new production skyrocketed. Now, as rates have bounced off those lows, we have the mechanism in place to capture a larger percentage of the overall market as we expand our geographic footprint. Already in Seneca County, the home of our newest branch, we are recognized as the "go to" bank for residential mortgages.

Speaking of our Seneca County Office, in a span of just six months, the level of deposits at the office already exceeds those of eight of the twelve previously existing branches of other banks in the marketplace. This is one more validation (our successful Geneva and Penn Yan branches being others) of our branch-banking model. With this template in mind, we have identified other geographic areas that offer expansion opportunities. More on that subject as 2011 progresses.

Of course the future is not without its challenges. The financial woes of New York State and the expected budgetary cuts will have a financial impact on local governments, businesses and individuals, many of whom are our customers. The cry for the State to make these cuts is loud and on point. However, the consequences of action will impact many, directly and indirectly, and will linger for some time to come.

The results of the November elections somewhat slowed the trend of ever increasing government regulations on the financial industry. But while this advocacy has been blunted, the cost (measured in hundreds of thousands of dollars) of regulations already enacted is very burdensome for a bank our size. These mandated costs necessitate both that the Bank have a well-defined strategy for growth to generate additional revenues and a sharp pencil and the will to identify and slash inefficiencies. If, for whatever reason, either one of these is missing, profitability may be affected.

With all this said, we at Lyons National Bank expect 2011 to play out much like the last 158 years of the Bank's existence. There will be successes and accompanying celebration. There will be moments of head scratching, bemoaning and frustration. Somehow, in the end though, it will all work – because, as in the past, we will rely on a talented and dedicated staff and remain true to our hometown values!

A merchant money bag, circa 1930, touts "four percent interest paid in our saving department".

This certificate, dated 1904, authorizes The Gavitt National Bank of Lyons to commence the business of banking having complied with all the provisions of the Statutes of the United States. Their official banking number was 7479. A second certificate is archived with the same number, dated 1922 allowing the bank to operate for another 99 years.

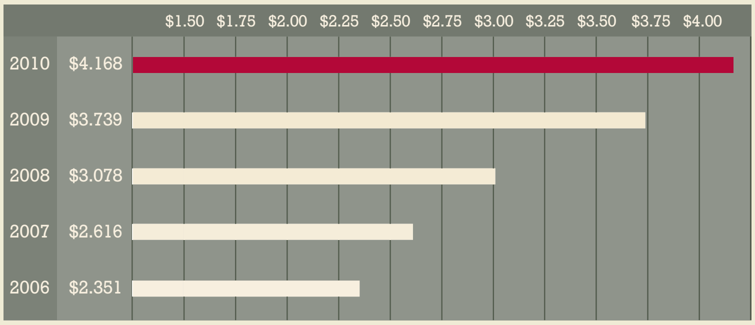
Diana R. Johnson
Executive Vice President &
Chief Financial Officer
Lyons Bancorp, Inc. and
The Lyons National Bank

RESULTS OF OPERATIONS

For the year ended December 31, 2010, we recorded earnings of $4.2 million, an increase of $429,000 or 11.5% over 2009. This translates into earnings per share of $4.86 or a 10.7% increase year over year. Return on average assets was 0.85% versus 0.86% for 2009, and return on average equity was 13.01% versus 13.16% for 2009.

Our largest revenue source is net interest income, the difference between the interest income we earn on our interest-earning assets, primarily loans and investment securities, and the interest paid on our interest-bearing liabilities, primarily deposit accounts

Net Income
(year ending, in millions)



	2010			2009		
	Average Balance	**Interest Inc/Exp**	**Average Yield/Cost**	Average Balance	Interest Inc/Exp	Average Yield/Cost
Interest-earning assets:						
Loans:						
Commercial and agriculture loans	**$ 162,898**	**$ 8,831**	**5.42%**	$ 138,124	$ 7,843	5.68%
Home equity loans	**46,049**	**1,928**	**4.19%**	39,067	1,732	4.43%
Residential loans	**60,309**	**3,572**	**5.92%**	56,143	3,538	6.30%
Consumer loans	**27,345**	**1,988**	**7.27%**	26,741	1,923	7.19%
Total Loans	**296,601**	**16,319**	**5.50%**	260,075	15,036	5.78%
Investments	**151,931**	**4,868**	**3.20%**	132,829	5,050	3.80%
Federal funds sold and other interest-earning assets	**7,794**	**19**	**0.24%**	10,561	26	0.25%
Total interest-earning assets	**456,326**	**21,206**	**4.65%**	403,465	20,112	4.98%
Noninterest-earning assets	**31,664**			29,686		
Total assets	**$ 487,990**			$ 433,151		
Interest-bearing liabilities:						
Interest-bearing checking	**$ 43,160**	**$ 99**	**0.23%**	$ 37,716	$ 96	0.25%
Savings	**169,666**	**1,272**	**0.75%**	133,068	985	0.74%
Time deposits	**127,949**	**1,747**	**1.37%**	142,300	3,231	2.27%
Borrowings	**27,530**	**271**	**0.99%**	15,766	177	1.12%
Junior subordinated debentures	**8,786**	**341**	**3.88%**	6,190	203	3.28%
Total interest-bearing liabilities	**377,091**	**3,730**	**0.99%**	335,040	4,692	1.40%
Noninterest-bearing deposits	**75,912**			65,165		
Other noninterest-bearing liabilities	**2,893**			4,477		
Total liabilities	**455,896**			404,682		
Total equity	**32,094**			28,469		
Total liabilities and stockholders' equity	**$ 487,990**			$ 433,151		
Net interest spread			**3.66%**			3.58%
Net interest income/margin on earning assets		**17,476**	**3.83%**		15,420	3.82%
Tax equivalent adjustment		**(387)**			(283)	
Net interest income per financial statements		**$ 17,089**			$ 15,137	

and borrowings. Net interest income for 2010 was $17.1 million, an increase of $2.0 million or 12.9% over 2009. This increase was due primarily to strong growth of our earning assets funded by steady deposit growth. Average earning assets increased $52.9 million or 13.1% during 2009, while average deposits increased $38.4 million or 10.2% year over year. Our tax-equivalent yield was essentially flat year over year, measuring 3.83% during 2010, compared to 3.82% in 2009.

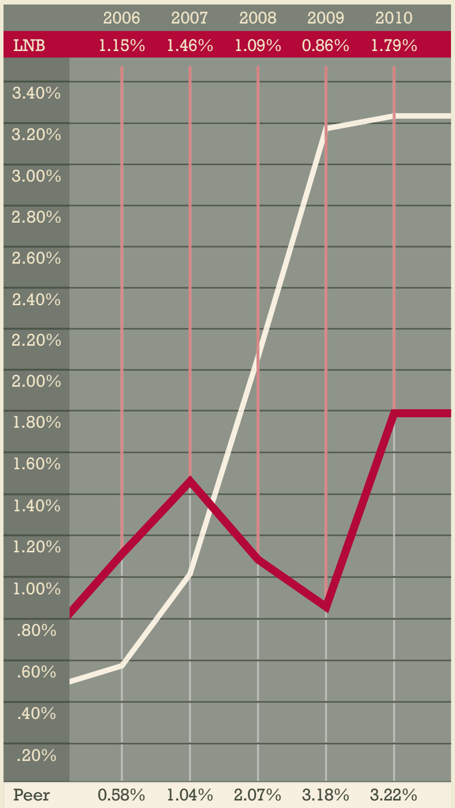
Our provisions for loan losses are based upon our assessment of a variety of factors, including loan credit quality, the general economic environment and growth in our loan portfolio. In 2010, we provided $2.4 million for loan losses, compared to $1.7 million in 2009. With continued loan growth, and the uncertainty of the local, regional and national economies, we felt it prudent to increase our provisions accordingly. However, key ratios that measure our credit quality, while reflecting some of that uncertainty, continue to compare favorable to our peer group. At December 31, 2010 our non-performing loans totaled 1.79% of total loans, well below 3.22% that represent our peer's performance. Our net charge-offs to average loans during 2010 totaled 0.30%, compared to 0.99% for our peers.

Noninterest income is an important revenue source for us, and consists primarily of service charges on deposit account, loan servicing fees, cardholder fees, financial services fees, gains and losses on the sale or impairment of securities, and gains on sale of loans. In 2010, noninterest income totaled $5.8 million or 25.4% of all revenue sources. This is a decrease of $124,000 or 2.1% over 2009 levels. Most major categories of noninterest income saw improvement year over year with the exception of gains on sale of loans, and other income consisting of mortgage servicing rights. During 2010, we sold $39.4 million of residential loans into the secondary market, compared to $63.2 million during 2009. In addition, gains on sale of investments were lower in 2010 as compared to 2009, as we sold $35.6 million of securities available for sale in 2010 compared to $51.0 million in 2009.

During 2010, we continued our focus on controlling noninterest expense and gaining efficiencies where it made sense. Noninterest expense consists primarily of compensation and employee benefits, occupancy and equipment expenses, advertising, data processing, professional fees, FDIC insurance, and other operating expenses. In 2010, total noninterest expense was $14.9 million, an increase of $829,000 or 5.9% over 2009. We achieved improvement in our efficiency ratio, reducing the ratio from 71.8% to 68.6% during 2010, a notable achievement in a year in which we opened a new branch office and hired additional staff. This efficiency was achieved while continuing to provide excellent customer service, and we will continue in our efforts to improve efficiencies throughout 2011 and beyond.

Nonaccruing Loans to Total Loans

(as a percentage)



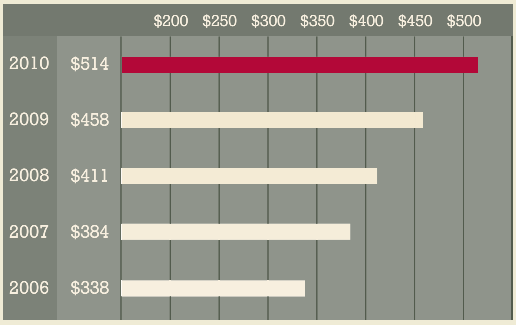
A promissory note from The Lyons Bank, promises to pay $5.00 on demand to the bearer. It was issued 1862 and signed by our founder, DeWitt Parshall.

ANALYSIS OF FINANCIAL CONDITION

4% interest earned yearly on a LNB savings account was a big incentive for practicing thrift.

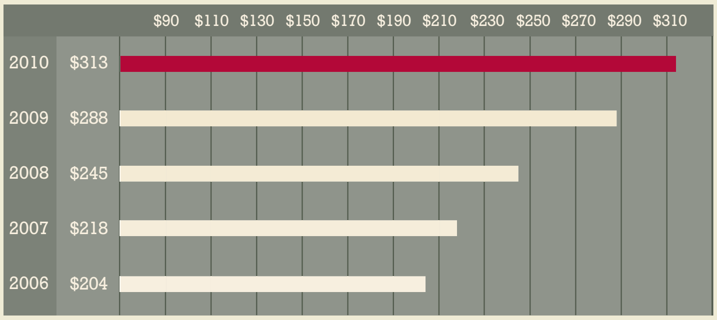
During 2010 we continued to experience solid loan and deposit growth across our organization, breaking through the $500 million mark in total assets. Total assets on December 31, 2010 were $513.6 million, an increase of $55.8 million or 12.2% from $457.8 million recorded on December 31, 2009.

Total Assets
(year ending, in millions)



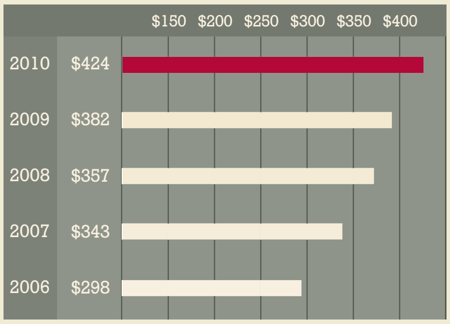
Total loans were $312.6 million at December 31, 2010, an increase of $24.4 million or 8.5% from December 31, 2009. We continued to support our strategy of balancing the loan portfolio more evenly between consumer and commercial loans, ending the year with 48% consumer-related loans versus 52% commercial-related loans. This is compared to 45% consumer-related loans at the end of 2009 and 48% at the end of 2006. 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.

