

2013 | ANNUAL REPORT



Lyons Bancorp, Inc.
It's all about people.

PROFILE

Lyons Bancorp, Inc. is a bank holding company headquartered in Lyons, New York, with assets of \$733 million at December 31, 2013. 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, Canandaigua and Geneva in Ontario County, Penn Yan in Yates County and Waterloo in Seneca County. The Lyons National Bank has one subsidiary, Lyons Realty Associates Corp.

ANNUAL MEETING

The annual meeting of the stockholders will take place at 4:30 p.m. on May 21, 2014 at the historic Ohmann Theatre in Lyons, NY.

STOCK SYMBOL

LYBC

TABLE OF CONTENTS

President's Message	3
Spotlight Stories	5
2013 Financial Highlights	6
Board of Directors	10
Advisory Boards	11
Executive Management, Bank Officers and Supervisors	12
Branching Out In Canandaigua	14

MISSION STATEMENT

The Lyons National Bank is an independent, hometown, community bank with an expanding geographic market. Our mission is to safely and profitably serve all of our customers and communities with the most professional service available. We will accomplish this by making a commitment to our most valuable assets—our employees, to treat them with integrity, compensate them appropriately, provide them with the necessary systems, technology, and appropriate training to enable them to become well respected professionals. Our employees, in turn, will provide our growing customer base with superior service and respect and will be leaders in promoting the quality of life in the communities we serve.

VISION STATEMENT

“To be the employer and financial institution of choice, fostering an environment of opportunity, growth and prosperity for our employees, customers, shareholders and local communities.”



Many Thanks for a Job Well Done

John J. Werner, Jr. retired from the Board of Lyons Bancorp in May 2013 after nearly 35 years of bank and board service. Werner's distinguished commitment to the organization began in 1972 when he joined the Bank as a Cashier. Through hard work and dedication, he was promoted to Vice President in 1983, became Executive Vice President in 1985, and was appointed President in 1988. He served in that role until his retirement in 1997. During his 25-year tenure as a Bank employee, John served on the board of the Independent Bankers Association of New York, Wayne Cap, and the Lyons Chamber of Commerce. We thank John for his countless contributions and tireless efforts to ensure LNB's success and the success of the communities we serve.

President's Message

If you have ever been to any of the gift shops in the Disney theme parks, you no doubt noticed the extensive collection of posters with the shared quote, *"It's kind of fun to do the impossible"*. They are displayed everywhere. The version I like the best contains a picture of Walt Disney smiling broadly. The message that poster conveys: a positive attitude on life combined with a passion for what you do can overcome seemingly insurmountable obstacles. Those two attributes, positive attitude and a passion for banking, define our staff and are at the core of why 2013 was the 17th consecutive year we achieved record earnings. Their "can do attitude" produced a 10% growth in our balance sheet, which led to a 14% increase in net after tax income and a 7% increase in earnings per share.

Our total assets at December 31, 2013 were \$733 million versus \$665 million at December 31, 2012. The main driver of our asset growth was our loan portfolio, which increased \$55 million in 2013 and totaled \$501 million at December 31, 2013. To partially fund our loan growth, we garnered \$30 million new deposits in 2013, bringing our total deposits at December 31, 2013 to \$628 million. The rest of our loan funding was provided by our friends at the Federal Home Loan Bank of New York in support of our burgeoning mortgage portfolio.

In dollars terms, our net after tax income in 2013 was \$7.03 million versus \$6.17 million in 2012. On a fully diluted per share basis, our earnings totaled \$4.48 versus \$4.19 in 2012. As a result of our successful mid-2012 capital raise and a 3-for-2 stock split, in 2013 we had almost 100,000 more average shares outstanding than we did in 2012.

For a more detailed look at our 2013 financial performance, please see our Executive Vice President and Chief Financial Officer, Diana Johnson's discussion on subsequent pages.

Another of the main contributors to our string of consecutive years of record earnings has been our measured growth strategy. Continuing that strategy, in April we opened our eleventh branch office in Canandaigua. Located on the western side of Ontario County, the greater Canandaigua market according to the Federal Deposit Insurance Corporation (FDIC) is a \$1 billion bank deposit market. Furthermore, based on 2010 U.S. Census data, the City and Town of Canandaigua combined experienced population growth of over 8% the first decade of the 21st century. Our full service temporary branch office is located in the Roseland Center Plaza. Construction began in March on our free standing permanent office being built on an outer parcel of the same plaza.

We expect ribbon-cutting ceremonies by late July 2014. This will position us to boost our yearend 2013 deposits of almost \$12 million in Canandaigua to our December 2014 goal of \$30 million.

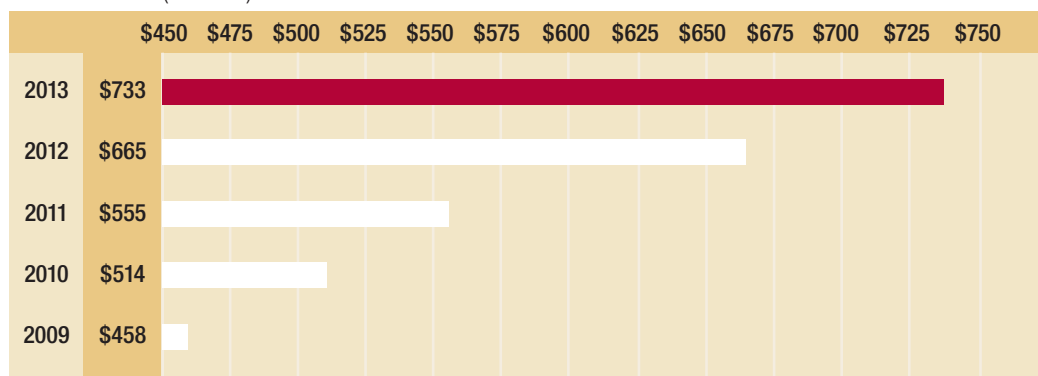


Robert A. Schick
President & Chief Executive Officer Lyons Bancorp, Inc.,
and The Lyons National Bank

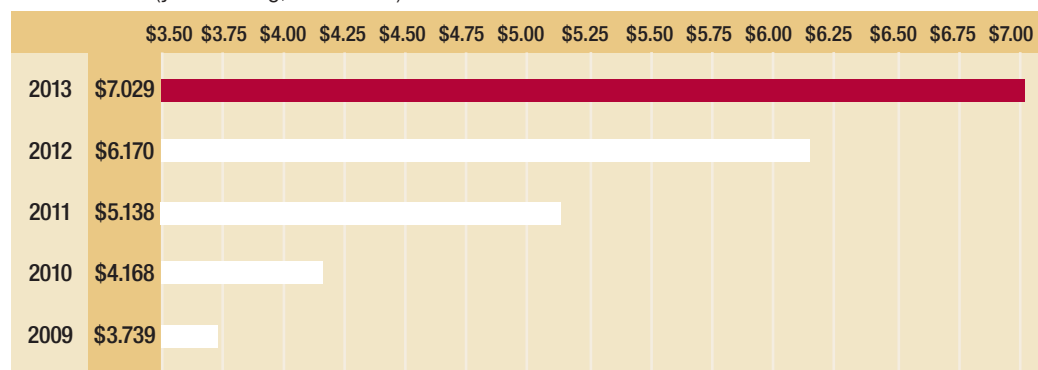
Diluted Earnings Per Share



Total Assets (millions)



Net Income (year ending, in millions)



President's Message CONTINUED

For the second year in a row, our staff was successful in soliciting approximately 3,000 new customer relationships. They also strengthened our relationship with our current customers by increasing the average number of LNB products each of our customers use. Admittedly, our efforts along these lines were aided by another mega-billion dollar bank exiting many of the markets we serve. However, it takes talent and effort to turn opportunity into booked relationships, and our staff has both. Unlike our large bank brethren, we remain confident about the future of the Finger Lakes area and are committed to stay here and serve it for many years to come.

As we grew in 2013, we augmented our existing staff by hiring 28 new employees, bringing our yearend employment number to 175. For the first time, the Bank's salaries and benefits expense topped \$11 million – the majority of which was spent throughout our area, helping other businesses prosper and improving everyone's quality of life.

Speaking of "quality of life", in 2013 the Bank made 480 contributions to not-for-profit, service or charitable organizations totaling \$260,000. In addition, our employees gave freely of their time by donating approximately 12,000 hours serving on the boards of or working with 181 not-for-profit, service or charitable organizations. At LNB, we do it because it's the right thing to do!

As we grow, the responsibilities and oversight of the Board of Directors increase accordingly. Subsequently, the Board appointed two new directors in 2013, Kaye Stone-Gansz and Case Marshall. Both will be on the ballot for election by the shareholders at our annual meeting in May.

Kaye is President and Chief Executive Officer of Stone Goose Enterprises, Inc. and oversees the daily and strategic operations of Smith's Gravel Pit, an aggregate mining facility in Sodus, New York. Prior to her role with Stone Goose Enterprises, Kaye was a 25-year veteran of Xerox Corporation. She holds a BS degree in

Computational Mathematics and an MBA, both from St. John Fisher College.

Case is Chief Financial Officer and Vice President of Marshall Companies, a family owned entity that includes the Pit Stop convenience stores, E&V Energy, Patriot Tank Lines, Pyrus Energy and 911 Generators. He attended SUNY Plattsburgh as an accounting major. Among his industry association involvement, Case is the current Chairman of the Petroleum Bulk Storage Advisory Council working with New York State Department of Environmental Conservation.

After nearly 41 years of service, we said goodbye to John Werner in 2013. John's commitment to our organization began in 1972 when he joined the Bank as a Cashier. Upon the retirement of Bill Gavitt, John was appointed President and CEO of both the Bank and the Holding Company in 1988. He served in these dual roles until his retirement from the Bank in 1997. We wish John and his wife, Mary, many years of a very happy and healthy retirement.

Our online and mobile banking applications are competitive with those offered by regional and money center banks and have been readily accepted by nearly every generation of bank customer. When used correctly and with diligence, these applications provide a viable and safe banking delivery channel. Unfortunately, when used in a less diligent manner, sensitive customer

data and assets can be left exposed. To protect customers, banks, including LNB, have spent tens of thousands/millions of dollars developing "firewall" protections, installing anti-intrusion and customer behavioral monitoring software, and on additional staff who scrutinize for authenticity requested electronic transfers before they are sent. Many banks, again including Lyons, have held informational seminars showing customers how to protect their accounts from hackers.

Our customers also play a key role ensuring these delivery channels remain as safe as they are convenient. We encourage our customers to use unique passwords that include: a combination of letters in both upper and lower case, and numbers and symbols; set mobile devices to automatically lock after a selected period of time; never provide their secure financial information over the phone or internet if they are unsure of who is asking for it; only log on to financial websites when they have a secure, safe and trusted internet connection and monitor their financial accounts often and report any suspicious activity immediately.

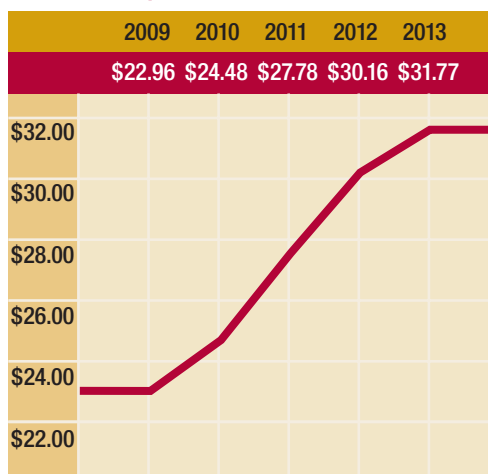
Because the rewards are lucrative, the threat of customer data breaches and account hacking is real and will continue. We're confident though, the bank/customer partnership we have developed will mitigate much of this threat.

Running a safe, sound and profitable community bank may not be as nearly an impossible task as creating an animated motion picture, by hand, one frame at a time. But please believe me; it is much more complicated today than ever before. Like Disney though, the task becomes easier when your employees want to come to work every day and do so with a "can do" attitude – evidence our 2013 results! *Stay healthy.*



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

Book Value per Share



Celebrating Our WOW!

Our 2013 WOW! Award winners were all smiles at LNB's Annual Employee Meeting. Recognized by peers and customers for going the extra mile and making outstanding contributions, these individuals embody the WOW! spirit we strive for every day.

Our great customer service is what sets us apart from the competition.



Juan Ortiz was presented the 2013 President's Employee of the Year Award at our annual WOW! celebration. This top honor is bestowed upon an employee that provides exemplary customer service, exhibits professional behavior, and supports their community through

active involvement in such a way that their contributions have a noticeable and positive impact. As an active member of the Newark Volunteer Fire Department for 22 years, Juan donated over 1,000 hours last year to that effort. Juan joined LNB in 2010 and was promoted in March 2011 to Facilities Assistant. His helpful WOW! attitude shines through every day with customers and co-workers.



From left to right (back row): Brooke VanHoute, Mirinda Saxton, Bobbie Tillinghast, Heidi King, Terri Martin; (middle row) Susan Vezzose, Tom David, Kate Decker, Jean Tsepas, Dawn Shipman; (front row) Debbie Pitkin, Stephanie Morse, Kat Porter, Kristen Koczent, and Jenn Smith. Absent from photo: Donna Reuter and Christina Valcore.