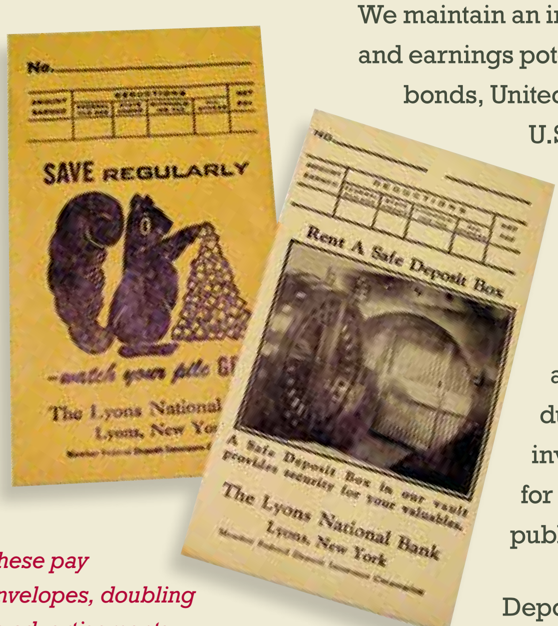
Total Gross Loans
(year ending, in millions)



We maintain an investment portfolio to provide us with important liquidity considerations and earnings potential. Our investment portfolio consists primarily of United States Treasury bonds, 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, 2010, our investment portfolio totaled $162.6 million, an increase of $26.8 million over December 31, 2009, and had an average yield of 3.20% during 2010. Substantially all of our investments are classified as available for sale, and may be used as collateral for public fund deposits.

Total Deposits
(year ending, in millions)





These pay envelopes, doubling as advertisements, list deductions as Federal Old Age, State Unemployment, Withholding Tax and All Others.

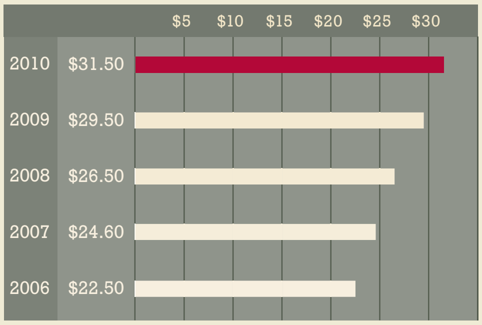
Deposits generated within our local markets are the major source of funds for our lending and investment activities. Total deposits at December 31, 2010 were $424.0 million, an increase of $41.7 million or 10.9% over December 31, 2009. We continued to experience strong growth in our core deposit base, with our newest branch office in Seneca County contributing over $20 million in core deposits since its opening in June 2010.

Stockholders' equity was $31.5 million at December 31, 2010, an increase of $2.0 million or 6.8% from December 31, 2009. Our Board of Directors is committed to providing a solid return to our shareholders and declared a total of $1.34 per share in dividends during 2010. This represents a yield of 3.35% based on our year end market price of $40.00 per share.

Please refer to our Consolidated Financial Report as of and for the year ended December 31, 2010 for more information regarding our 2010 results.

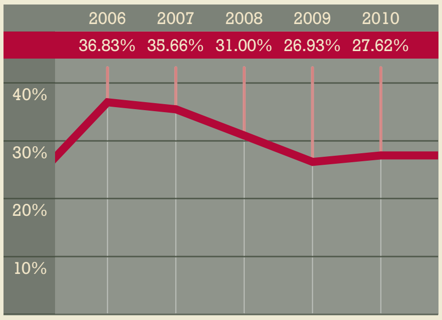
Stockholders' Equity

(year ending)



Dividends Declared to Net Income

(as a percentage)



SELECTED FINANCIAL DATA

Year Ended December 31

(in thousands, except per share data)	**2010**	2009	2008	2007	2006
Financial Statement Highlights					
Assets	**$ 513,585**	$ 457,787	$ 411,490	$ 384,405	$ 338,062
Loans, gross	**312,629**	288,226	245,457	217,834	203,627
Deposits	**424,006**	382,334	356,767	342,730	297,923
Other borrowings	**44,491**	36,046	17,642	7,489	9,098
Junior subordinated debentures	**9,217**	6,190	6,190	6,190	6,190
Stockholders' equity	**31,511**	29,515	26,544	24,625	22,537
Interest and dividend income	**20,819**	19,829	20,788	21,999	19,493
Interest expense	**3,730**	4,692	7,286	9,459	7,150
Net interest income	**17,089**	15,137	13,502	12,540	12,343
Provision for loan losses	**2,405**	1,725	405	250	987
Net securities gains	**727**	811	71	20	0
Net income	**4,168**	3,739	3,078	2,616	2,351
Per Share Information					
Earnings per share	**$ 4.86**	$ 4.39	$ 3.63	$ 3.06	$ 2.74
Cash dividends paid per share	**$ 1.31**	$ 1.18	$ 1.14	$ 1.07	$ 0.99
Book value per share	**$ 36.73**	$ 34.43	$ 31.29	$ 28.79	$ 26.31
Selected Ratios					
Return on average assets	**0.85%**	0.86%	0.79%	0.71%	0.71%
Return on average equity	**13.01%**	13.16%	11.93%	11.42%	10.80%
Leverage ratio (Bank)	**8.22%**	8.01%	8.32%	8.24%	8.62%
Dividend payout ratio	**26.97%**	26.64%	30.77%	35.02%	36.12%
Other Selected Data *(in whole numbers)*					
Employees (full time equivalent)	**139**	129	131	133	121
Banking Offices	**11**	10	10	10	10

At Lyons National Bank, we never forget that our roots are right here on William Street in Lyons, and on the Main Streets of towns throughout Wayne, Ontario, Onondaga, Seneca and Yates Counties.

The bank was founded in 1852 by DeWitt Parshall, a lawyer, land baron and entrepreneur who chartered a private banking house in the upper part of a building on Canal Street in Lyons, naming it the Palmyra Bank of Lyons. In 1857, he changed the name to Lyons Bank and erected a building on the corner of Canal and William Streets. "National" was added to the title in 1864, when the bank obtained a national charter.

1.

A second bank in Lyons was established by Peter Westfall a few years later, in 1860. In 1866, when he moved to Chicago, his vice president Saxon Gavitt took it over, establishing his own banking partnership, Gavitt and Murdock. He later reorganized as a national bank under the name of The Gavitt National Bank, purchased and remodeled the building on William and Church Streets, and ran the bank with his sons.

2.

From 1911 to 1933, The Gavitt National Bank and The Lyons National Bank were friendly rivals; their presidents were hunting companions. In the late 1920s, the Lyons National Bank was extensively remodeled and a new building was constructed for the Gavitt National Bank.

1. Often referred to as "the old bank corner" this iconic structure was built in 1838 for the Bank of Lyons. Other banking institutions followed until it was replaced in 1930.

2. The old bank corner is pictured here housing the Bank of Wayne and the Metropolitan Life Insurance Co., circa 1890.

3. The banking house of Saxon B. Gavitt began in a storefront on Canal Street and subsequently moved to this location on William Street, next door to "the old bank corner." Pictured from left, William S. Gavitt, Saxon B. Gavitt, George H. Milem and Theodore Fries, circa 1900.

4. The brand new Gavitt National Bank, just before the Great Depression and Gavitt's merger with The Lyons National Bank, circa 1930.

These postcards, produced by The Lyons National Bank, are reproductions of paintings by Dorothy Blackwell. Top is "The Old Bank Corner", circa 1895. Below, courtesy of Trombino's Restaurant, depicts Water Street, Lyons, NY, around that same time.

3.

4.

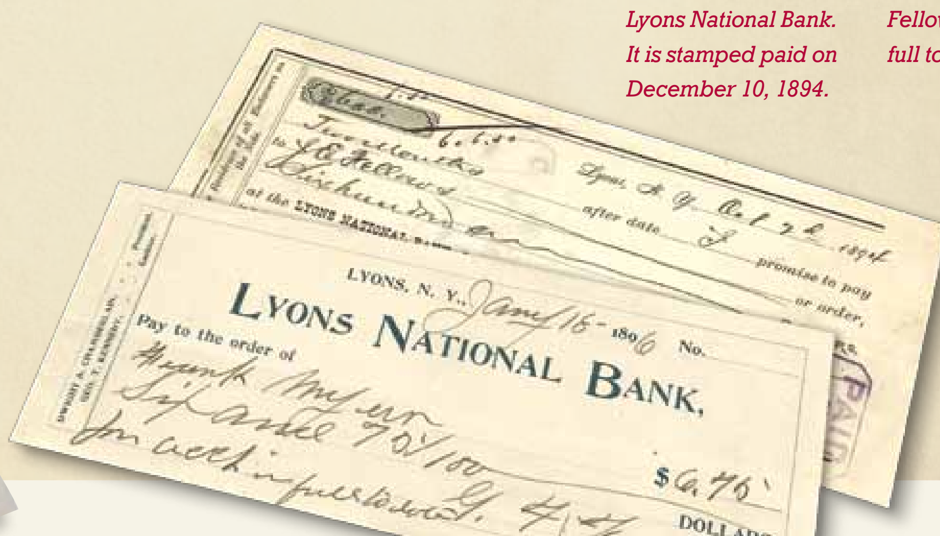
With the Great Depression in the 1930s, and the banking panic that engulfed the nation, President Franklin D. Roosevelt closed every bank in the country. To reopen, they were required to obtain a license. It was at that time the histories of the Gavitt National Bank and The Lyons National Bank became one. The banking department decided that Lyons did not need two banks. At a public meeting, the presidents of the two banks proposed a merger and the new bank, continuing under the charter of the old Lyons National Bank but in the headquarters of the former Gavitt National Bank, opened July 6, 1933.

That main office of LNB at 35 William Street has since been maintained with its original historic features, such as a decorative pediment at the front door, beautiful arched windows, marble flooring on the inside and iron teller windows reminiscent of the early 20th century. Adjacent to the main office is a building that LNB purchased in 1990, which currently houses the loan offices as well as additional administrative departments. Between the two, they are home to more than 50 employees.

In addition to being home to several of Lyons National Bank's key departments, this main office offers job opportunities to residents and serves the businesses and people of downtown. We are committed to the community our organization has called home for its entire existence, participate in the Lyons Main Street Program and support and contribute to the not-for-profits in the village. As we have expanded our presence into more local communities, we have likewise contributed to their growth and prosperity through not-for-profit donations, volunteerism and events in celebration of civic pride.

This annual report of 1930 for the Gavitt National Bank declares $200,000 in Capital and Surplus, and commemorates the opening of the new building.

Below are two typical banking transactions of the late 1800s. One states that two months after October 2, 1894, G. F. Fellows promises to pay J. E. Fellows $600 at the Lyons National Bank. It is stamped paid on December 10, 1894. The other appears to be a paycheck dated 1896 for $6.75 also signed by G. F. Fellows "for week in full to date."



As simply expressed in this retro pin, our success is firmly grounded in the Bank's commitment to hometown values.

BOARD OF DIRECTORS

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

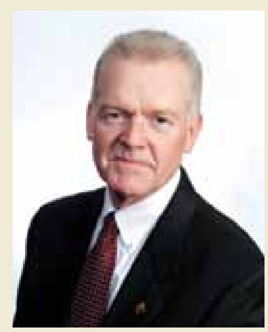
David J. Breen, Jr.
General Manager
Herrema's Market Place

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

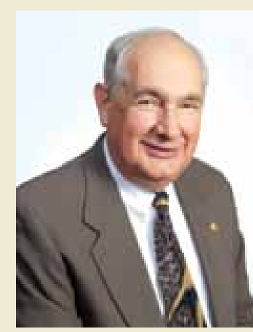
Andrew F. Fredericksen, CPA
Senior Partner
Fredericksen &
Sirianni, LLP

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

Brad A. Person
President &
General Manager
Nuttall Golf Cars Inc.
and Nuttall Golf Car
Leasing, LLC

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

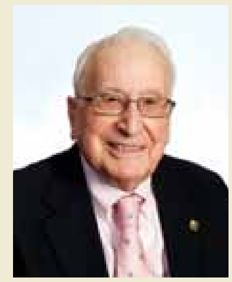
GENEVA ADVISORY BOARD

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

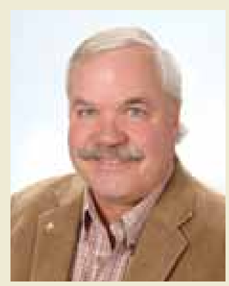
Bernard G. Lynch
Lynch Furniture

PENN YAN ADVISORY BOARD

Bonnie B. Curbeau
Curbeau Realty

Michael D. Linehan
Yates County Chamber of Commerce

James H. Long
Longs' Cards and Books



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

Neil J. Simmons
Simmons Vineyards

Not Pictured, Henry Martin, *Dairy Farmer*

SENECA COUNTY ADVISORY BOARD

Salvatore N. Franzone
Ciccino's Pizzeria and Restaurant

Kenneth (Lee) Patchen, Jr.
Patchen Real Estate

Eugene Pierce
Glenora Wine Cellars, Inc. and Knapp Winery

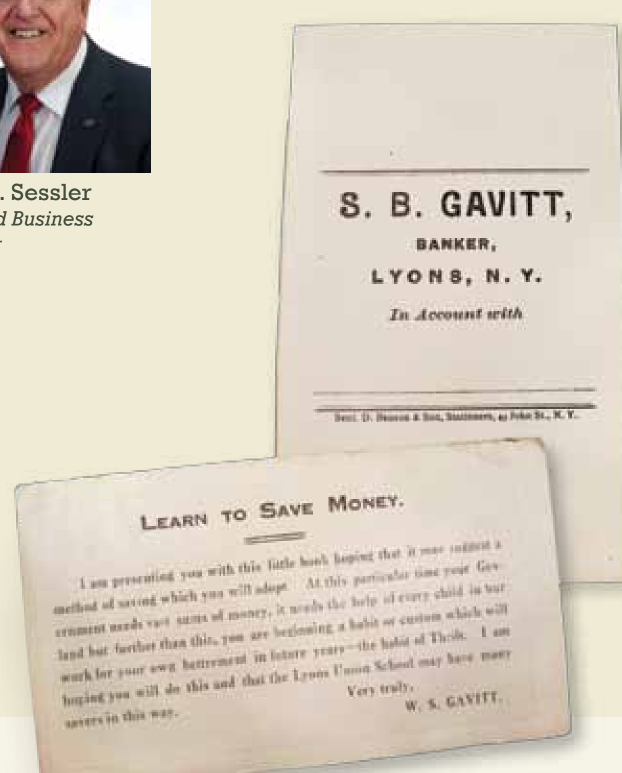
Bob L. Sessler
Retired Business Owner

Jane M. Shaffer
Sessler Companies

Joyce N. Sinicropi
Sinicropi Florist

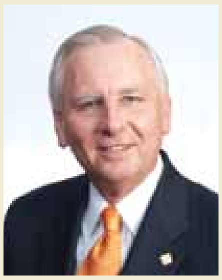
Bryan G. vonHahmann
Dairy Farmers of America

This savings booklet was a gift to children of the Lyons Union School from W. S. Gavitt. It suggests that they develop the habit of thrift for their "own betterment in future years" and at the same time help their Government in need of vast sums of money and the help of every child in this land.



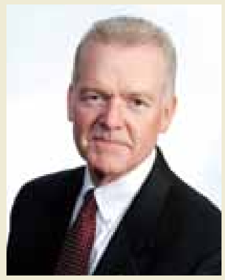
BANK OFFICERS AND SUPERVISORS

EXECUTIVE MANAGEMENT



Robert A. Schick
President & Chief Executive Officer

Diana R. Johnson
Executive Vice President & Chief Financial Officer



Thomas L. Kime
Executive Vice President & Chief Operating Officer

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

Phillip M. McCann
Executive Vice President & Chief Credit Officer

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

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 Retail Sales

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

Jeffrey A. Friend
Vice President & District Branch Manager – Geneva and Seneca County

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

Jill D. Hansen
Banking Officer & Branch Manager – Seneca County

Tara R. Rago
Banking Officer & Branch Manager – Geneva

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

Darrin Brentnall
Assistant Vice President & Commercial Loan Officer

Anna M. Bridger
Assistant Vice President & Commercial Loan Officer

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

John Patrillo
Banking Officer & Commercial Loan Officer

Lynnette M. Zelias
Banking Officer & Commercial Loan Operations Manager

CREDIT ADMINISTRATION

Phillip M. McCann
Executive 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

FINANCIAL SERVICES

Robert T. Koczent
Vice President & Director of Financial Services

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

Todd F. Juffs
Assistant Vice President & MIS Officer

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

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

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

Thomas R. David
Assistant Vice President & Mortgage Loan Officer

Timothy H. Lead
Assistant Vice President & Mortgage Loan Officer

SECURITY & FACILITIES DIVISION

Michael J. Colacino
Banking Officer & Security Officer and Facilities Manager

LNB MAIN OFFICE RENOVATION PROJECT

LNB is proud to partner with the Lyons Main Street Program and the New York State Main Street Grant programs, as lead anchor project to the downtown Lyons, NY, renovation projects. LNB has been at the center of Lyons for more than a century with a long standing tradition of excellence and service.

The check above is written from the Lyons National Bank to the Albany City National Bank for 25 Cents dated October 23rd, 1883. Founder, DeWitt Parshall is pictured.

Since 1852, dedicated individuals have ensured its prominent place in the Lyons Community. Throughout the years, the LNB Main Office has been an iconic building for the Lyons community, offering a point of reference to those traveling in the Village of Lyons and as a center of commerce for Lyon's businesses.

As one of the key businesses located in Lyons, our support and contributions to local not-for-profits and the economic stability of the village are critical to its future economic success. Our participation in the Lyons Main Street Program, by committing to significant capital improvements to our headquarters, is just one example of how the bank supports the local community.

These improvements will consist of exterior façade, window and doorway replacements, within the interior – board room, cast plaster walls, data, electrical, fire and security improvements and stone floor replacements. Our perseverance to obtain the New York Main Street Grant is further evidence of our commitment to downtown Lyons and community. We look forward to working on this project hand in hand with the local community.

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

Seneca County Office
2433 State Route 414
Waterloo, NY 13165
(315) 539-4100

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

BankwithLNB.com

LNB Bancorp.
It's all about people.

LNB Bancorp.
It's all about people.

Consolidated Financial Report
December 31, 2010

ParenteBeard

INDEPENDENT AUDITORS' REPORT

Stockholders and Board of Directors of Lyons Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Lyons Bancorp, Inc. and subsidiary (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lyons Bancorp, Inc. and subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Syracuse, New York
March 31, 2011

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Consolidated Statements of Stockholders' Equity	4
Consolidated Statements of Cash Flows	5
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ANNUAL MEETING

The annual meeting of the stockholders will take place at 4:30 p.m. on May 25, 2011 at the historic Ohmann Theatre in Lyons, New York.

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009

(in thousands)

ASSETS

	2010	2009
Cash and due from banks	$ 8,679	$ 8,707
Interest-bearing deposits in banks	7,000	4,067
Cash and Cash Equivalents	15,679	12,774
Investment securities:		
Available for sale	154,296	128,590
Held to maturity	5,306	4,777
Restricted equity securities, at cost	2,949	2,424
Total Investment Securities	162,551	135,791
Loans	312,629	288,226
Less allowance for loan losses	(6,441)	(4,912)
Net Loans	306,188	283,314
Land, premises and equipment, net	13,356	11,695
Bank owned life insurance	7,358	6,630
Accrued interest receivable and other assets	8,453	7,583
Total Assets	$ 513,585	$ 457,787

LIABILITIES AND STOCKHOLDERS' EQUITY

	2010	2009
Liabilities		
Deposits:		
Interest-bearing	$ 339,405	$ 309,749
Non-interest-bearing	84,601	72,585
Total Deposits	424,006	382,334
Securities sold under agreements to repurchase	7,691	8,946
Borrowings from Federal Home Loan Bank	36,800	27,100
Junior subordinated debentures	9,217	6,190
Accrued interest payable and other liabilities	4,304	3,646
Total Liabilities	482,018	428,216
Equity		
Lyons Bancorp, Inc. stockholders' equity:		
Common stock	434	434
Paid-in capital	7,932	7,915
Retained earnings	24,569	21,552
Accumulated other comprehensive loss	(1,121)	(80)
Treasury stock, at cost	(303)	(306)
Total Lyons Bancorp, Inc. Stockholders' Equity	31,511	29,515
Noncontrolling interest	56	56
Total Equity	31,567	29,571
Total Liabilities and Stockholders' Equity	$ 513,585	$ 457,787

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2010 and 2009

(in thousands , except per share data)	**2010**	2009
Interest Income		
Loans	$ **16,319**	$ 15,036
Investment securities:		
Taxable	**3,288**	3,896
Non-taxable	**1,212**	897
Total Interest Income	**20,819**	19,829
Interest Expense		
Deposits	**3,118**	4,312
Borrowings	**612**	380
Total Interest Expense	**3,730**	4,692
Net Interest Income	**17,089**	15,137
Provision for Loan Losses	**2,405**	1,725
Net Interest Income after Provision for Loan Losses	**14,684**	13,412
Non-interest Income		
Service charges on deposit accounts	**2,150**	2,018
Loan servicing fees	**856**	736
Cardholder fees	**673**	588
Financial services fees	**513**	524
Net realized gains from sales/calls of available for sale securities	**727**	811
Realized gains on loans sold	**534**	748
Earnings on investment in bank owned life insurance	**228**	228
Other	**147**	299
Total Non-interest Income	**5,828**	5,952
Non-interest Expense		
Salaries and wages	**6,248**	5,994
Pensions and benefits	**2,023**	1,953
Occupancy	**1,643**	1,711
Data processing	**1,005**	897
Professional fees	**856**	796
FDIC and OCC assessments	**735**	819
Advertising	**409**	309
Loan fees	**367**	125
Office supplies	**271**	218
Other	**1,299**	1,205
Total Non-interest Expense	**14,856**	14,027
Income before Income Taxes	**5,656**	5,337
Income Tax Expense	**1,484**	1,594
Net income attributable to noncontrolling interest and Lyons Bancorp, Inc.	**4,172**	3,743
Less: Net income attributable to noncontrolling interest	**4**	4
Net Income	$ **4,168**	$ 3,739
Earnings Per Share	$ **4.86**	$ 4.39

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2010 and 2009

(in thousands , except per share data)

	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interest	Total
Balance – January 1, 2009	$ 434	$ 7,905	$ 18,820	$ (13)	$ (602)	$ 56	$ 26,600
Comprehensive income:							
Net income	–	–	3,739	–	–	–	3,739
Change in unrealized net gain on securities available for sale, net of tax	–	–	–	(173)	–	–	(173)
Change in unrealized loss on pension and postretirement benefits, net of tax	–	–	–	27	–	–	27
Unrealized gain on interest rate swap, net of tax	–	–	–	79	–	–	79
Total Comprehensive Income							3,672
Purchase of treasury stock	–	–	–	–	(54)	–	(54)
Issuance of treasury stock	–	10	–	–	193	–	203
Deferred compensation shares awarded, net	–	–	–	–	122	–	122
Deferred compensation shares vested	–	–	–	–	35	–	35
Cash dividends declared, $1.18 per share	–	–	(1,007)	–	–	–	(1,007)
Balance – December 31, 2009	$ 434	$ 7,915	$ 21,552	$ (80)	$ (306)	$ 56	$ 29,571
Comprehensive income:							
Net income	–	–	4,168	–	–	–	4,168
Change in unrealized net gain on securities available for sale, net of tax	–	–	–	(532)	–	–	(532)
Change in unrealized loss on pension and postretirement benefits, net of tax	–	–	–	(200)	–	–	(200)
Change in unrealized gain on interest rate swap, net of tax	–	–	–	(309)	–	–	(309)
Total Comprehensive Income							3,127
Purchase of treasury stock	–	–	–	–	(143)	–	(143)
Issuance of treasury stock	–	17	–	–	33	–	50
Deferred compensation shares awarded, net	–	–	–	–	108	–	108
Deferred compensation shares vested	–	–	–	–	5	–	5
Cash dividends declared, $1.34 per share	–	–	(1,151)	–	–	–	(1,151)
Balance – December 31, 2010	$ 434	$ 7,932	$ 24,569	$ (1,121)	$ (303)	$ 56	$ 31,567

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2010 and 2009

(in thousands)	**2010**	2009
Cash Flows from Operating Activities		
Net income	**$ 4,168**	$ 3,739
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**2,405**	1,725
Earnings on investment in bank owned life insurance	**(228)**	(228)
Net realized gain from sales/calls of available for sale securities	**(727)**	(811)
Realized gains on loans sold	**(534)**	(748)
Deferred compensation expense	**125**	136
Net amortization on securities	**995**	442
Depreciation and amortization	**702**	759
Deferred income tax (benefit) expense	**(243)**	322
Contribution to defined pension	**(1,200)**	(1,900)
Decrease (increase) in accrued interest receivable and other assets	**898**	(1,483)
Increase in accrued interest payable and other liabilities	**427**	1,166
Loans originated for sale	**(38,595)**	(62,301)
Proceeds from sales of loans	**39,407**	63,185
Net Cash Provided by Operating Activities	**7,600**	4,003
Cash Flows from Investing Activities		
Purchases of securities available for sale	**(118,020)**	(106,784)
Proceeds from sales of securities available for sale	**35,644**	51,041
Proceeds from maturities and calls of securities available for sale	**55,514**	55,242
Purchases of held to maturity securities	**(3,088)**	(3,258)
Proceeds from maturities of securities held to maturity	**2,035**	2,501
Net increase in loans	**(25,755)**	(43,238)
Purchase of bank owned life insurance	**(500)**	(600)
Premises and equipment purchases, net	**(2,357)**	(1,279)
Net Cash Used in Investing Activities	**(56,527)**	(46,375)
Cash Flows from Financing Activities		
Net increase in demand and savings deposits	**53,309**	44,477
Net decrease in time deposits	**(11,637)**	(18,910)
Net (decrease) increase in securities sold under agreements to repurchase	**(1,255)**	304
Net increase in overnight borrowings from Federal Home Loan Bank	**9,700**	8,100
Proceeds received from issuance of trust preferred securities	**2,932**	–
Proceeds received from term borrowings from Federal Home Loan Bank	**–**	10,000
Purchase of treasury stock	**(143)**	(54)
Issuance of treasury stock	**50**	203
Dividends paid	**(1,124)**	(996)
Net Cash Provided by Financing Activities	**51,832**	43,124
Net Increase in Cash and Cash Equivalents	**2,905**	752
Cash and Cash Equivalents – Beginning	**12,774**	12,022
Cash and Cash Equivalents – Ending	**$ 15,679**	$ 12,774
Supplementary Cash Flow Information		
Interest paid	**$ 3,742**	$ 4,929
Income taxes paid	**$ 2,423**	$ 1,219
Non-cash Disclosure		
Transfer of loans to other real estate	**$ 198**	$ 48

See notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Lyons Bancorp, Inc. (the Company) provides a full range of commercial banking services to individual and small business customers through its wholly-owned subsidiary, The Lyons National Bank (the Bank). The Bank's operations are conducted in eleven branches located in Wayne, Onondaga, Yates, Ontario, and Seneca Counties, New York. The Company and the Bank are subject to the regulations of certain federal agencies and undergo periodic examinations by those regulatory authorities.