Tapping Our Talent

In December, LNB's Board of Directors approved the promotions of four exemplary employees. We're pleased to recognize their accomplishments and share their well-deserved recognition.



Darrin Brentnall *(from Assistant Vice President to Vice President)*

Working from our Macedon office as a Commercial Loan Officer, Darrin also manages our Small Business Administration (SBA) loan program. The SBA is an important lending tool that helps the Bank mitigate credit risk while providing creative financing opportunities for our customers.



Michael Colacino *(from Banking Officer to Assistant Vice President)*

As Security Officer and Director of Maintenance and Facilities, Mike wears many hats at LNB. With a background in law enforcement, his expertise has been invaluable to the Bank's security, and as avid supporter of WOW!, he has developed a strong crew that keeps our facilities in top-notch condition.



Jeffrey Friend *(from Vice President to Senior Vice President)*

With the important task of overseeing our Geneva, Seneca County, and Canandaigua branches, Jeff works tirelessly to ensure the Bank's success. He is the epitome of our WOW! culture every day while interacting with customers or mentoring his staff.



Todd Juffs *(from Assistant Vice President to Vice President)*

As Director of the Information Technology department, Todd is responsible for keeping all of our systems running smoothly...a momentous responsibility as we become increasingly more dependent on technology in today's banking environment.

2013 Financial Highlights



Diana R. Johnson

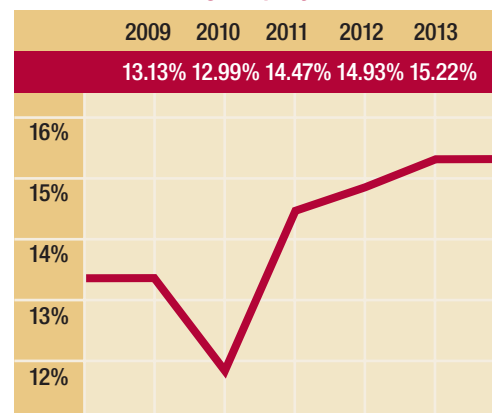
Executive Vice President & Chief Financial Officer
Lyons Bancorp, Inc. and The Lyons National Bank

RESULTS OF OPERATIONS

For the year ending December 31, 2013, we recorded earnings of \$7.0 million, an increase of \$859,000, or 14% over 2012. This translates into earnings per diluted share of \$4.48 or a 7% increase year over year. Return on average assets was 1.01% versus 0.99% for 2012, and return on average shareholders' equity was 15.22% versus 14.93% for 2012.

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 and borrowings. Net interest income

Return on Average Equity



	2013			2012		
	Average Balance	Interest Inc/Exp	Average Yield/Cost	Average Balance	Interest Inc/Exp	Average Yield/Cost
Interest-earning assets:						
Loans:						
Residential real estate	\$ 193,851	\$ 7,651	3.95%	\$ 163,822	\$ 6,987	4.26%
Commercial and agriculture real estate	141,650	6,887	4.86%	112,387	5,906	5.26%
Commercial and agriculture loans	105,795	4,838	4.57%	94,225	4,508	4.78%
Consumer installment loans	27,928	1,758	6.29%	29,427	1,962	6.67%
Total loans	469,224	21,134	4.50%	399,861	19,363	4.84%
Investments	180,626	4,539	2.51%	167,032	4,463	2.67%
Federal funds sold and other interest-earning assets	10,689	27	0.25%	19,888	48	0.24%
Total interest-earning assets	660,539	25,700	3.89%	586,781	23,874	4.07%
Noninterest-earning assets	37,695			38,695		
Total assets	\$ 698,234			\$ 625,476		
Interest-bearing liabilities:						
Interest-bearing checking	\$ 79,394	\$ 145	0.18%	\$ 55,894	\$ 117	0.21%
Money market and savings accounts	285,227	985	0.35%	269,766	1,601	0.59%
Time deposits	134,845	1,201	0.89%	124,732	1,197	0.96%
Borrowings	17,832	67	0.38%	14,765	84	0.57%
Junior subordinated debentures	9,217	554	6.01%	9,217	557	6.04%
Total interest-bearing liabilities	526,515	2,952	0.56%	474,374	3,556	0.75%
Noninterest-bearing deposits	118,025			102,682		
Other noninterest-bearing liabilities	7,453			7,033		
Total liabilities	651,993			584,089		
Total equity	46,241			41,387		
Total liabilities and equity	\$ 698,234			\$ 625,476		
Net interest spread			3.33%			3.32%
Net interest income/margin on earning assets		22,748	3.44%		20,318	3.46%
Tax equivalent adjustment		(737)			(727)	
Net interest income per financial statements		\$ 22,011			\$ 19,591	



for 2013 was \$22.0 million, an increase of \$2.4 million or 12% over 2012. This increase was due primarily to strong growth of our earning assets funded by steady deposit growth, as average earning assets increased \$73.8 million or 13% during 2013, and average interest-bearing deposits increased \$49.1 million or 11% year over year. Our tax-equivalent yield was essentially unchanged year over year, measuring 3.44% during 2013, compared to 3.46% in 2012, as we were able to reduce funding costs while compression on asset yields continued.

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 2013, we provided \$525,000 for loan losses, compared to \$450,000 in 2012. The increase in the provision for 2013 is reflective of strong loan growth across most loan portfolios. At December 31, 2013 our non-performing loans totaled 0.82% of total loans, as compared to 0.19% at December 31, 2012, and compared favorably to our peer's ratio of 1.47%. Our net charge-offs to average loans during 2013 totaled 0.08%, compared to 0.11% during 2012 and 0.29% for our peers. The percent of our commercial and agriculture loan portfolio with an aggregate "pass" rating within our internal risk rating system remained stable at 92.7% in both 2012 and 2013.

Noninterest income is an important revenue source for us, and consists primarily of service charges on deposit accounts, 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 2013, noninterest income represented 24% of all revenue sources and totaled \$6.8 million, an increase of \$288,000 or 4% over 2012 levels. The majority of the increase was due to increased service charges on deposit accounts, cardholder fees, and net gains on sales of securities. The increase in these revenue sources was tempered by reductions in gains on sold loans. While we sold over \$50

million in residential mortgage loans in 2013 and 2012, the premiums we received for the sale of these loans were significantly lower during 2013.

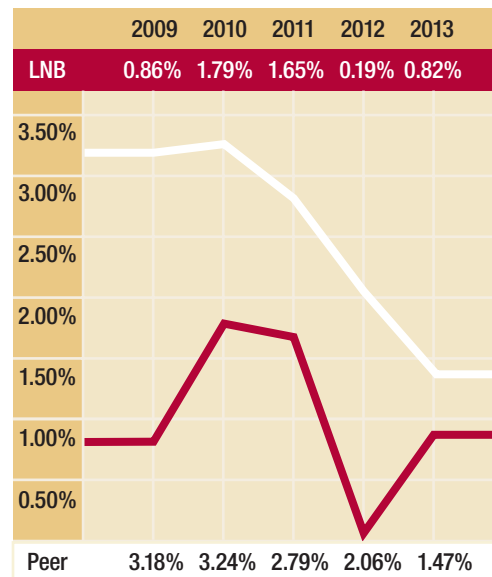
Noninterest expense consists primarily of compensation and employee benefits, occupancy and equipment expenses, advertising, data processing, professional fees, FDIC insurance, and other operating expenses. In 2013, total noninterest expense was \$18.7 million, an increase of \$1.6 million or 9% over 2012. Increases in salaries and wages totaled \$577,000 and were primarily the result of annual wage increases and increased incentives and commissions earned by our employees, based on the strong balance sheet growth we experienced in 2013. Pension and other benefits expense increased \$227,000 or 8% in 2013, due almost entirely to increased costs relating to our pension plan and health care premiums. Occupancy costs increased \$224,000 or 12% year over year, due primarily to the opening of our newest location in Canandaigua. These increases were offset by a reduction in FDIC insurance, due to improved credit quality measurements. We also experienced a reduction in advertising expense compared to 2012, as we spent less in media advertising during 2013.

ANALYSIS OF FINANCIAL CONDITION

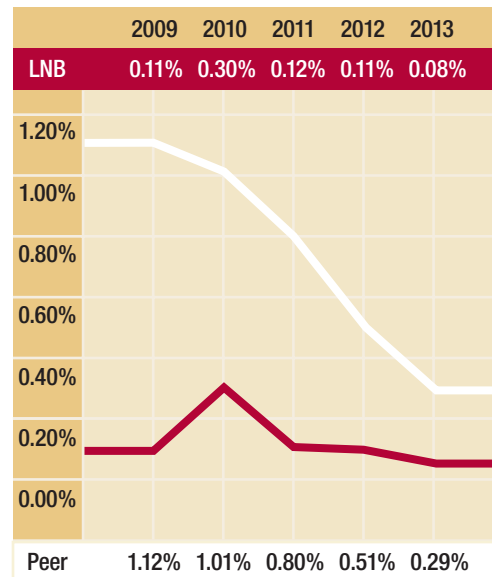
As discussed in Bob's President's Message, during 2013 we continued to experience solid loan and deposit growth, supported by a strong capital base. Total assets on December 31, 2013 were \$732.8 million, an increase of \$67.4 million or 10% over December 31, 2012. Total equity at December 31, 2013 was \$47.4 million, an increase of \$2.5 million or 6% over December 31, 2012.

Total loans were \$500.9 million at December 31, 2013, an increase of \$55.0 million or 12% from December 31, 2012. We continued to support our strategy of balancing the loan portfolio more evenly between consumer and commercial loans,

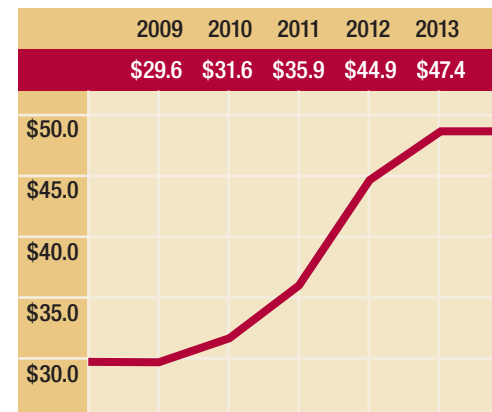
Nonaccruing Loans to Total Loans



Net Charged-off Loans to Average Loans

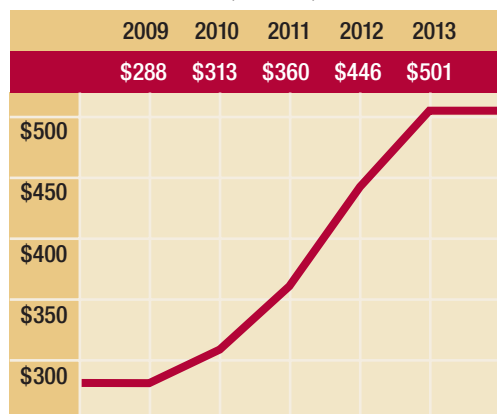


Total Equity (millions)



2013 Financial Highlights CONTINUED

Total Gross Loans (millions)



ending the year with 46% consumer-related loans versus 54% commercial-related loans. 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.

We maintain an investment portfolio to provide us with important liquidity considerations and earnings potential. Our investment portfolio consists primarily of United States Agency debt, mortgage-backed securities either guaranteed by the U.S. government or issued by the Federal Home Loan Bank, and state and local government debt. As of December 31, 2013, our investment portfolio totaled \$177.4 million, an increase of \$2.6 million over December 31, 2012 and had an average tax-equivalent yield of 2.51% during

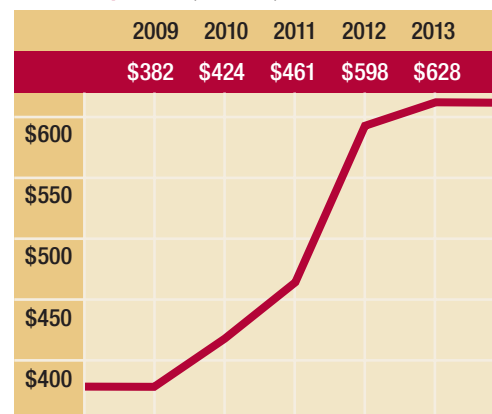
2013. While we did reclassify approximately \$25.2 million of securities from “available for sale” to “held to maturity” during 2013, the majority of our portfolio remains classified as available for sale, and may be used for liquidity purposes as needed.

Deposits generated within our local markets are the major source of funds for our lending and investment activities. Total deposits at December 31, 2013 were \$627.9 million, an increase of \$29.6 million or 5% over December 31, 2012. We continued to experience growth in our core retail and commercial deposit base, with most of our branches increasing their presence in the communities they serve.

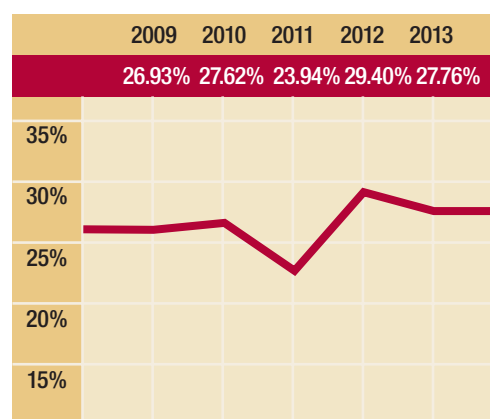
Total equity was \$47.4 million at December 31, 2013. Our Board of Directors is committed to providing a solid return to our shareholders and declared a total of \$1.31 per share in dividends during 2013. This represents a yield of 3.71% based on our year end market price of \$35.31 per share.