The Company owns all of the voting common shares of Lyons Capital Statutory Trust I (Trust I), Lyons Capital Statutory Trust II (Trust II) and Lyons Capital Statutory Trust III (Trust III). Trust I was formed in 2003, Trust II was formed in 2004, and Trust III was formed in 2010. The Trusts were each formed for the purpose of securitizing trust preferred securities, the proceeds of which were advanced to the Company and contributed to the Bank as additional capital.

The Bank also owns all of the voting stock of Lyons Realty Associates Corp. (LRAC) and LNB Life Agency, Inc. (LNB Life). LRAC is a real estate investment trust which holds a portfolio of real estate mortgages. In order to maintain its status as a real estate investment trust, LRAC holds the real estate mortgages until they are paid. The real estate mortgages held by LRAC are included in loans on the consolidated balance sheet. LNB Life provides non-insured financial services and products to the Bank's customers.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank, LRAC and LNB Life. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accounts of Trust I, Trust II, and Trust III are not included in the consolidated financial statements as discussed in Note 9.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near future relate to the determination of the allowance and provision for loan losses, other-than-temporary impairment of investment securities, actuarial assumptions associated with the Company's benefit plans and deferred tax assets and liabilities.

Recently Issued Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU No. 2010-20 requires a greater level of disaggregation in disclosures relating to the credit quality of the Company's financing receivables and allowance for loan losses. ASU 2010-20 also requires enhanced disclosures around nonaccrual and past due financing receivables, impaired loans and loan modifications. The standard is effective for the first interim or annual reporting periods ending on or after December 15, 2010. The disclosures required by this ASU have been adopted for the year ended December 31, 2010.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Level 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The Company's disclosures about fair value measurements, including the new disclosures which were applicable to the Company beginning in 2010, are presented in Note 17: Fair Value Measurements and Fair Values of Financial Instruments. The disclosures concerning gross presentation of Level 3 activity are effective for fiscal years beginning after December 15, 2010. The adoption of these amendments did not and are not expected to have a material effect on the Company's consolidated financial statements.

The FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements,* which describes amendments that clarify which entities are required to evaluate subsequent events through the date the financial statements are issued and the scope of subsequent events disclosures.

The ASU removes the requirement for a Securities and Exchange Commission (SEC) filer to disclose the date through which subsequent events have been evaluated in both issued and revised financial statements. The ASU also clarifies that revised financial statements for a non SEC filer should disclose both the date the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. The FASB believes these amendments remove potential conflicts with the SEC's literature.

All of the amendments in the ASU were effective upon issuance except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010. The adoption of these amendments did not have a material effect on the Company's consolidated financial statements.

The FASB issued ASU No. 2010-18, *Effect of a Loan Modification When the Loan is Part of a Pool that Is Accounted for as a Single Asset,* representing a consensus of the FASB Emerging Issues Task Force.

This guidance clarifies divergence in practice as to whether an individual loan that is part of a homogenous pool of loans accounted for as a single asset should be removed from the pool, if the individual loan meets troubled debt restructuring criteria.

As a result of the amendment, all companies with individual loans that meet the troubled debt restructuring criteria, accounted for in a pool, shall no longer remove the loan from the pool. Note however, if the restructuring results in the expected cash flows of the pool to change, the company should evaluate whether the pool is impaired.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recently Issued Accounting Pronouncements *(continued)*

The amendments as outlined in the ASU are effective on a prospective basis for modification of loans accounted for within a pool occurring in the first interim period or annual period ending July 15, 2010, or the second quarter of 2010 for calendar year end companies. Earlier application is permitted. The adoption of this amendment is not expected to have a significant impact to the Company's consolidated financial statements.

FASB ASC Topic 860, *Transfers and Servicing,* (ASC Topic 860) is new authoritative accounting guidance amending prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC Topic 860 was effective January 1, 2010 and did not have a significant impact on the Company's consolidated financial statements.

Investment Securities

Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them until maturity. Securities to be held for indefinite periods of time are classified as available for sale and carried at fair value, with the unrealized holding gains and losses reported as a component of other comprehensive income, net of tax. Securities held for resale for liquidity purposes are classified as trading and are carried at fair value, with changes in unrealized holding gains and losses included in income. Management determines the appropriate classification of securities at the time of purchase. Restricted equity securities consist primarily of Federal Reserve Bank and the Federal Home Loan Bank stock.

Purchase premiums and discounts are recognized in interest income using the interest method or methods that approximate the interest method over the terms of the securities. Interest and dividends on securities are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are determined using the specific identification method.

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. A security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. If impaired, the Company then assesses whether the unrealized loss is other-than-temporary. The assessment considers (i) whether the Company intends to sell the security prior to recovery and/or maturity, (ii) whether it is more likely than not that the Company will have to sell the security prior to recovery and/or maturity and (iii) if the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis. If a debt security is deemed to be other-than-temporarily impaired, the credit loss component of an other-than-temporary impairment write down is recorded in earnings while the remaining portion of the impairment loss is recognized, net of tax, in other comprehensive income provided that the Company does not intend to sell the underlying security and it is more likely than not that the Company would not have to sell the security prior to recovery.

The Company considers the following factors in determining whether a credit loss exists and the period over which the security is expected to recover:

- The length of time and the extent to which the fair value has been less than the amortized cost basis;
- The level of credit enhancement provided by the structure which includes, but is not limited to, credit subordination positions, excess spreads, overcollateralization, protective triggers;
- Changes in the near term prospects of the issuer or underlying collateral of a security, such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;
- The level of excess cash flow generated from the underlying collateral supporting the principal and interest payments of the debt securities; and
- Any adverse change to the credit conditions of the issuer or the security such as credit downgrades by the rating agencies.

Loans

The Bank grants real estate, commercial and consumer loans to its customers. A substantial portion of the loan portfolio is represented by real estate loans in Wayne, Ontario, Yates, Onondaga, and Seneca Counties. The Company's loan portfolio includes residential real estate, commercial real estate, agricultural real estate, commercial and agricultural loans, and consumer installment segments. Residential real estate loans include classes for 1-4 family and home equity loans. Consumer installment loans include classes for direct and indirect loans.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method. (ASC 310-10-50-2)

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income or the allowance for loan losses if the interest income was earned in a prior period. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loans *(continued)*

flows discounted at the loan's effective interest rate, or at the loan's observable fair value or the fair value of underlying collateral if the loan is collateral-dependent. Impairment losses are included in the allowance for loan losses through a charge to the provision for loan losses. Cash receipts on impaired loans are generally applied to reduce the principal balance outstanding. In considering loans for evaluation of impairment, management generally excludes smaller balance, homogeneous loans: residential mortgage loans, home equity loans, and all consumer loans. These loans are collectively evaluated for risk of loss.

Loans Held for Sale

Generally, loans held for sale consist of residential mortgage loans that are originated and are intended to be sold through agreements the Bank has with the Federal Home Loan Bank (FHLB) and the Federal Home Loan Mortgage Corporation (Freddie Mac). From time to time, the Bank may also hold commercial loans for sale. Realized gains and losses on sales are computed using the specific identification method. These loans are carried on the consolidated balance sheet at the lower of cost or estimated fair value determined in the aggregate.

The Bank retains the servicing on loans sold and receives a fee based upon the principal balance outstanding. Servicing rights included in the consolidated balance sheets totaled $422,000 and $369,000 net of amortization, as of December 31, 2010 and 2009, respectively.

Total loans serviced for others amounted to $121.3 million and $106.0 million at December 31, 2010 and 2009, respectively.

Loans held for sale totaled $857,000 and $1.1 million at December 31, 2010 and 2009, respectively, and are included in loans on the consolidated balance sheets.

Allowance for Loan Losses

The allowance for loan losses (allowance) is established as losses are estimated to have occurred in the loan portfolio. The allowance is recorded through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of general, specific and unallocated components as further described below.

General Component

The general component of the allowance is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, agriculture real estate, commercial and agricultural loans, and consumer installment segments. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. The historical loss factor is adjusted for the following qualitative factors: levels and trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no changes in the Company's policies or its methodology pertaining to the general component of the allowance during 2010.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate – The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans. The majority of loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial real estate – Loans in this segment represent both extensions of credit for owner-occupied real estate and income-producing properties throughout the local region. The underlying cash flows of the operating commercial businesses (owner-occupied) and income properties (non-owner occupied) can be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. In a majority of cases, the Company obtains rent rolls annually and continually monitors the cash flows of non-owner occupied loans commensurate with sound lending practices.

Agricultural real estate – Loans in this segment represent extensions of credit for owner-occupied agricultural real estate throughout the local region. The underlying cash flows generated by the agribusinesses can be adversely impacted by adverse climate and a weakened economy, which in turn, will have an effect on the credit quality in this segment. Management obtains annual tax returns and continually monitors the cash flows of these loans commensurate with sound lending practices.

Commercial and Agricultural loans – Loans in this segment are made to businesses and generally secured by the assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Consumer installment loans – Loans in this segment may be secured or unsecured and repayment is dependent on the credit quality of the individual borrower.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Allowance for Loan Losses *(continued)*

Allocated Component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for commercial and agricultural loans, commercial real estate and agricultural real estate by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if determined to be more appropriate. An allowance is established when the discounted cash flow (or collateral value) of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer or residential real estate loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines that significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reason for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). All TDR's are initially classified as impaired.

Unallocated Component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Land, Premises and Equipment

Land is stated at cost. Premises and equipment are recorded at cost and are generally depreciated by the straight-line method over the estimated useful lives of the assets. Buildings are generally depreciated over a useful life of thirty nine and one half years, furniture and equipment over a useful life of three to seven years, and leasehold improvements over the term of the lease.

Bank Owned Life Insurance

Bank owned life insurance (BOLI) was purchased by the Bank as a financing tool for employee benefits and to fund discriminatory retirement benefits for the Board of Directors and executive management. The value of life insurance financing is the tax preferred status of increases in life insurance cash values and death benefits and the cash flow generated at the death of the insured. The proceeds or increases in cash surrender value of the life insurance policy results in tax-exempt income to the Company. The largest risk to the BOLI program is credit risk of the insurance carriers. To mitigate this risk, annual financial condition reviews are completed on all carriers. BOLI is stated on the Company's consolidated balance sheets at its current cash surrender value. Increases in BOLI's cash surrender value are reported as non-interest income in the Company's consolidated statements of income.

Foreclosed Real Estate

Included in other assets are real estate properties acquired through, or in lieu of, loan foreclosure. These properties are initially recorded at fair value less estimated selling costs at the date of foreclosures. Any write-downs based on the asset's fair value at date of foreclosure are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new basis or fair value less any costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of the property to the lower of its cost or fair value less cost to sell.

Treasury Stock

Treasury stock is recorded at cost. Shares are reissued on the average cost method, except for issuance of deferred compensation shares, which are discussed in Note 12.