Please refer to our Consolidated Financial Report as of December 31, 2013 for more information regarding our 2013 results.

Total Deposits (millions)



Dividends Declared to Net Income



Appreciating Our Customers

Max Sontheim has been banking at the Lyons Main Office for 81 years. His first savings account was opened by his father in 1933 when Max was only 10 years old. A loyal customer ever since, Max, his wife, Edna, and three generations of their family are shareholders at LNB. We think that's pretty special and thank them for their business.



SELECTED FINANCIAL DATA <i>(In thousands, except per share data ⁽¹⁾)</i>	Year Ended December 31				
	2013	2012	2011	2010	2009
Financial Statement Highlights					
Assets	\$ 732,830	\$ 665,472	\$ 555,451	\$ 513,585	\$ 457,787
Loans, gross	500,884	445,906	359,951	312,629	288,226
Deposits	627,919	598,305	460,999	424,006	382,334
Other borrowings	42,000	5,000	42,058	44,491	36,046
Junior subordinated debentures	9,217	9,217	9,217	9,217	6,190
Total equity	47,410	44,884	35,894	31,567	29,571
Interest and dividend income	24,963	23,147	21,215	20,819	19,829
Interest expense	2,952	3,556	3,653	3,730	4,692
Net interest income	22,011	19,591	17,562	17,089	15,137
Provision for loan losses	525	450	965	2,405	1,725
Net securities gains	429	215	407	727	811
Net income	7,029	6,170	5,138	4,168	3,739
Per Share Information					
Basic earnings per share	\$ 4.72	\$ 4.43	\$ 3.98	\$ 3.24	\$ 2.93
Cash dividends declared	\$ 1.31	\$ 1.26	\$ 0.95	\$ 0.89	\$ 0.79
Book value per share	\$ 31.77	\$ 30.16	\$ 27.78	\$ 24.48	\$ 22.96
Selected Ratios					
Return on average assets	1.01%	0.99%	0.96%	0.85%	0.86%
Return on average equity	15.22%	14.93%	14.47%	12.99%	13.13%
Leverage ratio (Bank)	8.38%	8.26%	8.42%	8.22%	8.01%
Dividend payout ratio	20.12%	34.98%	22.75%	26.97%	26.64%
Other Selected Data <i>(in whole numbers)</i>					
Employees <i>(full time equivalent)</i>	163	155	142	139	129
Banking Offices	12	11	11	10	10

(1) Per share data reflects a 3-for-2 stock split in the form of a stock dividend, effective February 29, 2012

Supporting Our Communities

As an active supporter in the communities we serve, LNB was pleased to help present \$28,081 to The Greater Canandaigua Family YMCA. This donation represented a portion of the proceeds collected at the fifth annual Finger Lakes Riesling Festival. LNB was a presenting sponsor for the week-long summer event that has such a positive, lasting impact on the Canandaigua community.

From left, at back, are Laurie O'Shaughnessy, Executive Director and CEO of the Canandaigua Family YMCA; Ellen Polimeni, Mayor of Canandaigua; Lauren Dixon, CEO of Dixon Schwabl; and Robert Schick, CEO of LNB, with children who attended the Canandaigua Family YMCA summer camp.



Board of Directors



TOP ROW (from left to right)

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

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

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

Kaye Stone-Gansz President & CEO, *Stone Goose Enterprises, Inc.*

James A. Homburger Real Estate Broker, *Performance Properties*

Joseph A. Fragnoli Owner, *Super Casuals*

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

BOTTOM ROW (from left to right)

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

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

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

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

Case A. Marshall CFO & Vice President, *Marshall Companies*



Advisory Boards

GENEVA



Stephen J. Blowers
Blowers Agri Service, Inc.



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



Jason S. Feinberg, MD
Finger Lakes Health



Robert S. Flowers
Hobart and William
Smith Colleges



Carl W. Fribolin
White Springs Winery



Bernard G. Lynch
Lynch Furniture



Anne D. Nenneau
CCN International

PENN YAN



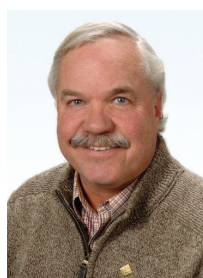
Bonnie B. Curbeau
Curbeau Realty



Michael D. Linehan
Yates County
Chamber of Commerce



James H. Long
Long's Cards and Books



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



Steven D. Perry
Knapp & Schlappi
Lumber Co., Inc.



Neil J. Simmons
Simmons Vineyards

Not Pictured:
Henry H. Martin
Town of Benton
Dairy Farmer

SENECA COUNTY



Salvatore N. Franzone
Ciccino's Pizzeria and
Restaurant



Kenneth W. Padgett, DO
Past President and
Current Chancellor
of NYCC



Eugene Pierce
Glenora Wine Cellars, Inc.
and Knapp Winery



Robert L. Sessler
Retired, Sessler
Companies



Jane M. Shaffer
Sessler Companies



Raymond A. Tuuri, Jr.
Finger Lakes
Equipment Rental



Stephen J. Wadhams
Wadhams Enterprises, Inc.

WELCOME! CANANDAIGUA ADVISORY BOARD



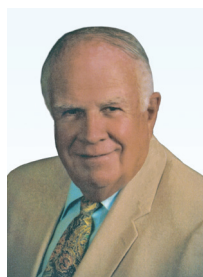
David Damaske
Parkview Fairways
Golf Course



April E. Dawson
Constellation Brands



Gail L. Herman
The Medicine Shoppe -
Canandaigua



Eugene W. Hermet
Retired, Curtice
Burns Foods



Jack W. Moran
Roseland Bowl
Family Fun Center



Charles W. Potter
Potter HVAC and
Metal Fab, Inc.

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 Risk Officer



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

Bank Officers and Supervisors

ADMINISTRATION

Robert A. Schick
President & Chief Executive Officer

Thomas L. Kime
Executive Vice President & Chief Operating Officer

Carol A. Snook
Banking Officer & Corporate/Executive Secretary

AUDIT & COMPLIANCE

Ruth M. Columbus
Vice President & Director of Internal Audit

Melonie L. Tiffany
Banking Officer & Staff Auditor

BRANCH DIVISION

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

Jeffrey A. Friend
Senior Vice President & District Executive – Ontario and Seneca County

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

James S. Bilotta
Assistant Vice President & Branch Manager – Macedon

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

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

Jill D. Hansen
Assistant Vice President & Branch Manager – Seneca County

James A. Johnson III
Assistant Vice President & Branch Manager – Canandaigua

Tara R. Rago
Assistant Vice President & Branch Manager – Geneva

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

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

Kate E. Decker
Banking Officer & Assistant Branch Manager – Geneva

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

Julieann B. Downey
Banking Officer & Branch Manager – Lyons

Shannon K. Proper
Banking Officer & Business Development Cash Manager Rep.

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

COMMERCIAL LENDING

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

Darrin Brentnall
Vice President & Commercial Loan Officer

Stephen V. D’Orazio
Vice President & Commercial Loan Officer

Ryan M. Hallings
Assistant Vice President & Commercial/Agricultural Loan Officer



COMMERCIAL LENDING *cont.*

James H. King

Vice President & Commercial Loan Officer

Scott A. MacKenzie

Vice President & Agricultural/Commercial Loan Officer

Anna M. Bridger

Assistant Vice President & Commercial Loan Officer

Gregory R. MacDonald

Assistant Vice President & Agricultural/Commercial Loan Officer

CREDIT ADMINISTRATION & COMPLIANCE

Phillip M. McCann

Executive Vice President & Chief Risk Officer

Pamela J. Lee

Vice President & Portfolio Monitoring Officer

Joyce A. Marble

Assistant Vice President & Compliance/BSA Officer

Jason R. Cornwell

Banking Officer & Senior Credit Underwriter

Amanda M. McDonald

Banking Officer & Credit Analyst

FINANCE

Diana R. Johnson

Executive Vice President & Chief Financial Officer

Brenda L. Cordero

Banking Officer & Accounting Manager

Chad J. Proper

Banking Officer & Financial Analyst

FINANCIAL SERVICES

Robert T. Koczent

Vice President & Director of Financial Services

HUMAN RESOURCES

Kimberly A. Kelley

Assistant Vice President & Director of Human Resources

MARKETING

Barbara H. Taney

Banking Officer & Director of Marketing

OPERATIONS & IT

Todd F. Juffs

Vice President & Director of Information Technology

Trevor Thomas

Assistant Vice President & Operations Manager

Hope A. Alexanian

Assistant Vice President & Retail Loan Operations Manager

Cheryl M. Graham

Assistant Vice President & Deposit Operations Supervisor

Lynnette M. Zelias

Banking Officer & Commercial Loan Operations Manager

RETAIL & SMALL BUSINESS LENDING

Stephen V. DeRaddo

Executive Vice President & Senior Retail Lending Officer

Joshua N. Miller

Vice President & Mortgage Underwriter

Robert T. MacDonell

Vice President & Consumer Loan Officer

Thomas R. David

Assistant Vice President & Mortgage Loan Officer

Timothy H. Lead

Assistant Vice President & Mortgage Underwriter

Joseph M. Arbogast

Banking Officer & Mortgage Originator

Angela M. Merola

Banking Officer & Collector

Jill I. Peek

Banking Officer & Mortgage Originator

Michael E. Rusinko

Assistant Vice President & Small Business Development Officer

SECURITY & FACILITIES

Michael J. Colacino

Assistant Vice President & Securities/Facilities Manager

TRAINING

Deborah A. Odell

Assistant Vice President & Director of Training



We're Building!



THE LYONS NATIONAL BANK
CANANDAIGUA, NY / NOVEMBER 15, 2013

OWNER	ARCHITECT

BRANCHING OUT IN CANANDAIGUA

Excitement is building as we prepare for the opening of our newest branch office, located on a highly-visible site on Routes 5 & 20, in the Roseland Center Plaza. Our new, full-service Canandaigua office will boast just over 5,100 square feet of space that will house a community room and offices for staff dedicated to commercial lending, mortgage origination and financial services.

As is our standard practice, we are working with local sub-contractors whenever possible to create the impressive two-story brick building. New Energy Works, located in Farmington, will be crafting their signature curved timber framing for the building's interior, adding an impressive elegance to the space. Also, planning is underway to celebrate the opening of the new space this summer with a VIP Reception and Ribbon-Cutting event that are sure to be crowd pleasers.

LNB is proud to have built a strong base of customers in the satellite office that was opened on April 1, 2013 in the Roseland Center Plaza. With this strong foundation, we look forward to the potential this new branch holds to the future success of the Bank.

We're building a team for our Canandaigua office!

- (From left) Daniel Kelley, Financial Consultant;
- Jeff Friend, Senior Vice President;
- Heidi King, Customer Service Representative;
- Joe Arbogast, Mortgage Specialist;
- James Johnson III, Branch Manager



Canandaigua Office

Roseland Center, Suite 65
3225 East Lake Rd
Canandaigua, NY 14424
(585) 394-BANK

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

Main Office

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

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

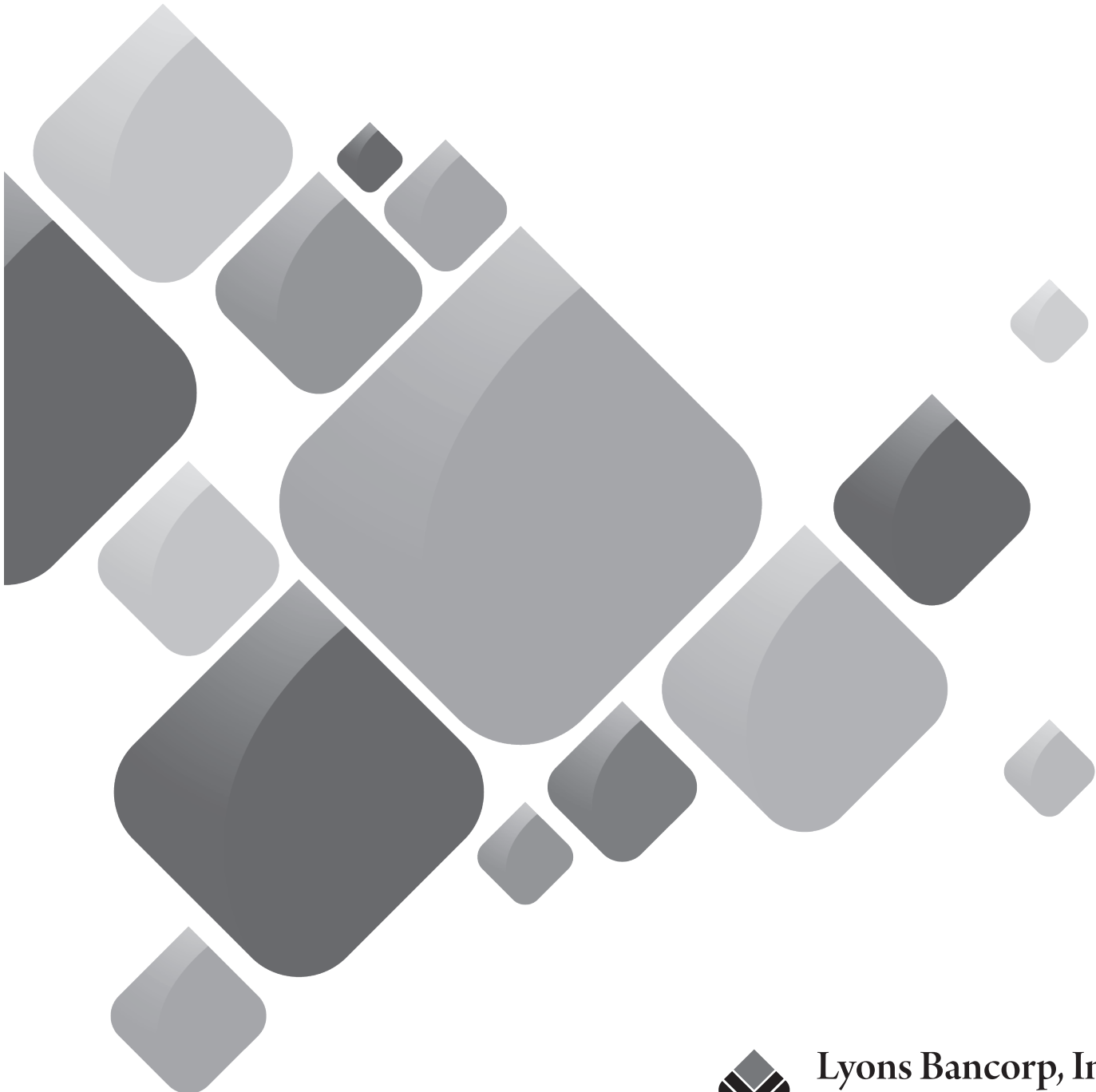
BankwithLNB.com



Lyons Bancorp, Inc.
It's all about people.