Interest Rate Swap Agreement

The Company utilizes an interest rate swap agreement as part of its management of interest rate risk to modify the repricing characteristics of its floating-rate junior subordinate debentures. For this swap agreement, amounts receivable or payable are recognized as accrued under the terms of the agreement, and the net differential is recorded as an adjustment to interest expense of the related debentures. The interest rate swap agreement is designated as a cash flow hedge. Therefore, the effective portion of the swap's unrealized gain or loss was initially recorded as a component of other comprehensive income. The ineffective portion of the unrealized gain or loss, if any, is immediately reported in other operating income. The Company considers its interest rate swap agreement to be fully effective and accordingly it has not recorded any gains or losses in earnings during 2010 or 2009.

Noncontrolling Interest

Noncontrolling interest represents the portion of ownership and interest expense that is attributable to the minority owners of LRAC. The minority ownership is in the form of 8.50% cumulative preferred stock, and the dividends paid are included in noncontrolling interest as a charge against income.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income Taxes

Income taxes are provided for the tax effects of certain transactions reported in the consolidated financial statements. Income taxes consist of taxes currently due plus deferred taxes related primarily to temporary differences between the financial reporting and income tax basis of the allowance for loan losses, premises and equipment, and prepaid and accrued employee benefits. The deferred tax assets and liabilities represent the future tax return consequences of the temporary differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

The Company adopted the provisions of ASC Topic 740 on January 1, 2009. Since the Company did not have any significant unrecognized tax benefits, there was no effect on its consolidated financial condition or results of operations as a result of implementing ASC Topic 740. As of the date of adoption, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Net Income Per Share

Net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. The average numbers of shares outstanding were 858,229 and 852,369 for 2010 and 2009, respectively. Treasury shares are not deemed outstanding for earnings per share calculations. The Company has a simple capital structure as it has not granted any restricted stock awards or stock options during the years ended December 31, 2010 and 2009 and have no potentially dilutive common stock equivalents.

Statements of Cash Flows

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as the sum of cash and due from banks, federal funds sold, and interest-bearing deposits in banks with a maturity of less than three months.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

NOTE 2 – RESTRICTIONS ON CASH AND DUE FROM BANKS

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2010 and 2009 was $8.3 million and $6.4 million, respectively.

The Bank is also required to maintain clearing balance funds on deposit with the Federal Reserve Bank. The required minimum clearing balance at December 31, 2010 and 2009 was $600,000.

NOTE 3 – INVESTMENTS

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, are as follows at December 31, 2010 and 2009:

December 31, 2010:				*(in thousands)*
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for Sale:				
United States treasuries	**$ 13,259**	**$ –**	**$ (282)**	**$ 12,977**
United States agencies	**27,440**	**27**	**(451)**	**27,016**
State and local governments	**52,547**	**986**	**(243)**	**53,290**
Mortgage-backed securities	**60,551**	**938**	**(476)**	**61,013**
Total Available for Sale	**$ 153,797**	**$ 1,951**	**$ (1,452)**	**$ 154,296**
Held to Maturity:				
Local governments	**$ 5,306**	**$ –**	**$ –**	**$ 5,306**
Restricted Equity Securities	**$ 2,949**	**$ –**	**$ –**	**$ 2,949**

December 31, 2009:				*(in thousands)*
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for Sale:				
United States agencies	$ 32,433	$ 97	$ (227)	$ 32,303
State and local governments	33,615	795	(25)	34,385
Mortgage-backed securities	61,156	989	(243)	61,902
Total Available for Sale	$ 127,204	$ 1,881	$ (495)	$ 128,590
Held to Maturity:				
Local governments	$ 4,777	$ –	$ –	$ 4,777
Restricted Equity Securities	$ 2,424	$ –	$ –	$ 2,424

NOTE 3 – INVESTMENTS *(continued)*

All of the above mortgage-backed securities are residential direct pass through securities or collateralized mortgage obligations issued or backed by government sponsored enterprises (GSEs). Restricted equity securities include non-marketable Federal Home Loan Bank New York (FHLBNY) stock and non-marketable Federal Reserve Bank (FRB) stock, both of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLBNY stock is tied to the Company's borrowing levels with the FHLB. Holdings of FHLBNY stock and FRB stock totaled $2.2 million and $380,000 at December 31, 2010, respectively, and $1.7 million and $303,000 at December 31, 2009, respectively. These securities are carried at par, which is also cost. Restricted equity securities also include miscellaneous investments carried at fair value, which approximates cost.

Restricted equity securities are held as a long-term investment and value is determined based on the ultimate recoverability of the par value. Impairment of these investments is evaluated quarterly and is a matter of judgment that reflects management's view of the issuer's long-term performance, which includes factors such as the following: its operating performance; the severity and duration of declines in the fair value of its net assets related to its capital stock amount; its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance; and its liquidity and funding position. After evaluating these considerations, the Company concluded that the par value of these investments will be recovered and, as such, has not recognized any impairment on its holdings of restricted equity securities.

The following table sets forth the Company's investment in securities with unrealized losses of less than twelve months and unrealized losses of twelve months or more at December 31:

December 31, 2010:						*(in thousands)*
	Less than 12 Months		**12 Months or More**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
United States treasuries	**$ 12,977**	**$ 282**	**$ –**	**$ –**	**$ 12,977**	**$ 282**
United States agencies	**16,920**	**451**	**–**	**–**	**16,920**	**451**
State and local governments	**11,203**	**242**	**569**	**1**	**11,772**	**243**
Mortgage-backed securities	**23,184**	**476**	**–**	**–**	**23,184**	**476**
	$ 64,284	**$ 1,451**	**$ 569**	**$ 1**	**$ 64,853**	**$ 1,452**

December 31, 2009:						*(in thousands)*
	Less than 12 Months		**12 Months or More**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
United States agencies	$ 10,850	$ 227	$ –	$ –	$ 10,850	$ 227
State and local governments	2,995	25	–	–	2,995	25
Mortgage-backed securities	26,908	243	–	–	26,908	243
	$ 40,753	$ 495	$ –	$ –	$ 40,753	$ 495

There were fifty-five securities with unrealized losses for less than twelve months and one security with losses greater than twelve months at December 31, 2010, while at December 31, 2009 there were forty-five securities with losses for less than twelve months. Substantially all of the unrealized losses on the Company's securities were caused by market interest rate changes from those in effect when the securities were purchased by the Company. The contractual terms of these securities do not permit the issuer to settle the securities at a price less than par value. Except for certain state and local government obligations, all securities rated by an independent rating agency carry an investment grade rating. Those state and government obligations that are not rated by an independent rating agency were purchased during 2010 and financial information was reviewed prior to the decision to purchase. Because the Company does not intend to sell the securities and it believes it is not likely to be required to sell the securities before recovery of their amortized cost basis, which may be, and is likely to be, maturity, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2010.

The amortized cost and fair value of debt securities at December 31, 2010, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

	Available for Sale		**Held to Maturity**	
(In thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	**$ 3,293**	**$ 3,322**	**$ 2,283**	**$ 2,283**
Due after one year through five years	**56,333**	**56,961**	**1,433**	**1,433**
Due after five years through ten years	**31,620**	**30,993**	**1,140**	**1,140**
Due after ten years	**2,000**	**2,007**	**450**	**450**
Securities not due at a single maturity date	**60,551**	**61,013**	**–**	**–**
	$ 153,797	**$ 154,296**	**$ 5,306**	**$ 5,306**

During 2010, the Company sold $35.6 million of available for sale securities, while in 2009 the Company sold $51.0 million of available for sale securities. Gross gains on the sales/calls of investments in 2010 were $727,000. Gross gains and losses on the sales/calls of investment securities in 2009 were $1.2 million and $427,000, respectively. Investment securities with carrying amounts of $76.2 million and $86.6 million at December 31, 2010 and 2009, respectively, were pledged to secure deposits as required or permitted by law.

NOTE 4 – LOANS

Loans consist of the following at December 31, 2010 and 2009:

(In thousands)	**2010**	2009
Residential real estate:		
1-4 family	**$ 72,805**	$ 58,569
Home equity	**48,168**	43,333
Commercial	**72,978**	73,223
Agriculture	**19,792**	17,359
Total mortgage loans on real estate	**213,743**	192,484
Commercial loans	**51,439**	47,445
Agricultural loans	**19,790**	20,975
Consumer installment loans:		
Direct	**12,916**	12,416
Indirect	**14,741**	14,906
Total consumer installment loans	**27,657**	27,322
Total loans	**$ 312,629**	$ 288,226

Net unamortized loan origination costs totaled $385,000 and $154,000 at December 31, 2010 and 2009, respectively and are netted against their related loan segments.

The changes in the allowance for loan losses are as follows for the years ended December 31, 2010 and 2009:

(In thousands)	**2010**	2009
Balance, January 1,	**$ 4,912**	$ 3,472
Provision for loan losses	**2,405**	1,725
Recoveries	**124**	95
Charge-offs	**(1,000)**	(380)
Balance, December 31,	**$ 6,441**	$ 4,912

The following table presents past due and nonaccrual loans by classes of the loan portfolio at December 31, 2010 and 2009:

(In thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater than 90 Days**	**Total Past Due**	**Loans on Nonaccrual**
December 31, 2010:					
Residential real estate:					
1-4 family	$ –	$ –	$ –	$ –	$ –
Home equity	84	–	–	84	–
Commercial real estate	428	–	–	428	4,435
Agriculture real estate	–	–	–	–	275
Commercial loans	256	–	–	256	623
Agriculture loans	–	–	–	–	1
Consumer installment loans:					
Direct	33	–	–	33	–
Indirect	63	–	–	63	267
Total	$ 864	$ –	$ –	$ 864	$ 5,601

(In thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater than 90 Days**	**Total Past Due**	**Loans on Nonaccrual**
December 31, 2009:					
Residential real estate:					
1-4 family	$ 88	$ –	$ –	$ 88	$ –
Home equity	25	31	–	56	105
Commercial real estate	102	225	–	327	864
Agriculture real estate	–	–	–	–	322
Commercial loans	84	85	–	169	859
Agriculture loans	115	–	–	115	183
Consumer installment loans:					
Direct	28	–	–	28	–
Indirect	167	–	–	167	27
Total	$ 609	$ 341	$ –	$ 950	$ 2,360

NOTE 4 – LOANS *(continued)*

The allocation of the allowance for loan losses by loan type is as follows at December 31, 2010 and 2009:

(In thousands)	**Commercial**	**Commercial Real Estate**	**Agriculture**	**Agriculture Real Estate**	**Residential Real Estate**	**Consumer**	**Unallocated**	**Total**
December 31, 2010:								
Amount of allowance for loan losses on loans individually evaluated for impairment	$ 299	$ 824	$ –	$ –	$ –	$ –	$ –	$ 1,123
Amount of allowance for loan losses on loans collectively evaluated for impairment	$ 811	$ 1,216	$ 210	$ 152	$ 1,054	$ 517	$ 1,358	$ 5,318
Total allowance for loan losses	$ 1,110	$ 2,040	$ 210	$ 152	$ 1,054	$ 517	$ 1,358	$ 6,441
Loans individually evaluated for impairment	$ 623	$ 4,435	$ 1	$ 275	$ –	$ 267	$ –	$ 5,601
Loans collectively evaluated for impairment	$ 50,816	$ 68,543	$ 19,789	$ 19,517	$ 120,973	$ 27,390	$ –	$ 307,028
Total Loans	$ 51,439	$ 72,978	$ 19,790	$ 19,792	$ 120,973	$ 27,657	$ –	$ 312,629

(In thousands)	**Commercial**	**Commercial Real Estate**	**Agriculture**	**Agriculture Real Estate**	**Residential Real Estate**	**Consumer**	**Unallocated**	**Total**
December 31, 2009:								
Amount of allowance for loan losses on loans individually evaluated for impairment	$ 330	$ 150	$ –	$ –	$ –	$ –	$ –	$ 480
Amount of allowance for loan losses on loans collectively evaluated for impairment	$ 1,305	$ 1,085	$ 245	$ 144	$ 1,005	$ 338	$ 310	$ 4,432
Total allowance for loan losses	$ 1,635	$ 1,235	$ 245	$ 144	$ 1,005	$ 338	$ 310	$ 4,912
Loans individually evaluated for impairment	$ 859	$ 864	$ 183	$ 322	$ 105	$ 27	$ –	$ 2,360
Loans collectively evaluated for impairment	$ 46,586	$ 72,359	$ 20,792	$ 17,037	$ 101,797	$ 27,295	$ –	$ 285,866
Total Loans	$ 47,445	$ 73,223	$ 20,975	$ 17,359	$ 101,902	$ 27,322	$ –	$ 288,226

Management is committed to early recognition of loan problems and to maintaining an adequate allowance. The above allocation is neither indicative of the specific amounts or the loan categories in which future charge-offs may occur, nor is it an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

The increase in the overall allowance year over year reflects higher allocations driven by deterioration in asset quality measures, including higher net charge-offs, internally-classified loans, and nonperforming loans; weak economic conditions; soft real estate markets; and growth in the loan portfolio. The allocations assigned to impaired loans were up year over year due to an increase in the balances of impaired loans. The primary reasons for the decrease in the allocation for commercial loans were a lower level of impaired loans and lower historical charge-off levels.

The unallocated portion of the allowance for loan losses is maintained to cover uncertainties that could affect management's estimate of probable losses. The primary reason for the increase in the unallocated portion of the allowance for loan losses year over year was a response by management to proactively increase its provision for loan losses due to unpredictable events surrounding its largest nonperforming loan, given the size of the possible exposure of $4.0 million relative to the Company's Tier 1 capital.

The following table summarizes information regarding impaired loans by loan portfolio class as of December 31, 2010:

(In thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:					
Commercial loans	$ 5	$ 8	$ –	$ 83	$ 16
Commercial real estate	440	850	–	1,752	1
Agriculture loans	1	24	–	121	6
Agriculture real estate	275	392	–	294	–
1 - 4 family	–	–	–	4	–
Home equity	–	–	–	24	–
Consumer – direct	–	–	–	3	
Consumer – indirect	267	363	–	90	–
With allowance recorded:					
Commercial loans	618	620	299	575	14
Commercial real estate	3,995	4,110	824	1,310	–
Agriculture loans	–	–	–	32	–
Total	$ 5,601	$ 6,367	$ 1,123	$ 4,288	$ 37
Summary by portfolio:					
Commercial	$ 5,058	$ 5,588	$ 1,123	$ 3,720	$ 31
Agriculture	276	416	–	447	6
Residential real estate	–	–	–	28	–
Consumer	267	363	–	93	–
Total	$ 5,601	$ 6,367	$ 1,123	$ 4,288	$ 37

NOTE 4 – LOANS *(continued)*

Impaired loans consist of the following at December 31, 2009:

(In thousands)	2009
Impaired loans for which allowances for loan losses have been provided	$ 1,540
Impaired loans for which allowances for loan losses have not been provided	820
Recorded investment in impaired loans	$ 2,360
Allowance for loan losses provided for impaired loans	$ 480

At December 31, 2009, the total recorded investment in loans on nonaccrual amounted to $2.4 million. There were no loans past due ninety days or more and still accruing interest at December 31, 2010 and 2009. The average recorded investment in impaired loans was $2.6 million in 2009. Interest income recognized for cash payments received on impaired loans was $96,000 in 2009.

Credit Quality

The Company utilizes a ten grade internal loan rating system for commercial, commercial real estate, agriculture and agriculture real estate loans. Loans that are rated "1" through "6" are considered "pass" rated loans with low to average risk.

Loans rated a "7" are considered "special mention." These loans have potential weakness that deserves management's close attention. These weaknesses may, if not checked or corrected, weaken the asset or inadequately protect the Company's position at some future date. Borrowers may be experiencing adverse operating trends, or an ill-proportioned balance sheet. Adverse economic or market conditions may also support a special mention rating. These assets pose elevated risks, but their weakness does not yet justify a substandard classification.

Loans rated an "8" are considered "substandard." Generally a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. Substandard loans have a high probability of payment default or they have other well-defined weaknesses. They require more intensive supervision by Company management. Substandard loans are generally characterized by current or unexpected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization.

Loans rated a "9" are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable. There were no doubtful loans at December 31, 2010.

Loans rated a "10" are considered uncollectible ("loss") and of such little value that their continuance as loans is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless loan even though partial recovery may be affected in the future. There were no loss loans at December 31, 2010.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial, commercial real estate, agriculture and agriculture real estate loans. The Company also annually engages an independent third party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

The following table presents the classes of the commercial and agriculture loan portfolios summarized by the aggregate pass rating and the criticized and classified ratings of special mention, and substandard within the Company's internal risk rating system as of December 31, 2010:

(In thousands)	**Commerical**	**Commercial Real Estate**	**Agriculture**	**Agriculture Real Estate**	**Total**
Grade:					
Pass	$ 44,984	$ 61,324	$ 19,100	$ 18,093	$ 143,501
Special Mention	4,576	3,011	74	546	8,207
Substandard	1,879	8,643	616	1,153	12,291
Total	$ 51,439	$ 72,978	$ 19,790	$ 19,792	$ 163,999

Loans within the residential real estate and consumer portfolios do not have an internal loan rating system. Instead, they are monitored for past due status. If a residential real estate or consumer loan becomes 90 days past due, it is placed into nonaccrual status and the accrual of interest is discontinued. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual if collection of principal or interest is considered doubtful.

The following table presents the classes of the residential real estate and consumer loan portfolios summarized by performing or nonaccrual as of December 31, 2010:

(In thousands)	**1-4 Family**	**Home Equity**	**Consumer – Direct**	**Consumer – Indirect**	**Total**
Performing	$ 72,805	$ 48,168	$ 12,916	$ 14,474	$ 148,363
Nonaccrual	–	–	–	267	267
Total	$ 72,805	$ 48,168	$ 12,916	$ 14,741	$ 148,630

NOTE 5 – LAND, PREMISES AND EQUIPMENT

Land, premises and equipment, net consist of the following at December 31, 2010 and 2009:

(In thousands)	**2010**	2009
Land	**$ 2,956**	$ 2,518
Buildings	**10,397**	9,367
Furniture and equipment	**5,210**	4,454
Leasehold improvements	**427**	427
Construction in progress	**–**	18
	18,990	16,784
Less accumulated depreciation	**(5,634)**	(5,089)
	$ 13,356	$ 11,695

NOTE 5 – LAND, PREMISES AND EQUIPMENT *(continued)*

Depreciation and amortization expense in 2010 and 2009 are included in non-interest expense as follows:

(In thousands)	**2010**	2009
Buildings	**$ 250**	$ 230
Furniture and equipment	**435**	485
Leasehold improvements	**17**	44
	$ 702	$ 759

At December 31, 2010, the Bank leased three of its branch facilities under non-cancelable operating leases. Future minimum rental payments under these leases are as follows:

Years Ending December 31,	*(In thousands)*
2011	$ 115
2012	101
2013	91
2014	44
2015	–
Thereafter	–
	$ 351

Rent expense under the operating leases totaled $114,000 and $133,000 in 2010 and 2009, respectively.

At December 31, 2010, the Bank leased out space under non-cancelable operating leases. Future minimum rental payments to be received by the Company under these leases are as follows:

Years Ending December 31,	*(In thousands)*
2011	$ 87
2012	90
2013	92
2014	94
2015	79
Thereafter	18
	$ 460

Rent income under the operating leases totaled $85,000 and $83,000 in 2010 and 2009, respectively.

NOTE 6 – DEPOSITS

Certificates of deposit in denominations of $100,000 and over were $51.9 million and $55.6 million at December 31, 2010 and 2009, respectively.

At December 31, 2010, scheduled maturities of time deposits are as follows:

Years Ending December 31,	*(In thousands)*
2011	$ 109,934
2012	3,091
2013	1,561
2014	1,310
2015	2,097
	$ 117,993

NOTE 7 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Information concerning securities sold under agreements to repurchase as of and for the years ended December 31 is summarized as follows:

(In thousands)	**2010**	2009
Average balance	**$ 8,106**	$ 8,265
Maximum month-end balance	**$ 9,510**	$ 10,717
Carrying amounts of securities, including accrued interest, underlying the agreements	**$ 9,290**	$ 9,987

Securities sold under agreements to repurchase mature in less than 90 days from the transaction date. Securities sold under agreements to repurchase either remain under the control of the Bank or are held in third party custodial accounts that recognize the Bank's interest in the securities.

NOTE 8 – BORROWINGS

Borrowings consist of term borrowings and an overnight advance for 2010, and term borrowings, an overnight line of credit and a one month overnight repricing line of credit for 2009 with the FHLB. The 2009 lines had a maximum borrowing limit of $43.0 million which expired on August 9, 2010.

The Bank has the following advances from the Federal Home Loan Bank at December 31:

(In thousands)	**2010**	2009
Overnight advance, bearing interest at 0.40% and 0.32% at December 31, 2010 and 2009, respectively	**$ 25,800**	$ 16,100
Term advance due April 27, 2011, bearing interest at 4.76% at December 31, 2010 and 2009	**1,000**	1,000
Term advance due June 1, 2011, bearing interest at 1.01% at December 31, 2010 and 2009	**5,000**	5,000
Term advance due June 1, 2012, bearing interest at 1.57% at December 31, 2010 and 2009	**5,000**	5,000
	$ 36,800	$ 27,100

NOTE 8 – BORROWINGS *(continued)*

As a member of the FHLB, the Bank can use certain unencumbered mortgage-related assets to secure borrowings from the FHLB. At December 31, 2010, total unencumbered mortgage-related loans of $16.0 million were used to secure borrowings. Additional assets may also qualify as collateral for FHLB advances.

The Company, through the Bank, had available unsecured line of credit agreements with correspondent banks permitting borrowings to a maximum of $10.0 million at December 31, 2010 and 2009. There were no outstanding advances against those lines at December 31, 2010 or 2009.

NOTE 9 – JUNIOR SUBORDINATED DEBENTURES

On June 27, 2003, the Company issued $1.035 million in junior subordinated debentures due June 27, 2033, to Trust I. The Company owns all of the $35,000 in common equity of Trust I and the debentures are the sole asset of Trust I. Trust I issued $1.0 million of floating-rate trust capital securities in a non-public offering. The floating-rate capital securities provide for quarterly distributions at a variable annual coupon rate, reset quarterly, based on three-month LIBOR plus 2.75%. The coupon rate was 3.053% at December 31, 2010, and 3.001% at December 31, 2009. The securities are callable by the Company, subject to any required regulatory approval, at par, after June 2008.

The Company unconditionally guarantees the Trust I capital securities. The terms of the junior subordinated debentures and the common equity of Trust I mirror the terms of the trust capital securities issued by Trust I. The Company used the net proceeds from this offering to fund an additional $1.0 million capital investment in the Bank to fund its operations and future growth.

On August 23, 2004, the Company issued $5.155 million in junior subordinated debentures due August 23, 2034, to Trust II. The Company owns all of the $155,000 in common equity of Trust II and the debentures are the sole asset of Trust II. Trust II issued $5.0 million of floating-rate trust capital securities in a non-public offering. The floating-rate capital securities provide for quarterly distributions at a variable annual coupon rate, reset quarterly, based on three-month LIBOR plus 2.65%. The coupon rate was 2.934% at December 31, 2010 and 2.917% at December 31, 2009. The securities are callable by the Company subject to any required regulatory approval, at par, after August 2009.

The Company unconditionally guarantees the Trust II capital securities. The terms of the junior subordinated debentures and the common equity of Trust II mirror the terms of the trust capital securities issued by Trust II. The Company used the net proceeds from this offering to fund an additional $5.0 million capital investment in the Bank to fund its operations and future growth.

In December 2009, the Company entered into an interest rate swap agreement (swap) with an effective date of February 23, 2011. The Company designated the swap as a cash flow hedge and it is intended to protect against the variability of cash flows associated with Trust II. The swap modifies the pricing characteristic of Trust II, wherein the Company receives interest at three-month LIBOR plus 2.65% from a counterparty and pays a fixed rate of interest of 6.80% to the same counterparty calculated on a notional amount of $5.0 million. This agreement will expire on November 23, 2019. The swap agreement was entered into with a counterparty that met the Company's credit standards, and the agreement contains collateral provisions protecting the at-risk party. The Company believes that the credit risk inherent in this contract is not significant.

At December 31, 2010, the fair value of the swap agreement was a loss of $383,000, and was the amount the Company would have expected to pay to terminate the agreement. The fair value of the swap is included in other liabilities in the accompanying consolidated balance sheets. There was no hedge ineffectiveness for this swap, therefore there was no additional interest expense recorded in 2010. At December 31, 2009, the fair value of the swap agreement was a gain of $132,000 and was included in other assets in the accompanying consolidated balance sheets.

On February 12, 2010, the Company issued $3.027 million in junior subordinated debentures due February 12, 2040, to Trust III. The Company owns all of the $95,000 in common equity of Trust III and the debentures are the sole asset of Trust III. Trust III issued $2.932 million of fixed rate trust capital securities in a non-public offering. The fixed rate capital securities provide for quarterly distributions at a fixed annual coupon rate of 6.00%. The securities are callable by the Company, subject to any required regulatory approval, at par, after February 2015.

The Company unconditionally guarantees the Trust III capital securities. The terms of the junior subordinated debentures and the common equity of Trust III mirror the terms of the trust capital securities issued by Trust III. The Company used the net proceeds from this offering to fund an additional $2.9 million capital investment in the Bank for its operations and future growth.