FINANCIAL REPORT

December 31, 2013



Lyons Bancorp, Inc.
It's all about people.



ANNUAL MEETING

The annual meeting of the stockholders will take place at 4:30 p.m. on May 21, 2014 at the historic Ohmann Theatre in Lyons, New York.

Lyons Bancorp, Inc.

Consolidated Financial Report

December 31, 2013

Bonadio & Co., LLP
Certified Public Accountants

Table of Contents December 31, 2013 and 2012

	<u>Page</u>
Consolidated Balance Sheets	3
Consolidated Statements of Income	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Stockholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Lyons Bancorp Inc.

We have audited the accompanying consolidated balance sheets of Lyons Bancorp Inc. and subsidiary, as of December 31, 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year ended December 31, 2013. Lyons Bancorp Inc. and subsidiary's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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 audit provides 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, 2013, and the results of their operations and their cash flows for the year ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

Bonadio & Co., LLP

Bonadio & Co., LLP
Syracuse, New York
March 7, 2014

115 Solar Street, Suite 100
Syracuse, New York 13204
p (315) 214-7575
f (315) 471-2128

www.bonadio.com

INDEPENDENT AUDITOR'S REPORT

March 8, 2013

To the Board of Directors and Stockholders of
Lyons Bancorp Inc.:

We have audited the accompanying consolidated financial statements of Lyons Bancorp Inc. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Bonadio & Co., LLP

Lyons Bancorp, Inc.

Consolidated Balance Sheets

December 31, 2013 and 2012

Assets	2013	2012
	(In thousands)	
Cash and due from banks	\$ 12,959	\$ 13,421
Interest-bearing deposits in banks	11,173	7,661
Cash and Cash Equivalents	24,132	21,082
Investment securities:		
Available for sale	140,174	162,296
Held to maturity	31,298	8,593
Restricted equity securities	5,906	3,924
Total Investment Securities	177,378	174,813
Loans	500,884	445,906
Less allowance for loan losses	(7,132)	(7,000)
Net Loans	493,752	438,906
Land, premises and equipment, net	14,992	15,402
Bank owned life insurance	12,696	7,823
Accrued interest receivable and other assets	9,880	7,446
Total Assets	\$ 732,830	\$ 665,472
Liabilities and Equity		
Liabilities		
Deposits:		
Interest-bearing	\$ 502,483	\$ 478,471
Non-interest-bearing	125,436	119,834
Total Deposits	627,919	598,305
Borrowings from Federal Home Loan Bank	42,000	5,000
Junior subordinated debentures	9,217	9,217
Accrued interest payable and other liabilities	6,284	8,066
Total Liabilities	685,420	620,588
Equity		
Lyons Bancorp, Inc. stockholders' equity:		
Common stock	747	747
Paid-in capital	12,201	12,181
Retained earnings	37,911	32,833
Accumulated other comprehensive loss	(3,403)	(711)
Treasury stock, at cost	(102)	(222)
Total Lyons Bancorp, Inc. Stockholders' Equity	47,354	44,828
Noncontrolling interest	56	56
Total Equity	47,410	44,884
Total Liabilities and Equity	\$ 732,830	\$ 665,472

See notes to consolidated financial statements.

Lyons Bancorp, Inc.

Consolidated Statements of Income Years Ended December 31, 2013 and 2012

	2013	2012
	(In thousands, except per share data)	
Interest Income		
Loans	\$ 21,134	\$ 19,363
Investment securities:		
Taxable	2,340	2,294
Non-taxable	1,489	1,490
Total Interest Income	<u>24,963</u>	<u>23,147</u>
Interest Expense		
Deposits	2,331	2,915
Borrowings	621	641
Total Interest Expense	<u>2,952</u>	<u>3,556</u>
Net Interest Income	22,011	19,591
Provision for Loan Losses	<u>525</u>	<u>450</u>
Net Interest Income after Provision for Loan Losses	<u>21,486</u>	<u>19,141</u>
Noninterest Income		
Service charges on deposit accounts	2,511	2,212
Loan servicing fees	658	613
Cardholder fees	1,137	913
Financial services fees	791	602
Net realized gains from sales/calls of available for sale securities	429	215
Realized gains on loans sold	873	1,603
Earnings on investment in bank owned life insurance	214	230
Other	180	117
Total Noninterest Income	<u>6,793</u>	<u>6,505</u>
Noninterest Expense		
Salaries and wages	8,122	7,545
Pensions and benefits	2,928	2,701
Occupancy	2,053	1,829
Data processing	1,270	1,136
Professional fees	1,002	823
FDIC and OCC assessments	473	524
Advertising	535	619
Office supplies	422	320
Other	1,920	1,635
Total Noninterest Expense	<u>18,725</u>	<u>17,132</u>
Income before Income Taxes	9,554	8,514
Income Tax Expense	<u>2,520</u>	<u>2,340</u>
Net income attributable to noncontrolling interest and Lyons Bancorp, Inc.	7,034	6,174
Less: Net income attributable to noncontrolling interest	<u>5</u>	<u>4</u>
Net Income	<u>\$ 7,029</u>	<u>\$ 6,170</u>
Earnings Per Share – basic⁽¹⁾	<u>\$ 4.72</u>	<u>\$ 4.43</u>
Earnings Per Share – diluted⁽¹⁾	<u>\$ 4.48</u>	<u>\$ 4.19</u>

(1) Per share amounts have been adjusted to reflect a 3-for-2 stock split in the form of a stock dividend, effective February 29, 2012.

See notes to consolidated financial statements.

Lyons Bancorp, Inc.

Consolidated Statements of Comprehensive Income Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
	(In thousands)	
Net income	\$ 7,029	\$ 6,170
Other comprehensive (loss) income:		
Securities available for sale:		
Net unrealized (losses) gains during the year	(7,243)	765
Reclassification adjustment for gains included in income	(429)	(215)
Changes in unrealized gains during the year of restricted equity securities	5	10
Pension and postretirement benefits:		
Amortization of prior service credit	(3)	(3)
Amortization of net loss	267	251
Net actuarial gain (loss)	2,518	(612)
Cash flow hedge:		
Gains (losses) on the effective portion of cash flow hedge	203	(266)
Reclassification adjustment for losses included in income	196	188
	<u>(4,486)</u>	<u>118</u>
Tax benefit (expense)	<u>1,794</u>	<u>(47)</u>
Other comprehensive (loss) income	<u>(2,692)</u>	<u>71</u>
Comprehensive income	<u>\$ 4,337</u>	<u>\$ 6,241</u>

See notes to consolidated financial statements.

Lyons Bancorp, Inc.

Consolidated Statements of Stockholders' Equity Years Ended December 31, 2013 and 2012

(In thousands, except per share data)

	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interest	Total
Balance - January 1, 2012	\$ 434	\$ 8,037	\$ 28,477	\$ (782)	\$ (328)	\$ 56	\$ 35,894
Net income attributable to noncontrolling interests and Lyons Bancorp, Inc.	-	-	6,170	-	-	4	6,174
Total other comprehensive income, net	-	-	-	71	-	-	71
3-for-2 stock split in the form of a stock dividend	217	(217)	-	-	-	-	-
Issuance of common stock, net	96	4,333	-	-	-	-	4,429
Purchase of treasury stock	-	-	-	-	(241)	-	(241)
Issuance of treasury stock	-	2	-	-	210	-	212
Deferred compensation shares awarded, net	-	26	-	-	135	-	161
Deferred compensation shares vested	-	-	-	-	2	-	2
Dividends to noncontrolling interests	-	-	-	-	-	(4)	(4)
Cash dividends declared, \$1.26 per share	-	-	(1,814)	-	-	-	(1,814)
Balance - December 31, 2012	747	12,181	32,833	(711)	(222)	56	\$ 44,884
Net income attributable to noncontrolling interests and Lyons Bancorp, Inc.	-	-	7,029	-	-	5	7,034
Total other comprehensive loss, net	-	-	-	(2,692)	-	-	(2,692)
Deferred compensation shares awarded, net	-	20	-	-	120	-	140
Dividends to noncontrolling interests	-	-	-	-	-	(5)	(5)
Cash dividends declared, \$1.31 per share	-	-	(1,951)	-	-	-	(1,951)
Balance - December 31, 2013	\$ 747	\$ 12,201	\$ 37,911	\$ (3,403)	\$ (102)	\$ 56	\$ 47,410

See notes to consolidated financial statements.

Lyons Bancorp, Inc.

Consolidated Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	2013	2012
	(In thousands)	
Cash Flows from Operating Activities		
Net income	\$ 7,029	\$ 6,170
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	525	450
Earnings on investment in bank owned life insurance	(214)	(230)
Net realized gain from sales/calls of available for sale securities	(429)	(215)
Realized gains on loans sold	(873)	(1,603)
Loss on sale of real estate owned and other repossessed assets	29	-
Deferred compensation expense	161	189
Net amortization on securities	661	1,135
Depreciation and amortization	892	874
Deferred income tax benefit	(838)	(62)
Contribution to defined benefit pension plan	(750)	(1,000)
Decrease (increase) in accrued interest receivable and other assets	937	(1,016)
Increase in accrued interest payable and other liabilities	305	1,762
Loans originated for sale	(45,964)	(49,392)
Proceeds from sales of loans	50,037	50,429
Net Cash Provided by Operating Activities	11,508	7,491
Cash Flows from Investing Activities		
Purchases of securities available for sale	(88,260)	(68,805)
Proceeds from sales of securities available for sale	32,837	13,695
Proceeds from maturities and calls of securities available for sale	45,021	35,524
Purchases of held to maturity securities	(4,006)	(5,182)
Proceeds from maturities of securities held to maturity	6,471	4,147
Net (increase) decrease in restricted equity securities	(1,977)	87
Net increase in loans	(58,824)	(85,840)
Proceeds from sale of real estate owned, net	223	-
Purchase of bank owned life insurance	(4,659)	-
Premises and equipment purchases, net	(484)	(1,600)
Net Cash Used in Investing Activities	(73,658)	(107,974)
Cash Flows from Financing Activities		
Net increase in demand and savings deposits	3,721	124,309
Net increase in time deposits	25,893	12,997
Net decrease in securities sold under agreements to repurchase	-	(7,058)
Net increase (decrease) in overnight borrowings from Federal Home Loan Bank	37,000	(10,000)
Repayment of term borrowings from Federal Home Loan Bank	-	(20,000)
Net proceeds from sale of stock	-	4,429
Purchase of treasury stock	-	(241)
Issuance of treasury stock	-	212
Dividends paid	(1,414)	(2,158)
Net Cash Provided by Financing Activities	65,200	102,490
Net Increase in Cash and Cash Equivalents	3,050	2,007
Cash and Cash Equivalents – Beginning	21,082	19,075
Cash and Cash Equivalents – Ending	\$ 24,132	\$ 21,082
Supplementary Cash Flow Information		
Interest paid	\$ 2,908	\$ 3,564
Income taxes paid, net of refund received	\$ 3,229	\$ 2,951
Non-cash Disclosure		
Transfer of loans to foreclosed real estate	\$ 252	\$ -
Transfer of available for sale securities to held to maturity	\$ 25,169	\$ -

See notes to consolidated financial statements.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

Lyons Bancorp, Inc. (the Company) provides a full range of commercial and retail 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 twelve 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 Statutory Trust III (Trust III). Trust I was formed in 2003, Trust II was formed in 2004, and Trust III was formed in 2009. 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 owns all of the voting stock of Lyons Realty Associates Corp. (LRAC). 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.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank and LRAC. 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 consolidated 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, actuarial assumptions associated with the Company's benefit plans and deferred tax assets and liabilities.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

There are no recently issued accounting pronouncements that materially affect the Company's consolidated financial statements this year.

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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Investment Securities - continued

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 of 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 classes. 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.