In accordance with ASC Topic 810, *Consolidation,* the accounts of Trust I, Trust II and Trust III are not included in the consolidated financial statements of the Company. However, for regulatory purposes, the trust capital securities qualify as Tier I capital of the Company subject to a 25% of capital limitation under risk-based capital guidelines. The portion that exceeds the 25% of capital limitation qualifies as Tier II capital. At December 31, 2010 and 2009, $9.0 million and $6.0 million in trust capital securities qualified as Tier I capital, respectively.

NOTE 10 – INCOME TAXES

The provision for income taxes consists of the following for the years ended December 31:

(In thousands)	**2010**	2009
Current tax provision:		
Federal	**$ 1,726**	$ 1,271
State	**1**	1
	1,727	1,272
Deferred tax (benefit) expense	**(243)**	322
	$ 1,484	$ 1,594

The provision for income taxes differs from that computed by applying statutory rates to income before income taxes primarily due to the effects of tax exempt income from investment securities and bank owned life insurance.

NOTE 10 – INCOME TAXES *(continued)*

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Components of the Company's net deferred tax assets at December 31, included in other assets in the accompanying consolidated balance sheets, are as follows:

(In thousands)	**2010**	2009
Deferred tax assets:		
Allowance for loan losses	**$ 2,290**	$ 1,752
Compensation and benefits	**1,865**	1,554
Other	**375**	239
Total deferred tax assets	**$ 4,530**	$ 3,545
Deferred tax liabilities:		
Prepaid pension	**$ 943**	$ 670
Depreciation	**573**	489
Net unrealized gains on available for sale securities	**200**	554
Other	**385**	340
Total deferred tax liabilities	**$ 2,101**	$ 2,053
Net deferred tax assets	**$ 2,429**	$ 1,492

Management believes it is more likely than not that all of the deferred tax assets will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

On January 1, 2009, the Company adopted the provisions of ASC Topic 740. The Company conducts business only within New York State, and therefore files only federal and state tax returns. As the Company does not take uncertain tax positions, it has established no liability for uncertain tax positions. The Company did not have any accrued interest or penalties associated with any unrecognized tax benefits.

In the normal course of business the Company is subject to examination by taxing authorities. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations for years before 2006.

NOTE 11 – STOCKHOLDERS' EQUITY

The common stock and treasury stock of the Company at December 31, 2010 and 2009 are as follows:

	2010	2009
Common stock, authorized shares, $0.50 par value	**2,000,000**	2,000,000
Issued shares	**867,664**	867,664
Less: treasury stock shares	**(9,685)**	(10,528)
Outstanding shares	**857,979**	857,136

Total comprehensive income is reported in the accompanying consolidated statements of stockholders' equity. Information related to net other comprehensive income is as follows:

(In thousands)	**2010**	2009
Other comprehensive income (loss):		
Securities available for sale:		
Changes in net unrealized gains during the year	**$ (160)**	$ 523
Reclassification adjustment for gains included in income	**(727)**	(811)
Pension and postretirement benefits:		
Amortization of prior service costs	**1**	1
Net actuarial (loss) gain	**(334)**	44
Change in net unrealized (losses) gains on the effective portion of cash flow hedge	**(515)**	132
	(1,735)	(111)
Tax benefit	**694**	44
Total other comprehensive loss	**$ (1,041)**	$ (67)

The components of accumulated other comprehensive loss, net of tax, as of December 31 were as follows:

(In thousands)	**2010**	2009
Net unfunded liability for pension and postretirement benefit plans	**$ (1,190)**	$ (990)
Net unrealized gain on securities available for sale	**299**	831
Net unrealized (loss) gain on the effective portion of cash flow hedge	**(230)**	79
Accumulated other comprehensive loss	**$ (1,121)**	$ (80)

NOTE 12 – PENSION AND POSTRETIREMENT BENEFIT PLANS

The Company participates in the New York State Bankers Retirement System, a non-contributory defined benefit pension plan (the "Pension Plan") covering substantially all employees. The benefits are based on years of service and the employee's highest average compensation during five consecutive years of employment.

The Company also maintains an unfunded postretirement health insurance plan (the "Healthcare Plan") for certain employees meeting eligibility requirements.

The Company engages independent, external actuaries to compute the amounts of liabilities and expense relating to these plans, subject to the assumptions that the Company selects. The benefit obligation for these plans represents the liability of the Company for current and retired employees, and is affected primarily by the following: service cost (benefits attributed to employee service during the period); interest cost (interest on the liability due to the passage of time); actuarial gains/losses (experience during the year different from that assumed and changes in plan assumptions); and benefits paid to participants.

The following table provides a reconciliation of the changes in the Pension Plan's benefit obligations and fair value of assets and the accumulated benefit obligation for the Healthcare Plan for the years ending December 31, 2010 and 2009:

	Pension Plan		**Healthcare Plan**	
(In thousands)	**2010**	2009	**2010**	2009
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 4,519**	$ 3,684	**$ 396**	$ 410
Service cost	**481**	422	**3**	3
Interest cost	**262**	217	**25**	24
Actuarial loss (gain)	**510**	399	**(6)**	(8)
Expenses	**(3)**	(17)	**–**	–
Benefits paid	**(195)**	(186)	**(30)**	(33)
Benefit obligation at end of year	**5,574**	4,519	**388**	396
Change in plan assets:				
Fair value of plan assets at beginning of year	**4,662**	2,430	**–**	–
Actual return on plan assets	**398**	518	**–**	–
Employer contribution	**1,200**	1,900	**30**	33
Benefits paid	**(195)**	(186)	**(30)**	(33)
Fair value of plan assets at end of year	**6,065**	4,662	**–**	–
Funded status recognized	**$ 491**	$ 143	**$ (388)**	$ (396)
Accumulated benefit obligation	**$ 4,630**	$ 3,892	**$ 388**	$ 396

The overfunded status of the Pension Plan has been recognized in other assets in the consolidated balance sheet at December 31, 2010 and 2009. The unfunded status of the Healthcare Plan has been recognized in other liabilities in the consolidated balance sheet as of December 31, 2010 and 2009.

The components of net periodic benefit cost and other comprehensive income are as follows:

	Pension Plan		Healthcare Plan	
(In thousands)	**2010**	2009	**2010**	2009
Components of net periodic benefit cost:				
Service cost	**$ 481**	$ 422	**$ 3**	$ 3
Interest cost	**262**	217	**25**	24
Expected return on plan assets	**(322)**	(191)	**–**	–
Amortization of prior service cost	**1**	1	**–**	–
Amortization of net loss	**85**	85	**4**	5
Net periodic benefit cost	**$ 507**	$ 534	**$ 32**	$ 32
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Net loss (gain)	**$ 430**	$ 55	**$ (6)**	$ (8)
Recognized actuarial loss	**(85)**	(85)	**(4)**	(5)
Recognized prior service cost	**(1)**	(1)	**–**	–
Recognized in other comprehensive income	**$ 344**	$ (31)	**$ (10)**	$ (13)
Total recognized in net periodic benefit cost and other comprehensive income	**$ 163**	$ 503	**$ 22**	$ 19

The following table presents the components of accumulated other comprehensive loss, net of taxes, as of December 31:

	Pension Plan		Healthcare Plan	
(In thousands)	**2010**	2009	**2010**	2009
Prior service cost (credit)	**$ 4**	$ 4	**$ (28)**	$ (28)
Net actuarial loss	**1,164**	957	**50**	57
Net periodic benefit cost	**$ 1,168**	$ 961	**$ 22**	$ 29

The estimated costs that will be amortized from accumulated other comprehensive loss into net periodic cost during 2011 are as follows:

(In thousands)	**Pension Plan**	**Healthcare Plan**	**Total**
Prior service cost (credit)	$ 1	$ (4)	$ (3)
Net actuarial loss	100	7	107
Total	$ 101	$ 3	$ 104

NOTE 12 – PENSION AND POSTRETIREMENT BENEFIT PLANS *(continued)*

Weighted-average assumptions used in accounting for the plans were as follows:

	Pension Plan		Healthcare Plan	
	2010	2009	**2010**	2009
Discount rates:				
Benefit cost for Plan Year	**5.89%**	6.00%	**6.00%**	6.00%
Benefit obligation at end of Plan Year	**5.38%**	5.89%	**5.50%**	6.00%
Expected long-term return on plan assets	**7.00%**	7.50%	**N/A**	N/A
Rate of compensation increase:				
Benefit cost for Plan Year	**3.00%**	2.50%	**N/A**	N/A
Benefit obligation at end of Plan Year	**3.00%**	3.00%	**N/A**	N/A

The assumed health care cost trend rate used in the postretirement benefit plan at December 31, 2010 was 4.00%. Assumed health care trend rates may have a significant effect on the amounts reported for this plan. A 1% increase in the trend rate would increase the periodic benefit cost by $3,000 and increase the accumulated postretirement benefit obligation by $49,000.

The discount rate used for each period was based upon the rates of return on high-quality fixed income investments. The objective of using this approach is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay benefits when they became due. The discount rates are evaluated at each measurement date to give effect to changes in the general level of interest rates.

The expected long-term rate of return on Pension Plan assets reflects long-term earnings expectations on each asset class in the Pension Plan as well as target asset allocations. In estimating that rate, appropriate consideration was given to historical returns earned by Pension Plan assets and the rates of return expected to be available for reinvestment. Average rates of return over the past 1, 3, 5 and 10 year periods were determined and subsequently adjusted to reflect current capital market assumptions and changes in investment allocations.

The Company's funding policy is to contribute, at a minimum, an actuarially determined amount that will satisfy the minimum funding requirements determined under the appropriate sections of the Internal Revenue Code. While the Company has satisfied the minimum funding requirement for 2010, it expects to contribute to the Pension Plan during 2011. However, the amount of the contribution is not known at this time.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

Years Ending December 31,		*(In thousands)*
	Pension Plan	**Healthcare Plan**
2011	**$ 153**	**$ 33**
2012	**182**	**33**
2013	**208**	**35**
2014	**227**	**35**
2015	**257**	**35**
2016 – 2020	**1,727**	**168**

Defined Benefit Plan

The fair value of the Company's pension plan assets at December 31, 2010 and 2009 by asset category are as follows:

	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2010:				*(In thousands)*
Cash equivalents	$ **681**	$ **13**	$ **668**	$ **–**
Equity securities	**2,926**	**2,926**	**–**	**–**
Fixed income securities	**2,458**	**–**	**2,458**	**–**
Total	$ **6,065**	$ **2,939**	$ **3,126**	$ **–**
December 31, 2009:				*(In thousands)*
Cash equivalents	$ 639	$ –	$ 639	$ –
Equity securities	2,112	2,112	–	–
Fixed income securities	1,911	–	1,911	–
Total	$ 4,662	$ 2,112	$ 2,550	$ –

The following table presents a reconciliation of the pension assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2010 and 2009:

(In thousands)	**2010**	2009
Balance, January 1	$ **–**	$ 13
Change in unrealized appreciation	**–**	5
Realized losses	**–**	(6)
Sales proceeds	**–**	(12)
Ending balance, December 31	$ **–**	$ –

The Pension Plan was established in 1938 to provide for the payment of benefits to employees of participating banks. The Pension Plan is overseen by a Board of Trustees who meet quarterly and set the investment policy guidelines.

The overall investment strategy is to achieve a mix of approximately 97% of investments for long-term growth and 3% for near-term benefit payments with a wide diversification of asset types, fund strategies, and fund managers. The target allocations are shown in the table on the next page. Cash equivalents consist primarily of short term investment funds. Equity securities primarily include investments in common stock and depository receipts.

NOTE 12 – PENSION AND POSTRETIREMENT BENEFIT PLANS *(continued)*

Defined Benefit Plan *(continued)*

Fixed income securities include corporate bonds, government issued and mortgage backed securities. Other financial instruments primarily include rights and warrants.

The weighted average expected long-term rate of return is estimated based on current trends as well as projected future rates of return on those assets and reasonable actuarial assumptions based on the guidance provided by Actuarial Standard Of Practice No. 27 for long-term inflation, and the real and nominal rate of investment return for a specific mix of asset classes. The following assumptions were used in determining the long-term rate of return:

Equity securities: Dividend discount model, the smoothed earnings yield model, and the equity risk premium model

Fixed income securities: Current yield-to-maturity and forecasts of future yields

Other financial instruments: Comparison of the specific investment's risk to that of fixed income and equity instruments and using judgment.

The long-term rate of return considers historical returns. Adjustments were made to historical returns in order to reflect expectations of future returns. These adjustments were due to factor forecasts by economists and long-term U.S. Treasury yields to forecast long-term inflation. In addition, forecasts by economists and others for long-term gross domestic product growth were factored into the development of assumptions for earnings growth and per capita income.