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,

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Loans - continued

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 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, unless subject to a troubled debt restructuring. 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. Loans held for sale totaled \$1.9 million and \$5.1 million at December 31, 2013 and 2012, respectively, and are included in loans on the consolidated balance sheets.

During 2013 and 2012, the Company sold residential mortgage loans totaling \$50.0 million and \$50.4 million, respectively, and realized gains on these sales were \$873,000 and \$1.6 million, respectively. These residential real estate loans are generally sold without recourse in accordance with standard secondary market loan sale agreements. When residential mortgage loans are sold, the Company typically retains all servicing rights, which provides the Company with a source of fee income. In connection with the sales in 2013 and 2012, the Company recorded mortgage-servicing assets of \$298,000 and \$292,000, respectively. Amortization of mortgage-servicing assets amounted to \$237,000 in 2013 and \$249,000 in 2012. Net mortgage-servicing assets included in the consolidated balance sheets totaled \$566,000 and \$505,000 net of amortization, as of December 31, 2013 and 2012, respectively. Total loans serviced for others amounted to \$173.0 million and \$150.6 million at December 31, 2013 and 2012, respectively.

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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses - continued

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 classes: residential real estate, commercial real estate, agricultural 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 class. 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 2013 or 2012.

The qualitative factors are determined based on the various risk characteristics of each loan type. Risk characteristics relevant to each loan type 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 class.

Commercial real estate - Loans in this class 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 class. 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 class 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

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses - continued

turn, will have an effect on the credit quality in this class. 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 these classes 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 class.

Consumer installment loans – Loans in this segment may be secured or unsecured and repayment is dependent on the credit quality of the individual borrower. Unemployment rates will have an effect on the credit quality in this class.

Specific Component

The specific 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, less costs to sell, 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.

All impaired loans require appraisals and/or chattel evaluations within 180 days of impairment, unless existing evaluation is less than 24 months old and no market or physical deterioration is noted. Re-appraisals and/or re-evaluations are conducted whenever deemed appropriate, but typically performed on a 24 month cycle if repayment is predicated upon liquidation of collateral and evidence suggests collateral values may have deteriorated.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the 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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses - continued

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.

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulty and the modification constitutes a concession. Loans modified in a TDR often involve temporary interest-only payments, term extensions, reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, requesting additional collateral, releasing collateral for consideration, or substituting or adding a new borrower or guarantor.

Nonaccrual loans that are restructured remain on nonaccrual status, but may move to accrual status after they have performed according to the restructured terms for a period of time of at least six months.

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 lesser of the asset's useful life or 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 noninterest income in the Company's consolidated statements of income.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

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 foreclosure. 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. There was no foreclosed real estate at December 31, 2013 or 2012.

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, net of tax. 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 2013 or 2012.

Advertising Costs

Advertising costs are expensed as incurred.

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.

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 available for sale securities, 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

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Income Taxes - continued

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.

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.

Earnings Income Per Share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as adjustments to net income for interest expense relating to convertible securities, net of tax, that would result from the assumed issuance. Treasury shares are not deemed outstanding for earnings per share calculations. See Note 13 for earnings per share calculations.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

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 an original 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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Segment Reporting

The Company has evaluated the activities relating to its strategic business units, and determined that these strategic business units are similar in nature, and managed accordingly. The strategic business units are not reviewed separately to make operating decisions or assess performance. Therefore, the Company has determined it has no reportable segments.

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, 2013 and 2012 was \$9.1 million and \$11.8 million, respectively.

Note 3 - Investments

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, are as follows at December 31, 2013 and 2012:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013:				
Available for Sale:				
United States agencies	\$ 41,855	\$ 539	\$ (1,255)	\$ 41,139
State and local governments	62,730	774	(870)	62,634
Mortgage-backed securities	38,478	71	(2,148)	36,401
Total Available for Sale	<u>\$ 143,063</u>	<u>\$ 1,384</u>	<u>\$ (4,273)</u>	<u>\$ 140,174</u>
Held to Maturity:				
United States agencies	\$ 3,707	\$ -	\$ -	\$ 3,707
State and local governments	6,129	-	-	6,129
Mortgage-backed securities	21,462	-	-	21,462
Total Held to Maturity	<u>\$ 31,298</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,298</u>
Restricted Equity Securities	<u>\$ 5,891</u>	<u>\$ 15</u>	<u>\$ -</u>	<u>\$ 5,906</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 3 – Investments (Continued)

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012:				
Available for Sale:				
United States treasuries	\$ 10,021	\$ 126	\$ (20)	\$ 10,127
United States agencies	44,982	1,802	(16)	46,768
State and local governments	59,783	1,481	(51)	61,213
Mortgage-backed securities	43,277	912	(1)	44,188
Total Available for Sale	<u>\$ 158,063</u>	<u>\$ 4,321</u>	<u>\$ (88)</u>	<u>\$ 162,296</u>
Held to Maturity:				
Local governments	<u>\$ 8,593</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,593</u>
Restricted Equity Securities	<u>\$ 3,914</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 3,924</u>

All of the above mortgage-backed securities are residential direct pass through securities or collateralized mortgage obligations issued or backed by U.S. government sponsored enterprises (GSEs). Restricted equity securities primarily include non-marketable Federal Home Loan Bank New York (FHLB NY) 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 FHLB NY stock is tied to both the Company's borrowing levels with the FHLB and commitments to sell residential mortgage loans to the FHLB. Holdings of FHLB NY stock and FRB stock totaled \$5.0 million and \$500,000 at December 31, 2013, respectively, and \$3.0 million and \$500,000 at December 31, 2012, respectively. These securities are carried at par, which is also cost. The Company has an investment in Federal Agricultural Mortgage Corp (Farmer Mac) class A stock totaling \$56,000 and \$51,000 at December 31, 2013 and 2012, respectively, in order to participate in certain lending activities with Farmer Mac. The stock is actively traded on the NYSE, pays a dividend, and is reflective of current market value. Restricted equity securities also include miscellaneous investments carried at par, which is also 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 during the current year.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 3 – Investments (Continued)

The Company elected to transfer six available for sale (AFS) securities with an aggregate fair value of \$25.2 million to a classification of held to maturity (HTM) on December 31, 2013. The transfer from AFS to HTM was recorded at the fair value of the AFS securities at the time of transfer. The net unrealized holding loss of \$330,000, net of tax, at the date of transfer was retained in accumulated other comprehensive loss, with the associated pretax amount of the unrealized losses retained in the carrying amount of the HTM securities. Such amounts will be amortized to interest income over the remaining life of the securities. The fair value of the transferred AFS securities became the carrying amount of the HTM securities at December 31, 2013, with no unrealized gain or loss at this date.

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:

(In thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013:						
United States agencies	\$ 27,282	\$ (1,255)	\$ -	\$ -	\$ 27,282	\$ (1,255)
State and local governments	23,569	(799)	1,554	(71)	25,123	(870)
Mortgage-backed securities	34,053	(2,148)	-	-	34,053	(2,148)
	<u>\$ 84,904</u>	<u>\$ (4,202)</u>	<u>\$ 1,554</u>	<u>\$ (71)</u>	<u>\$ 86,458</u>	<u>\$ (4,273)</u>

(In thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2012:						
United States treasuries	\$ 4,948	\$ (20)	\$ -	\$ -	\$ 4,948	\$ (20)
United States agencies	2,984	(16)	-	-	2,984	(16)
State and local governments	5,150	(51)	-	-	5,150	(51)
Mortgage-backed securities	3,271	(1)	-	-	3,271	(1)
	<u>\$ 16,353</u>	<u>\$ (88)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,353</u>	<u>\$ (88)</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 3 – Investments (Continued)

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. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of a security by a rating agency, (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies, (6) whether the Company intends to sell or more likely than not be required to sell the debt security, and (7) if the present value of the expected cash flow is not sufficient to recover the entire amortized cost.

There were one hundred ten securities with unrealized losses at December 31, 2013, while at December 31, 2012 there were eleven securities with unrealized losses. 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. Financial information relating to unrated state and government obligations is reviewed for indications of adverse conditions that may indicate other-than-temporary impairment. Because the Company does not intend to sell the securities with unrealized losses 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, 2013. In addition, there were no other-than-temporary impairment charges in 2013 and 2012.

The amortized cost and fair value of debt securities at December 31, 2013, 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.

(In thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 10,798	\$ 10,913	\$ 817	\$ 817
Due after one year through five years	27,099	27,429	1,946	1,946
Due after five years through ten years	66,192	64,970	1,247	1,247
Due after ten years	496	461	5,826	5,826
Securities not due at a single maturity date	38,478	36,401	21,462	21,462
	<u>\$ 143,063</u>	<u>\$ 140,174</u>	<u>\$ 31,298</u>	<u>\$ 31,298</u>

During 2013, the Company sold \$32.8 million of available for sale securities, while in 2012 the Company sold \$13.7 million of available for sale securities. Gross gains on the sales of investments in 2013 were \$429,000. Gross gains on the sales of investment securities in 2012 were \$215,000. Investment securities with carrying amounts of \$113.4 million and \$122.4 million at December 31, 2013 and 2012, respectively, were pledged to secure deposits as required or permitted by law.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 4 – Loans

Loans consist of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
	(In thousands)	
Real estate:		
Residential:		
1-4 family	\$ 138,802	\$ 125,766
Home equity	65,918	60,578
Commercial	126,807	100,775
Agriculture	29,373	24,405
Total mortgage loans on real estate	<u>360,900</u>	<u>311,524</u>
Commercial loans	84,127	77,837
Agriculture loans	29,154	27,580
Consumer installment loans:		
Direct	13,939	14,564
Indirect	12,764	14,401
Total consumer installment loans	<u>26,703</u>	<u>28,965</u>
Total loans	<u>\$ 500,884</u>	<u>\$ 445,906</u>

Net unamortized loan origination costs totaled \$815,000 and \$750,000 at December 31, 2013 and 2012, respectively and are included with their related loan class.

The Company has transferred a portion of its originated commercial, commercial real estate, agriculture and agriculture real estate loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share ratably in cash flows and any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to participating lenders and disburses required escrow funds to relevant parties. At December 31, 2013 and 2012, the Company was servicing loans for participants aggregating \$7.9 million and \$7.8 million, respectively.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. Generally loans are placed on nonaccrual status if principal or interest payments become 90 days or more past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when required by regulatory requirements.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 4 – Loans (Continued)

The following table presents past due loans by classes of the loan portfolio at December 31, 2013 and 2012:

(In thousands)	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days and Greater</u>	<u>Total Loans</u>	<u>Loans on Nonaccrual</u>
December 31, 2013:					
Residential real estate:					
1-4 family	\$ 138,620	\$ 66	\$ 116	\$ 138,802	\$ 205
Home equity	65,626	239	53	65,918	175
Commercial real estate	126,273	332	202	126,807	3,570
Agriculture real estate	29,373	-	-	29,373	41
Commercial loans	84,015	72	40	84,127	58
Agriculture loans	29,048	106	-	29,154	-
Consumer installment loans:					
Direct	13,892	47	-	13,939	-
Indirect	12,602	162	-	12,764	73
Total	\$ 499,449	\$ 1,024	\$ 411	\$ 500,884	\$ 4,122

(In thousands)	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days and Greater</u>	<u>Total Loans</u>	<u>Loans on Nonaccrual</u>
December 31, 2012:					
Residential real estate:					
1-4 family	\$ 125,502	\$ 58	\$ 206	\$ 125,766	\$ 206
Home equity	60,058	353	167	60,578	167
Commercial real estate	100,599	99	77	100,775	131
Agriculture real estate	24,405	-	-	24,405	48
Commercial loans	77,515	160	162	77,837	297
Agriculture loans	27,580	-	-	27,580	-
Consumer installment loans:					
Direct	14,528	36	-	14,564	-
Indirect	14,160	241	-	14,401	17
Total	\$ 444,347	\$ 947	\$ 612	\$ 445,906	\$ 866

At December 31, 2013 and 2012, there were no loans that were over 90 days delinquent and still accruing interest.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 4 – Loans (Continued)

Activity in the allowance for loan losses for the years ended December 31, 2013 and 2012 follows:

(In thousands)

	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Residential Real Estate	Consumer	Unallocated	Total
December 31, 2013								
Beginning balance	\$ 1,348	\$ 2,396	\$ 318	\$ 238	\$ 1,708	\$ 385	\$ 607	\$ 7,000
Provisions for loan losses	(281)	68	19	57	226	454	(18)	525
Recoveries of loans previously charged off	3	-	-	-	8	74	-	85
Loans charged off	(21)	-	-	-	(55)	(402)	-	(478)
Ending balance	<u>\$ 1,049</u>	<u>\$ 2,464</u>	<u>\$ 337</u>	<u>\$ 295</u>	<u>\$ 1,887</u>	<u>\$ 511</u>	<u>\$ 589</u>	<u>\$ 7,132</u>
December 31, 2012								
Beginning balance	\$ 1,210	\$ 2,770	\$ 259	\$ 167	\$ 1,362	\$ 388	\$ 845	\$ 7,001
Provisions for loan losses	155	(122)	59	71	389	136	(238)	450
Recoveries of loans previously charged off	28	36	-	-	3	69	-	136
Loans charged off	(45)	(288)	-	-	(46)	(208)	-	(587)
Ending balance	<u>\$ 1,348</u>	<u>\$ 2,396</u>	<u>\$ 318</u>	<u>\$ 238</u>	<u>\$ 1,708</u>	<u>\$ 385</u>	<u>\$ 607</u>	<u>\$ 7,000</u>

The allocation of the allowance for loan losses by loan class is as follows at December 31, 2013 and 2012:

(In thousands)

	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Residential Real Estate	Consumer	Unallocated	Total
December 31, 2013								
Amount of allowance for loan losses on loans individually evaluated for impairment	\$ -	\$ 1,030	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,030
Amount of allowance for loan losses on loans collectively evaluated for impairment	<u>1,049</u>	<u>1,434</u>	<u>337</u>	<u>295</u>	<u>1,887</u>	<u>511</u>	<u>589</u>	<u>6,102</u>
Total allowance for loan losses	<u>\$ 1,049</u>	<u>\$ 2,464</u>	<u>\$ 337</u>	<u>\$ 295</u>	<u>\$ 1,887</u>	<u>\$ 511</u>	<u>\$ 589</u>	<u>\$ 7,132</u>
Loans individually evaluated for impairment	\$ 58	\$ 3,570	\$ -	\$ 41	\$ -	\$ -	\$ -	\$ 3,669
Loans collectively evaluated for impairment	<u>84,069</u>	<u>123,237</u>	<u>29,154</u>	<u>29,332</u>	<u>204,720</u>	<u>26,703</u>	<u>-</u>	<u>497,215</u>
Total Loans	<u>\$ 84,127</u>	<u>\$ 126,807</u>	<u>\$ 29,154</u>	<u>\$ 29,373</u>	<u>\$204,720</u>	<u>\$ 26,703</u>	<u>\$ -</u>	<u>\$500,884</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 4 – Loans (Continued)

December 31, 2012	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Amount of allowance for loan losses on loans individually evaluated for impairment	\$ -	\$ 1,088	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,088
Amount of allowance for loan losses on loans collectively evaluated for impairment	1,348	1,308	318	238	1,708	385	607	5,912
Total allowance for loan losses	<u>\$ 1,348</u>	<u>\$ 2,396</u>	<u>\$ 318</u>	<u>\$ 238</u>	<u>\$ 1,708</u>	<u>\$ 385</u>	<u>\$ 607</u>	<u>\$ 7,000</u>
Loans individually evaluated for impairment	\$ 297	\$ 3,517	\$ -	\$ 48	\$ -	\$ -	\$ -	\$ 3,862
Loans collectively evaluated for impairment	77,540	97,258	27,580	24,357	186,344	28,965	-	442,044
Total Loans	<u>\$ 77,837</u>	<u>\$ 100,775</u>	<u>\$ 27,580</u>	<u>\$ 24,405</u>	<u>\$ 186,344</u>	<u>\$ 28,965</u>	<u>\$ -</u>	<u>\$ 445,906</u>

Management is committed to early recognition of loan problems and to maintaining an adequate allowance. At least quarterly, management reviews all commercial and commercial real estate loans and leases and agriculturally related loans with an outstanding principal balance of over \$100,000 that are internally risk rated substandard or worse, giving consideration to payment history, debt service payment capacity, collateral support, strength of guarantors, local market trends, industry trends, and other factors relevant to the particular borrowing relationship. Through this process, management identifies impaired loans. For loans considered impaired, estimated exposure amounts are based upon collateral values or present value of expected future cash flows discounted at the original effective interest rate of each loan. For commercial loans, commercial mortgage loans, agricultural mortgages and agricultural loans not specifically reviewed, and for homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical net loss experience and current charge-off trends, past due status, and management's judgment of the effects of current economic conditions on portfolio performance. In determining and assigning historical loss factors to the various homogeneous portfolios, the Company calculates average net losses over a period of time and compares this average to current levels and trends to ensure that the calculated average loss factor is reasonable.

Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 4 – Loans (Continued)

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 following table summarizes information regarding impaired loans by loan portfolio class as of December 31, 2013 and 2012:

(In thousands)	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
December 31, 2013					
With no related allowance recorded:					
Commercial loans	\$ 58	\$ 60	\$ -	\$ 115	\$ 3
Commercial real estate	84	93	-	164	-
Agriculture real estate	41	92	-	44	-
With an allowance recorded:					
Commercial real estate	3,486	3,883	1,030	3,481	-
Total	<u>\$ 3,669</u>	<u>\$ 4,128</u>	<u>\$ 1,030</u>	<u>\$ 3,804</u>	<u>\$ 3</u>
Summary:					
Commercial	\$ 3,628	\$ 4,036	\$ 1,030	\$ 3,760	\$ 3
Agriculture	41	92	-	44	-
Total	<u>\$ 3,669</u>	<u>\$ 4,128</u>	<u>\$ 1,030</u>	<u>\$ 3,804</u>	<u>\$ 3</u>
December 31, 2012					
With no related allowance recorded:					
Commercial loans	\$ 297	\$ 298	\$ -	\$ 275	\$ 6
Commercial real estate	131	134	-	48	-
Agriculture loans	-	-	-	1	5
Agriculture real estate	48	99	-	91	103
With an allowance recorded:					
Commercial loans	-	-	-	94	-
Commercial real estate	3,386	3,783	1,088	4,494	-
Total	<u>\$ 3,862</u>	<u>\$ 4,314</u>	<u>\$ 1,088</u>	<u>\$ 5,003</u>	<u>\$ 114</u>
Summary:					
Commercial	\$ 3,814	\$ 4,215	\$ 1,088	\$ 4,911	\$ 6
Agriculture	48	99	-	92	108
Total	<u>\$ 3,862</u>	<u>\$ 4,314</u>	<u>\$ 1,088</u>	<u>\$ 5,003</u>	<u>\$ 114</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 4 – Loans (Continued)

There were no troubled debt restructurings for the years ended December 31, 2013 or 2012.

There were no troubled debt restructurings that defaulted in the first twelve months after restructuring was granted.

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 weaknesses that deserve 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, 2013 or 2012.

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, 2013 or 2012.

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 classes. Management uses the results of these reviews as part of its annual review process.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 4 – Loans (Continued)

Credit Quality – continued

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, 2013 and 2012:

(In thousands)

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Agriculture</u>	<u>Agriculture Real Estate</u>	<u>Total</u>
December 31, 2013					
Grade:					
Pass	\$ 77,172	\$ 117,441	\$ 27,952	\$ 27,188	\$ 249,753
Special Mention	3,967	2,524	-	48	6,539
Substandard	<u>2,988</u>	<u>6,842</u>	<u>1,202</u>	<u>2,137</u>	<u>13,169</u>
Total	<u>\$ 84,127</u>	<u>\$ 126,807</u>	<u>\$ 29,154</u>	<u>\$ 29,373</u>	<u>\$ 269,461</u>
December 31, 2012					
Grade:					
Pass	\$ 71,798	\$ 93,688	\$ 26,175	\$ 22,029	\$ 213,690
Special Mention	3,686	534	-	52	4,272
Substandard	<u>2,353</u>	<u>6,553</u>	<u>1,405</u>	<u>2,324</u>	<u>12,635</u>
Total	<u>\$ 77,837</u>	<u>\$ 100,775</u>	<u>\$ 27,580</u>	<u>\$ 24,405</u>	<u>\$ 230,597</u>

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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 4 – Loans (Continued)

Credit Quality – continued

The following table presents the classes of the residential real estate and consumer loan portfolios summarized by performing or nonaccrual as of December 31, 2013 and 2012:

(In thousands)

	<u>1-4 Family</u>	<u>Home Equity</u>	<u>Consumer - Direct</u>	<u>Consumer - Indirect</u>	<u>Total</u>
December 31, 2013					
Performing	\$ 138,597	\$ 65,743	\$ 13,939	\$ 12,691	\$ 230,970
Nonaccrual	<u>205</u>	<u>175</u>	<u>-</u>	<u>73</u>	<u>453</u>
Total	<u>\$ 138,802</u>	<u>\$ 65,918</u>	<u>\$ 13,939</u>	<u>\$ 12,764</u>	<u>\$ 231,423</u>
December 31, 2012					
Performing	\$ 125,560	\$ 60,411	\$ 14,564	\$ 14,384	\$ 214,919
Nonaccrual	<u>206</u>	<u>167</u>	<u>-</u>	<u>17</u>	<u>390</u>
Total	<u>\$ 125,766</u>	<u>\$ 60,578</u>	<u>\$ 14,564</u>	<u>\$ 14,401</u>	<u>\$ 215,309</u>

Note 5 - Land, Premises and Equipment

Land, premises and equipment, net consist of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
	(In thousands)	
Land	\$ 2,956	\$ 2,956
Buildings	12,723	12,595
Furniture and equipment	6,804	6,361
Leasehold improvements	232	438
Construction in progress	<u>57</u>	<u>145</u>
	22,772	22,495
Less accumulated depreciation	<u>(7,780)</u>	<u>(7,093)</u>
	<u>\$ 14,992</u>	<u>\$ 15,402</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 5 - Land, Premises and Equipment (Continued)

Depreciation and amortization expense in 2013 and 2012 are included in noninterest expense as follows:

	<u>2013</u>	<u>2012</u>
	(In thousands)	
Buildings	\$ 320	\$ 313
Furniture and equipment	569	556
Leasehold improvements	3	5
	<u>\$ 892</u>	<u>\$ 874</u>

At December 31, 2013, the Bank leased three of its branch facilities, as well as two operations facilities under non-cancelable operating leases. Future minimum rental payments under these leases are as follows:

Years Ending December 31,	(In thousands)
2014	\$ 198
2015	98
2016	81
2017	82
2018	48
Thereafter	103
	<u>\$ 610</u>

Rent expense under the operating leases totaled \$190,000 and \$149,000 in 2013 and 2012, respectively.

At December 31, 2013, 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)
2014	\$ 132
2015	118
2016	87
2017	74
2018	75
Thereafter	238
	<u>\$ 724</u>

Rent income under the operating leases totaled \$130,000 and \$124,000 in 2013 and 2012, respectively.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 6 - Deposits

Certificates of deposit in denominations of \$100,000 and over were \$88.4 million and \$63.8 million at December 31, 2013 and 2012, respectively.

At December 31, 2013, scheduled maturities of time deposits are as follows:

Years Ending December 31,	(In thousands)
2014	\$ 108,461
2015	27,880
2016	11,257
2017	3,567
2018	1,556
2019	1,224
	<u>\$ 153,945</u>

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:

	<u>2013</u>	<u>2012</u>
	(In thousands)	
Average balance	\$ -	\$ 7,982
Maximum month-end balance	\$ -	\$ 11,409
Carrying amounts of securities, including accrued interest, underlying the agreements	\$ -	\$ -

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. During December 2012, the Company elected to discontinue offering this product and transferred those relationships to traditional deposit accounts.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 8 - Borrowings

Borrowings consist of overnight advances and fixed rate term borrowings. At December 31, 2013 and 2012, there were \$42.0 million and \$5.0 million in overnight advances outstanding, respectively. The table below details additional information related to overnight advances for the years ended December 31,

	<u>2013</u>	<u>2012</u>
	(Dollars in thousands)	
Average outstanding balance	\$ 17,832	\$ 1,086
Interest expense	\$ 67	\$ 3
Weighted average interest rate during the year	0.38%	0.32%
Weighted average interest rate at end of year	0.40%	0.31%

At December 31, 2013 and 2012 there were no term advances outstanding. There were no term borrowings maturing or repaid during the year ended December 31, 2013. During the year ended December 31, 2012, \$20 million in term borrowings matured and were repaid.

As a member of the FHLB, the Bank can use certain unencumbered mortgage-related assets to secure borrowings from the FHLB. At December 31, 2013, total unencumbered mortgage-related loans were \$31.5 million. Additional assets may also qualify as collateral for FHLB advances.

The Company, through the Bank, can use certain unencumbered collateral to secure borrowings at the Federal Reserve Bank. At December 31, 2013, total unencumbered collateral in the form of home equity loans and other consumer loans was \$56.7 million.

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, 2013 and 2012. There were no outstanding advances against those lines at December 31, 2013 or 2012.

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 2.996% at December 31, 2013, and 3.06% at December 31, 2012. 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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 9 - Junior Subordinated Debentures (Continued)

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 2.8876% at December 31, 2013 and 2.9615% at December 31, 2012. 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, 2013, the company pledged \$960,000 cash collateral to the counterparty.

At December 31, 2013 and 2012, the fair value of the swap agreement was a loss of \$611,000 and \$1.0 million, respectively, 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. The net effect of the swap increased interest expense by \$196,000 and \$188,000 in 2013 and 2012, respectively.

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 convertible trust capital securities in a non-public offering. These 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. Holders of the trust securities may convert the securities, at any time, into shares of the Company's common stock at a conversion price of \$27.78 per share, subject to adjustments for splits, stock dividends, recapitalization and the like and issuances on a pro rata basis below the current market value, in-kind dividends and tender offers above market value.

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 convertible 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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 9 - Junior Subordinated Debentures (Continued)

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, 2013 and 2012, \$9.0 million in trust capital securities qualified as Tier I capital.