Effective March 2009, the investment guidelines were revised. Currently, investment managers are prohibited from purchasing the following investments:

Equity securities:

- Securities in emerging countries as defined by the Morgan Stanley Emerging Markets Index,
- Short sales,
- Unregistered securities, and
- Margin purchases.

Fixed income securities:

- Securities of BBB quality or less,
- CMOs that have an inverse floating rate and whose payments do not include principal or which are not certified and guaranteed by the U.S. Government,
- ABSs that are not issued or guaranteed by the U.S., or its agencies or instrumentalities,
- Non-agency residential subprime or ALT-A MBSs, and
- Structured notes.

Other financial instruments:

- Unhedged currency exposure in countries not defined as "high income economies" by the World Bank.

All other investments not prohibited by policy are permitted. At December 31, 2010 the Pension Plan holds certain investments which are no longer deemed acceptable to acquire. These positions will be liquidated when the investment managers deem that such liquidation is in the best interest of the Pension Plan.

% of Plan Assets at December 31,				
Asset Category	**Target Allocation 2011**	**2010**	**2009**	**Long-term Rate of Return**
Cash equivalents	0-20%	11.2%	13.7%	–
Equity securities	40-60%	48.2%	45.3%	4.6%
Fixed income securities	40-60%	40.6%	41.0%	1.9%
Other financial instruments	0-5%	–	–	–

Defined Contribution Plan

The Bank has a contributory 401(k) Plan for substantially all employees. Employees are eligible to contribute a percentage of their salary up to the maximum as determined by the Internal Revenue Service. The Bank is required to match 75% of the employees' contributions up to a maximum of 6% of the employees' salaries. The Bank contributed $217,000 and $205,000 under these provisions during 2010 and 2009, respectively.

Supplemental Employee Retirement Plans

The Company maintains supplemental employee retirement plans (the "SERP") for certain executives. All benefits provided under the SERP are unfunded and, as these executives retire, the Company will make payments to plan participants. The unfunded status of the SERP at December 31, 2010 and 2009 was $1.8 million and $1.5 million, respectively, and is recorded in other liabilities in the consolidated balance sheet. Compensation expense related to the SERP was $340,000 and $318,000 for the years ended December 31, 2010 and 2009, respectively.

Deferred Compensation Plans

Prior to 2007, the Company had entered into employment agreements with key executives. These employment agreements established deferred compensation plans whereby Company stock was awarded and vested each year. In 2007, the Company terminated the employment agreements and related deferred compensation plans and established new deferred compensation plans for key executives. The new plans require a vesting period of three years. Awarded shares from both the prior plan and the current plan are restricted from being sold until employment is terminated.

The Company obtains shares for the new deferred compensation plan either through open market purchases or from treasury shares. The amount of awarded shares is based on the amount paid to each executive under the deferred compensation plan. The amount paid is then used to obtain deferred compensation shares. The price paid for the shares from treasury is the average daily closing price of the stock for each day within the past quarter. Total deferred compensation shares were 30,153 and 26,508 at December 31, 2010 and 2009, respectively. Total shares awarded were 3,645 and 4,589 for 2010 and 2009, respectively, while total unvested shares were 54 and 158 at December 31, 2010 and 2009, respectively. Compensation expense is recognized over the vesting period, and is based upon the total amount paid to obtain shares for each executive. Compensation expense related to these plans was approximately $105,000 and $136,000 for the years ended December 31, 2010 and 2009, respectively.

NOTE 13 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has and expects to continue to have transactions, including loans and deposit accounts, with the Company's and the Bank's executive officers and directors and their affiliates. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other unrelated persons and did not involve more than a normal risk of collectibility or present any other unfavorable features.

The rollforward of loans to related parties for the years ended December 31 is as follows:

(In thousands)	**2010**	2009
Balance, January 1	**$ 9,606**	$ 7,032
New Loans	**965**	4,707
Existing loans to new directors	**567**	–
Repayments	**(1,927)**	(2,133)
Balance, December 31	**$ 9,211**	$ 9,606

The Bank has an operating lease with one of its directors. Under the terms of the lease, the Bank receives monthly payments of approximately $3,700 through August 2011, increasing 2.5% per year thereafter until August 2015.

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments summarized as follows at December 31:

(In thousands)	**2010**	2009
Commitments to extend credit:		
Commitments to grant loans	**$ 32,959**	$ 29,308
Unfunded commitments under commercial lines of credit	**35,878**	36,202
Unfunded commitments under consumer lines of credit	**32,714**	27,643
Standby letters of credit	**6,384**	6,174
	$ 107,935	$ 99,327

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Bank upon extension of credit, varies and is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. Generally, letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. The Bank generally holds collateral supporting those commitments. Such collateral amounted to $6.2 million and $6.1 million at December 31, 2010 and 2009, respectively. The amount of the liability related to guarantees under standby letters of credit was not material at December 31, 2010 and 2009.

In addition to other investors, the Bank sells residential mortgage loans to the FHLB. The agreement with the FHLB includes a maximum credit enhancement liability of $675,000 at both December 31, 2010 and 2009, which the Bank may be required to pay if realized losses on any of the sold mortgages exceed the amount held in the FHLB's spread account. The FHLB is funding the spread account annually based on the outstanding balance of loans sold. The Bank's historical losses on residential mortgages have been lower than the amount being funded to the spread account. As such, the Bank does not anticipate recognizing any losses and, accordingly, has not recorded a liability for the credit enhancement.

NOTE 15 – CONCENTRATIONS OF CREDIT

Most of the Bank's business activity is with customers in the Bank's market area. The majority of those customers are depositors of the Bank. Investments in state and local government securities also involve governmental entities within the Bank's market area. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit are set forth in Note 14. The Bank, as matter of policy, does not extend credit to any single borrower, or group of related borrowers in excess of its legal lending limit.

NOTE 16 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

NOTE 16 – REGULATORY MATTERS *(continued)*

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined by regulation) and of Tier I capital (as defined) to average assets (as defined).

Management believes, as of December 31, 2010, that the Bank meets all capital adequacy requirements to which it is subject.

As of the most recent notification from the Office of the Comptroller of the Currency, the Bank was categorized as well capitalized. There are no conditions or events since the notification that management believes have changed the institution's category.

The Bank's capital amounts and ratios are also presented in the table below.

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2010:						
Total capital (to risk-weighted assets)	**$ 46,018**	**14.2%**	**$ ≥25,948**	**≥8.0%**	**$ ≥32,435**	**≥10.0%**
Tier 1 capital (to risk-weighted assets)	**$ 41,964**	**12.9%**	**$ ≥12,974**	**≥4.0%**	**$ ≥19,461**	**≥6.0%**
Tier 1 capital (to average assets)	**$ 41,964**	**8.2%**	**$ ≥20,422**	**≥4.0%**	**$ ≥25,528**	**≥5.0%**
December 31, 2009:						
Total capital (to risk-weighted assets)	$ 39,963	12.9%	$ ≥24,777	≥8.0%	$ ≥30,972	≥10.0%
Tier 1 capital (to risk-weighted assets)	$ 36,118	11.7%	$ ≥12,389	≥4.0%	$ ≥18,583	≥ 6.0%
Tier 1 capital (to average assets)	$ 36,118	8.0%	$ ≥18,042	≥4.0%	$ ≥22,552	≥ 5.0%

NOTE 17 – FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market.

Level 2: Valuation is based upon inputs other than quoted prices included within level 1 that are observable either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2010 and 2009:

Cash, Due From Banks, and Interest-bearing Deposits in Banks

The carrying amounts reported in the consolidated balance sheets for these assets approximate those assets' fair values based on the short-term nature of the assets.

NOTE 17 – FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

Investment Securities

The fair value of securities available for sale and held to maturity are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of external support on certain Level 3 investments. Management has determined that the fair value of local government securities in the held to maturity portfolio approximate their carrying value. Restricted equity securities have restrictions on their sale and are carried at cost due to their limited marketability.

Loans Held for Sale

The fair value of loans held for sale is determined using quoted secondary-market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan.

Loans

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans

The fair value of loans considered impaired is generally determined based upon independent third party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balance of $4.6 million and $1.5 million, net of a valuation allowance of $1.1 million and $480,000 as of December 31, 2010 and 2009, respectively.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Mortgage Servicing Rights

The carrying amount of mortgage servicing rights approximates their fair value.

Deposits

The fair values disclosed for demand and savings deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

Securities Sold Under Agreements to Repurchase

The carrying amounts of securities sold under agreements to repurchase approximate their fair values.

Borrowings from the Federal Home Loan Bank

Fair values of borrowings from the FHLB are estimated using discounted cash flow analysis, based on quoted prices for new borrowings from the FHLB with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Junior Subordinated Debentures

The fair values of junior subordinated debentures are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity.

Interest Rate Swap Agreements

The fair values for interest rate swap agreements are based upon the amounts required to settle the contracts, which includes credit risk.

Off-Balance Sheet Financial Instruments

Fair values for off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2010 and 2009 are as follows:

	Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2010:				*(In thousands)*
Securities available for sale:				
United States treasuries	**$ 12,977**	**$ –**	**$ 12,977**	**$ –**
United States agencies	**27,016**	**–**	**27,016**	**–**
State and local governments	**53,290**	**–**	**53,290**	**–**
Mortgage-backed securities	**61,013**	**–**	**61,013**	**–**
Total securities available for sale	**$ 154,296**	**$ –**	**$ 154,296**	**$ –**
Interest rate swap agreements	**$ (383)**	**$ –**	**$ –**	**$ (383)**
December 31, 2009:				*(In thousands)*
Securities available for sale:				
United States agencies	$ 32,303	$ 1,000	$ 31,303	$ –
State and local governments	34,385	–	34,385	–
Mortgage-backed securities	61,902	–	61,775	127
Total securities available for sale	$ 128,590	$ 1,000	$ 127,463	$ 127
Interest rate swap agreements	$ 132	$ –	$ –	$ 132

NOTE 17 – FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

Assets and Liabilities Measured at Fair Value on a Recurring Basis *(continued)*

The following table presents a reconciliation of the financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31:

(In thousands)	**2010**	2009
Beginning balance, January 1	**$ 259**	$ 349
Transfers in and/or out of Level 3 during the year	**–**	(103)
Principal payments	**(127)**	(119)
Unrealized loss included in other comprehensive income	**(515)**	–
Purchases	**–**	132
Ending balance, December 31	**$ (383)**	$ 259

At December 31, 2009, one security with a fair value of $1.0 million was designated as a Level 1 asset. During 2010 this security was called, and at December 31, 2010 there were no other assets deemed Level 1.

Assets Measured at Fair Value on a Non-recurring Basis

For financial assets measured at fair value on a non-recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2010 and 2009 are as follows:

	Carrying Value	**(Level 1) Quoted Prices in Active Markets for Identical Assets**	**(Level 2) Significant Other Observable Inputs**	**(Level 3) Significant Unobservable Inputs**
December 31, 2010:				*(In thousands)*
Impaired loans	**$ 3,490**	**$ –**	**$ –**	**$ 3,490**
December 31, 2009:				
Impaired loans	$ 1,060	$ –	$ –	$ 1,060

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2010 and 2009 are as follows:

(In thousands)	**2010**		2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	**$ 8,679**	**$ 8,679**	$ 8,707	$ 8,707
Interest-bearing deposits in banks	**7,000**	**7,000**	4,067	4,067
Investment securities	**162,551**	**162,551**	135,791	135,791
Loans, net of allowance	**306,188**	**309,802**	283,314	288,132
Accrued interest receivable	**2,025**	**2,025**	1,983	1,983
Mortgage servicing rights	**422**	**422**	369	369
Financial liabilities:				
Deposits	**424,006**	**424,431**	382,334	384,889
Securities sold under agreements to repurchase	**7,691**	**7,691**	8,946	8,946
Borrowings from FHLB	**36,800**	**36,881**	27,100	26,806
Junior subordinated debentures	**9,217**	**8,484**	6,190	4,803
Accrued interest payable	**122**	**122**	134	134

Amounts in the preceding table are included in the consolidated balance sheets under the applicable captions. The fair values of off-balance sheet financial instruments are not significant.

NOTE 18 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 31, 2011 which is the date the consolidated financial statements were available to be issued.

LNB Bancorp.
It's all about people.

PROFILE

Lyons Bancorp, Inc. is a bank holding company headquartered in Lyons, New York, with assets of $514 million at December 31, 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, Seneca Falls in Seneca 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

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Lyons Bancorp, Inc. &
The Lyons National Bank

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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

Brad A. Person
President and General Manager
Nuttall Golf Cars Inc. and
Nuttall Golf Car Leasing, LLC.

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

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