Note 10 - Income Taxes

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

	<u>2013</u>	<u>2012</u>
	(In thousands)	
Current tax provision:		
Federal	\$ 3,074	\$ 2,400
State	284	2
Total current tax provision	<u>3,358</u>	<u>2,402</u>
Deferred tax expense/(benefit):		
Federal	(782)	11
State	(56)	(73)
Total deferred tax benefit	<u>(838)</u>	<u>(62)</u>
	<u>\$ 2,520</u>	<u>\$ 2,340</u>

Income tax expense differed from the statutory federal income tax rate for the years ended December 31 as follows:

	<u>2013</u>	<u>2012</u>
Statutory federal tax rate	34.0%	34.0%
Increase (decrease) resulting from:		
Tax-exempt interest income	(5.7)	(6.5)
Non-taxable earnings on bank-owned life insurance	(0.8)	(0.9)
Nondeductible expenses	0.2	0.2
Disallowed interest expense	0.2	0.3
Other, net	(1.5)	0.4
Effective tax rate	<u>26.4%</u>	<u>27.5%</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

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:

	<u>2013</u>	<u>2012</u>
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 2,693	\$ 2,592
Compensation and benefits	2,219	3,194
Net unrealized loss on available for sale securities	1,149	-
Net unrealized loss on held to maturity securities transferred from available for sale	220	-
Other	700	756
Total deferred tax assets	<u>\$ 6,981</u>	<u>\$ 6,542</u>
Deferred tax liabilities:		
Prepaid pension	\$ 882	\$ 1,019
Depreciation	658	569
Net unrealized gain on available for sale securities	-	1,697
Other	590	1,039
Total deferred tax liabilities	<u>\$ 2,130</u>	<u>\$ 4,324</u>
Net deferred tax assets	<u>\$ 4,851</u>	<u>\$ 2,218</u>

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.

At December 31, 2013 and December 31, 2012, the Company had no unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months.

The Company conducts business within New York State, as well as Pennsylvania through its partnership with New York State Title Agency West, LLC, and therefore files Federal, New York and Pennsylvania 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. The Company is no longer subject to U.S. federal or state income tax examinations for years before 2010.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 11 - Stockholders' Equity

The common stock and treasury stock of the Company at December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Common stock, authorized shares, \$0.50 par value	<u>2,000,000</u>	<u>2,000,000</u>
Issued shares	1,493,778	1,493,778
Less: treasury stock shares	<u>(3,280)</u>	<u>(7,264)</u>
Outstanding shares	<u>1,490,498</u>	<u>1,486,514</u>

The amounts of income tax expense (benefit) allocated to each component of other comprehensive income are as follows for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
	(In thousands)	
Securities available for sale:		
Net unrealized (losses) gains during the year	\$ (2,897)	\$ 306
Reclassification adjustment for gains included in income	(172)	(86)
Changes in unrealized gains during the year of restricted equity securities	2	4
Pension and postretirement benefits:		
Amortization of prior service credit	(1)	(1)
Amortization of net loss	107	100
Net actuarial gain (loss)	1,007	(245)
Cash flow hedge		
Gains (losses) on the effective portion of cash flow hedge	81	(106)
Reclassification adjustment for losses included in income	<u>79</u>	<u>75</u>
Tax (benefit) expense	<u>\$ (1,794)</u>	<u>\$ 47</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 11 - Stockholders' Equity (Continued)

Reclassifications out of accumulated other comprehensive (loss) income for the years ended December 31, 2013 and 2012 are as follows:

Details About Accumulated Other Comprehensive (Loss) Income Components	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income		Affected Line Item In The Statement Where Net Income is Presented
	<u>2013</u>	<u>2012</u>	
	(In Thousands)		
Unrealized gains and losses on available for sale securities (before tax)	\$ 429	\$ 215	Net realized gains from sales/calls of available for sale securities
Tax expense	<u>(172)</u>	<u>(86)</u>	Income tax expense
Net of tax	<u>257</u>	<u>129</u>	
Amortization of pension and postretirement benefit plan items (before tax):			
Prior service credit	3	3	
Net losses	<u>(267)</u>	<u>(251)</u>	
	<u>(264)</u>	<u>(248)</u>	Pensions and benefits expense
Tax benefit	<u>106</u>	<u>99</u>	Income tax expense
Net of tax	<u>(158)</u>	<u>(149)</u>	
Gains and losses on cash flow hedge (before tax)	<u>(196)</u>	<u>(188)</u>	Interest expense - borrowings
Tax benefit	<u>79</u>	<u>75</u>	Income tax expense
Net of tax	<u>(117)</u>	<u>(113)</u>	
Total reclassification for the year, net of tax	<u>\$ (18)</u>	<u>\$ (133)</u>	

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 11 - Stockholders' Equity (Continued)

The balances and changes in the components of accumulated other comprehensive loss, net of tax, are as follows:

(In thousands)	Unrealized gains (losses) on securities available for sale	Unrealized losses on securities transferred to held to maturity	Unrealized gains on restricted equity securities	Pension and postretirement benefits	Unrealized losses on cash flow hedge	Total
Balance – January 1, 2012	\$ 2,209	\$ -	\$ -	\$ (2,432)	\$ (559)	\$ (782)
Other comprehensive income (loss) before reclassifications	460	-	6	(367)	(161)	(62)
Amounts reclassified from accumulated other comprehensive income	(129)	-	-	149	113	133
Other comprehensive income (loss) for 2012	331	-	6	(218)	(48)	71
Balance – December 31, 2012	2,540	-	6	(2,650)	(607)	(711)
Other comprehensive income (loss) before reclassifications	(4,346)	-	3	1,510	123	(2,710)
Amounts reclassified from accumulated other comprehensive income	(257)	-	-	158	117	18
Other comprehensive income (loss) for 2013	(4,603)	-	3	1,668	240	(2,692)
Transfer of available for sale securities to held to maturity	330	(330)	-	-	-	-
Balance – December 31, 2013	<u>\$ (1,733)</u>	<u>\$ (330)</u>	<u>\$ 9</u>	<u>\$ (982)</u>	<u>\$ (367)</u>	<u>\$ (3,403)</u>

On June 27, 2012, the Company completed a common stock offering of 192,307 shares, at \$26.00 per share, for new capital proceeds (net of expenses) of \$4.4 million.

Note 12 - Pension and Postretirement Benefit Plans

The Company participates in the New York State Bankers Retirement System (the “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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 12 - Pension and Postretirement Benefit Plans (Continued)

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, 2013 and 2012:

	Pension Plan		Healthcare Plan	
	2013	2012	2013	2012
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 9,639	\$ 7,965	\$ 463	\$ 424
Service cost	991	848	3	3
Interest cost	364	333	20	21
Actuarial (gain) loss	(1,794)	813	16	47
Expected expenses	(78)	(75)	-	-
Benefits paid	(247)	(245)	(31)	(32)
Benefit obligation at end of year	8,875	9,639	471	463
Change in plan assets:				
Fair value of plan assets at beginning of year	7,978	6,600	-	-
Actual return on plan assets	1,258	687	-	-
Employer contribution	750	1,000	31	32
Actual expenses paid	(88)	(64)	-	-
Benefits paid	(247)	(245)	(31)	(32)
Fair value of plan assets at end of year	9,651	7,978	-	-
Funded status recognized	\$ 776	\$(1,661)	\$ (471)	\$ (463)
Accumulated benefit obligation	\$ 7,345	\$ 7,722	\$ 471	\$ 463

The overfunded status of the Pension Plan as of December 31, 2013 has been recognized in other assets in the consolidated balance sheets, while its underfunded status as of December 31, 2012 was recognized in other liabilities. The unfunded status of the Healthcare Plan has been recognized in other liabilities in the consolidated balance sheets at December 31, 2013 and 2012.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 12 - Pension and Postretirement Benefit Plans (Continued)

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

	Pension Plan		Healthcare Plan	
	2013	2012	2013	2012
Components of net periodic benefit cost:	(In thousands)			
Service cost	\$ 991	\$ 848	\$ 3	\$ 3
Interest cost	364	333	20	21
Expected return on plan assets	(508)	(451)	-	-
Amortization of prior service cost (credit)	1	1	(4)	(4)
Amortization of net loss	257	243	10	8
Net periodic benefit cost	<u>\$ 1,105</u>	<u>\$ 974</u>	<u>\$ 29</u>	<u>\$ 28</u>
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Net (gain) loss	\$ (2,534)	\$ 565	\$ 16	\$ 47
Recognized actuarial loss	(257)	(243)	(10)	(8)
Recognized prior service (cost) credit	(1)	(1)	4	4
Recognized in other comprehensive income	<u>\$ (2,792)</u>	<u>\$ 321</u>	<u>\$ 10</u>	<u>\$ 43</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ (1,687)</u>	<u>\$ 1,295</u>	<u>\$ 39</u>	<u>\$ 71</u>

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

	Pension Plan		Healthcare Plan	
	2013	2012	2013	2012
	(In thousands)			
Prior service cost (credit)	\$ 2	\$ 3	\$ (17)	\$ (20)
Net actuarial loss	900	2,574	97	93
	<u>\$ 902</u>	<u>\$ 2,577</u>	<u>\$ 80</u>	<u>\$ 73</u>

The estimated costs that will be amortized from accumulated other comprehensive loss into net periodic cost during 2014 are as follows:

	Pension Plan	Healthcare Plan	Total
	(In thousands)		
Prior service cost (credit)	\$ 1	\$ (4)	\$ (3)
Net actuarial loss	41	9	50
Total	<u>\$ 42</u>	<u>\$ 5</u>	<u>\$ 47</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 12 - Pension and Postretirement Benefit Plans (Continued)

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

	Pension Plan		Healthcare Plan	
	2013	2012	2013	2012
Discount rates:				
Benefit cost for Plan Year	3.84%	4.27%	3.84%	4.50%
Benefit obligation at end of Plan Year	4.93%	3.84%	4.73%	3.84%
Expected long-term return on plan assets	6.50%	7.00%	N/A	N/A
Rate of compensation increase:				
Benefit cost for Plan Year	3.00%	3.00%	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, 2013 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 \$54,000.

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 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 2013, it expects to contribute to the Pension Plan during 2014. 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,	Pension Plan	Healthcare Plan
	(In thousands)	
2014	\$ 212	\$ 36
2015	280	36
2016	318	36
2017	348	36
2018	375	36
2019 - 2023	2,403	172
	\$ 3,936	\$ 352

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 12 - Pension and Postretirement Benefit Plans (Continued)

The fair value of the Company's pension plan assets at December 31, 2013 and 2012 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
	(In thousands)			
December 31, 2013:				
Cash equivalents:				
Foreign currencies	\$ 14	\$ 14	\$ -	\$ -
Government issues	140	-	140	-
Short term investment funds	373	-	373	-
Total cash equivalents	<u>527</u>	<u>14</u>	<u>513</u>	<u>-</u>
Equity securities:				
Common stock	4,791	4,791	-	-
Depository receipts	60	46	14	-
Preferred stock	23	23	-	-
Real estate investment trust	14	14	-	-
Total equity securities	<u>4,888</u>	<u>4,874</u>	<u>14</u>	<u>-</u>
Fixed income securities:				
Auto loan receivable	35	-	35	-
Collateralized mortgage obligations	1,057	-	1,057	-
Corporate bonds	1,137	-	1,137	-
Federal Home Loan Mortgage Corporation	132	-	132	-
Federal National Mortgage Association	455	-	455	-
Government National Mortgage Association I	32	-	32	-
Government National Mortgage Association II	14	-	14	-
Government issues	1,342	-	1,342	-
Municipals	32	-	32	-
Total fixed income securities	<u>4,236</u>	<u>-</u>	<u>4,236</u>	<u>-</u>
Total	<u>\$ 9,651</u>	<u>\$ 4,888</u>	<u>\$ 4,763</u>	<u>\$ -</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 12 - Pension and Postretirement Benefit Plans (Continued)

	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
	(In thousands)			
December 31, 2012:				
Cash equivalents:				
Foreign currencies	\$ 8	\$ 8	\$ -	\$ -
Government issues	43	-	43	-
Short term investment funds	978	-	978	-
Total cash equivalents	<u>1,029</u>	<u>8</u>	<u>1,021</u>	<u>-</u>
Equity securities:				
Common stock	3,513	3,513	-	-
Depository receipts	79	79	-	-
Preferred stock	16	16	-	-
Real estate investment trust	16	16	-	-
Total equity securities	<u>3,624</u>	<u>3,624</u>	<u>-</u>	<u>-</u>
Fixed income securities:				
Auto loan receivable	43	-	43	-
Collateralized mortgage obligations	865	-	865	-
Corporate bonds	753	-	753	-
Federal Home Loan Mortgage Corporation	99	-	99	-
Federal National Mortgage Association	396	-	396	-
Government National Mortgage Association I	4	-	4	-
Government National Mortgage Association II	18	-	18	-
Government issues	1,136	-	1,136	-
Municipals	9	-	9	-
Other asset backed securities	2	-	2	-
Total fixed income securities	<u>3,325</u>	<u>-</u>	<u>3,325</u>	<u>-</u>
Total	<u>\$ 7,978</u>	<u>\$ 3,632</u>	<u>\$ 4,346</u>	<u>\$ -</u>

At December 31, 2013 and 2012, the portfolio was managed by two investment firms. In addition, as of December 31, 2013 and 2012, approximately \$120,000 and \$624,000, respectively, of Pension Plan monies had not yet been allocated to either investment manager. At December 31, 2013, control was split at approximately 58%, 41% and 1%. At December 31, 2012, the portfolio was split at approximately 49%, 43% and 8%.

At December 31, 2013 and 2012, there was a 5% and 12% portfolio concentration in the State Street & Trust Co. Short Term Investment Fund, respectively.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 12 - Pension and Postretirement Benefit Plans (Continued)

Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as 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 assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Investments valued using the Net Asset Value (NAV) are classified as Level 2 if the Pension Plan can redeem its investment with the investee at the NAV at the measurement date. If the Pension Plan can never redeem the investment with the investee at the NAV, it is considered a Level 3. If the Pension Plan can redeem the investment at the NAV at a future date, the Pension Plan's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

The Pension Plan uses the Thomsson Reuters Pricing Service to determine the fair value of equities and the pricing service of IDC Corporate USA to determine the fair value of fixed income securities.

There were no transfers in or out of Level 3 in the years ended December 31, 2013 and 2012.

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 below. Cash equivalents consist primarily of government issues (maturing in less than three months) and short term investment funds. Equity securities primarily include investments in common stock. Fixed income securities primarily include corporate bonds, collateralized mortgage obligations, government issues and mortgage backed securities.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 12 - Pension and Postretirement Benefit Plans (Continued)

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 "Selection of Economic Assumptions for Measuring Pension Obligations" 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

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 February 2012, the investment guidelines were revised. Currently, investment managers are prohibited from purchasing any security greater than 5% of the portfolio at the time of purchase or greater than 8% at market value in any one issuer. In addition, the following investments are prohibited:

Equity securities:

- Short sales,
- Unregistered securities, and
- Margin purchases.

Fixed income securities:

- Mortgage backed derivatives that have an inverse floating rate coupon or that are interest only securities,
- Any asset backed security that is not issued by the U.S. government or its agencies or instrumentalities,
- In general, securities of less than Baa2/BBB quality, and
- Securities of less than A-quality may not in the aggregate exceed 13% of the investment manager's portfolio. Prior to February 2012, these investments could not exceed 10% of the manager's portfolio.
- Effective February 2012, an investment manager's portfolio of commercial mortgage-backed securities and asset-backed securities may not exceed 10% of the portfolio at the time of purchase.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 12 - Pension and Postretirement Benefit Plans (Continued)

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. Effective June 25, 2013 the issuer of any security purchased must be located in a country in the MSCI (Morgan Stanley Capital International World Index).

The target allocation for 2014 and actual allocation of plan assets as of December 31, 2013 and 2012 are as follows:

Asset Category	Target Allocation	% of Plan Assets at December 31,	
	2014	2013	2012
Cash equivalents	0-20%	5.5%	12.8%
Equity securities	40-60%	50.6%	45.5%
Fixed income securities	40-60%	43.9%	41.7%
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 \$267,000 and \$246,000 under these provisions during 2013 and 2012, 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, 2013 and 2012 was \$2.8 million and \$2.5 million, respectively, and is recorded in other liabilities in the consolidated balance sheets. Compensation expense related to the SERP was \$250,000 and \$360,000 for the years ended December 31, 2013 and 2012.

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 from the original date the executive entered the plan. Awarded shares from both the prior plan and the current plan are restricted from being sold until employment is terminated.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 12 - Pension and Postretirement Benefit Plans (Continued)

Deferred Compensation Plans - continued

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 earned by each executive under the deferred compensation plan. The executives are awarded a number of shares based on the amount of deferred compensation earned divided by the value of the shares. The value of the shares purchased on the open market is the price paid. The value of 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 59,216 and 55,242 at December 31, 2013 and 2012, respectively. Total shares awarded were 3,974 and 5,175 for 2013 and 2012, respectively. There were no unvested shares at December 31, 2013. Compensation expense is recognized over the vesting period, and is based upon the total amount of the value of the shares awarded to each executive. Compensation expense related to the plan was approximately \$106,000 and \$108,000 for the years ended December 31, 2013 and 2012, respectively.

Note 13 - Earnings Per Share

The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted EPS for each of the years ended December 31:

	<u>2013</u>	<u>2012</u>
	(in thousands, except per share data)	
Net income available to common shareholders	\$ 7,029	\$ 6,170
Adjustment for dilutive potential common shares	107	107
Net income available for diluted common shares	<u>\$ 7,136</u>	<u>\$ 6,277</u>
Weighted average common shares used to calculate basic EPS	1,488,950	1,391,330
Add: effect of common stock equivalents	105,552	105,552
Weighted average common shares used to calculate diluted EPS	<u>1,594,502</u>	<u>1,496,882</u>
Earnings per common share:		
Basic	<u>\$ 4.72</u>	<u>\$ 4.43</u>
Diluted	<u>\$ 4.48</u>	<u>\$ 4.19</u>

Note 14 - 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 collectability or present any other unfavorable features.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 14 - Related Party Transactions (Continued)

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

	<u>2013</u>	<u>2012</u>
	(In thousands)	
Beginning balance, January 1	\$ 5,749	\$ 5,778
New loans	3,141	840
New Directors	8,150	-
Repayments	(6,073)	(869)
Ending balance, December 31	<u>\$ 10,967</u>	<u>\$ 5,749</u>

The Bank has an operating lease with one of its directors. Under the terms of the lease, the Bank receives monthly payments of approximately \$4,038 through August 2014, increasing 2.5% per year thereafter until August 2015.

Note 15 - 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:

	<u>2013</u>	<u>2012</u>
	(In thousands)	
Commitments to extend credit:		
Commitments to grant loans	\$ 48,054	\$ 63,296
Unfunded commitments under commercial lines of credit	52,054	49,495
Unfunded commitments under consumer lines of credit	44,678	39,238
Standby letters of credit	<u>8,798</u>	<u>8,938</u>
	<u>\$ 153,584</u>	<u>\$ 160,967</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 15 - Commitments and Contingent Liabilities (Continued)

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 \$7.5 million and \$7.3 million at December 31, 2013 and 2012, respectively. The amount of the liability related to guarantees under standby letters of credit was not material at December 31, 2013 and 2012.

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 \$4.9 million and \$3.8 million at December 31, 2013 and 2012 respectively, 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 16 - Concentrations of Credit

The Company's loan customers are located primarily in the New York communities served by the Bank. Investments in state and local government securities also involve governmental entities within the Company's market area. Although operating in numerous communities in New York State, the Company is still dependent on the general economic conditions of New York. The largest concentration of credit by industry is Lessor's of Nonresidential Buildings, with loans outstanding of \$21.5 million or 4.29% of total loans as of December 31, 2013. Risk related to this concentration is controlled through adherence to loan policy guidelines, including appropriate debt service coverage, adequate property values substantiated by current appraisals, and obtaining guarantors where appropriate. The Company, as a matter of policy, does not extend credit to any single borrower, or group of related borrowers, in excess of its legal lending limit. Further information on the Company's lending activities is provided in "Note 4 Loans" in Notes to Consolidated Financial Statements.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 17 - Regulatory Matters

The supervision and regulation of financial and bank holding companies and their subsidiaries is intended primarily for the protection of depositors, the deposit insurance funds regulated by the Federal Deposit Insurance Corporation (“FDIC”) and the banking system as a whole, and not for the protection of shareholders or creditors of bank holding companies. The various bank regulatory agencies have broad enforcement power over financial holding companies and banks, including the power to impose substantial fines, operational restrictions and other penalties for violations of laws and regulations and for safety and soundness considerations.

Capital

The Company (on a consolidated basis) and the Bank are 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 and the Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and 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, 2013, that the Company and the Bank meet all capital adequacy requirements to which they are 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 Company’s and the Bank’s capital amounts and ratios are also presented in the table below.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 17 - Regulatory Matters (Continued)

Capital - continued

(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, 2013:						
Total risk-based capital						
Consolidated	\$66,194	12.7 %	\$≥41,670	≥8.0 %	\$≥52,089	≥10.0 %
Bank	\$66,752	12.8 %	\$≥41,638	≥8.0 %	\$≥52,048	≥10.0 %
Tier 1 capital						
Consolidated	\$59,688	11.5 %	\$≥20,835	≥4.0 %	\$≥31,253	≥6.0 %
Bank	\$60,246	11.6 %	\$≥20,819	≥4.0 %	\$≥31,229	≥6.0 %
Tier 1 leverage						
Consolidated	\$59,688	8.3 %	\$≥28,734	≥4.0 %	\$≥35,917	≥ 5.0 %
Bank	\$60,246	8.4 %	\$≥28,764	≥4.0 %	\$≥35,955	≥ 5.0 %
December 31, 2012:						
Total risk-based capital						
Consolidated	\$60,169	13.2 %	\$≥36,409	≥8.0 %	\$≥45,511	≥10.0 %
Bank	\$60,149	13.2 %	\$≥36,440	≥8.0 %	\$≥45,550	≥10.0 %
Tier 1 capital						
Consolidated	\$54,476	12.0 %	\$≥18,205	≥4.0 %	\$≥27,307	≥ 6.0 %
Bank	\$54,456	12.0 %	\$≥18,220	≥4.0 %	\$≥27,330	≥ 6.0 %
Tier 1 leverage						
Consolidated	\$54,476	8.3 %	\$≥26,391	≥4.0 %	\$≥32,989	≥ 5.0 %
Bank	\$54,456	8.3 %	\$≥26,367	≥4.0 %	\$≥32,959	≥ 5.0 %

Dividend Restrictions

In the ordinary course of business, the Company is dependent upon dividends from the Bank to provide funds for the payment of interest expense on the junior subordinated debentures, dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years.

At December 31, 2013, the Bank's retained earnings available for the payment of dividends was approximately \$16.0 million.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 18 - 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. 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 assets and liabilities. 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.

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

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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 18 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

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, 2013 and 2012:

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

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

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 pricing models (Level 2), which consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. 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 primarily carried at cost due to their limited marketability. The fair value of the Company's investment in Farmer Mac is determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1).

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, resulting in a Level 2 classification.

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, resulting in a Level 3 classification. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 18 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Impaired Loans

The fair value of loans considered impaired is generally determined based upon independent third party appraisals of the properties (market approach), 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 balances of \$3.5 million and \$3.4 million, net of valuation allowances of \$1.0 million and \$1.1 million as of December 31, 2013 and 2012, respectively.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and accrued interest payable approximates 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, resulting in a Level 2 classification.

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, resulting in a Level 2 classification. 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, resulting in a Level 2 classification.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 18 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Interest Rate Swap Agreements

The fair value of the interest rate swap derivative is calculated based on a discounted cash flow model. All future floating cash flows are projected and both floating and fixed cash flows are discounted to the valuation date. The curve utilized for discounting and projecting is built by obtaining publicly available third party market quotes for various swap maturity terms, resulting in a Level 2 classification.

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, 2013 and 2012 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
(In thousands)			
December 31, 2013:			
Securities available for sale:			
United States agencies	\$ 41,139	\$ -	\$ 41,139
State and local governments	62,634	-	62,634
Mortgage-backed securities	36,401	-	36,401
Total securities available for sale	<u>\$ 140,174</u>	<u>\$ -</u>	<u>\$ 140,174</u>
Restricted equity security	\$ 56	\$ 56	\$ -
Interest rate swap agreements	<u>\$ (611)</u>	<u>\$ -</u>	<u>\$ (611)</u>
December 31, 2012:			
Securities available for sale:			
United States treasuries	\$ 10,127	\$ -	\$ 10,127
United States agencies	46,768	-	46,768
State and local governments	61,213	-	61,213
Mortgage-backed securities	44,188	-	44,188
Total securities available for sale	<u>\$ 162,296</u>	<u>\$ -</u>	<u>\$ 162,296</u>
Restricted equity security	\$ 51	\$ 51	\$ -
Interest rate swap agreements	<u>\$ (1,011)</u>	<u>\$ -</u>	<u>\$ (1,011)</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 18 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis

There were no assets measured at fair value on a nonrecurring basis at December 31, 2013 and 2012.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2013 and 2012 are as follows:

	Fair Value Hierarchy	2013		2012	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In thousands)					
Financial assets:					
Cash and due from banks	1	\$ 12,959	\$ 12,959	\$ 13,421	\$ 13,421
Interest-bearing deposits in banks	1	11,173	11,173	7,661	7,661
Investment securities	2	177,378	177,378	174,813	174,813
Loans, net of allowance	3	493,752	505,829	438,906	450,745
Accrued interest receivable	1	2,430	2,430	2,342	2,342
Mortgage servicing rights	1	567	567	505	505
Financial liabilities:					
Demand and savings deposits	1	\$ 473,974	\$ 473,974	\$ 470,253	\$ 470,253
Certificates of deposit	2	153,945	154,215	128,052	128,856
Borrowings from FHLB	2	42,000	42,000	5,000	5,000
Junior subordinated debentures	2	9,217	9,373	9,217	9,508
Interest rate swap agreements	2	611	611	1,011	1,011
Accrued interest payable	1	129	129	85	85

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 19 – Subsequent Events

The Company has evaluated events through March 7, 2014 the date these consolidated financial statements were available to be issued.



Lyons Bancorp, Inc.

It's all about people.

PROFILE

Lyons Bancorp, Inc. is a bank holding company headquartered in Lyons, New York, with assets of \$733 million at December 31, 2013. 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, Canandaigua and Geneva in Ontario County, Penn Yan in Yates County and Waterloo in Seneca County. The Lyons National Bank has one subsidiary, Lyons Realty Associates Corp.

STOCK SYMBOL

LYBC

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Fredericksen & Sirianni, LLP

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Marshall Companies

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