

Annual Meeting of Shareholders



May 20, 2009

Safe Harbor Statement

This presentation includes "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements concerning future business, revenue and earnings. These statements are not historical facts or guarantees of future performance, events or results. There are risks, uncertainties and other factors that could cause the actual results of the Company to differ materially from the results expressed or implied by such forward-looking statements. Information on factors that could affect the Company's business and results is discussed in the Company's periodic reports filed with the Securities and Exchange Commission. Forward looking statements speak only as of the date they are made. The Company undertakes no obligation to publicly update or revise forward looking information, whether as a result of new, updated information, future events or otherwise.

Lake Shore Bancorp Inc.

Corporate Profile

Market Data (as of May 18, 2009) – (Source - NASDAQ)

<input type="checkbox"/> Ticker Symbol	LSBK
<input type="checkbox"/> 52 – Week Range	\$4.31 - \$10.18
<input type="checkbox"/> Current Price	\$7.20
<input type="checkbox"/> Market Capitalization	\$44.72 million
<input type="checkbox"/> Shares Outstanding	6.21M shares
<input type="checkbox"/> 50 Day Avg. Trading Vol.	2,288 shares
<input type="checkbox"/> Dividend Yield	2.78%
<input type="checkbox"/> Ownership	
– Insider (including MHC, directors and executives)	63.08%
– Institutional	13.90%
– Other	23.02%

Other Data

<input type="checkbox"/> Return on Average Equity	2.99%
(as of March 31, 2009)	



Lake Shore Savings Facts:

- ☐ **We were established in 1891 and have provided over 118 years of service as a community bank.**
- ☐ **We continue to provide loan services to the communities we serve. We have the funds available to provide residential mortgage loans and commercial loans to consumers and small business owners.**
- ☐ **Lake Shore Savings is well capitalized. We do not need government assistance.**

Lake Shore Savings Facts (cont'd.)

- ☐ **We continue to have strong earnings. Our net interest income has been growing.**
- ☐ **We have maintained a steady dividend payment of \$0.05 per share, despite economic news and lower interest rates on loans.**
- ☐ **Branches in Erie County continue to show great potential and growth opportunities for Lake Shore Savings.**
- ☐ **We take great pride in our employees and continue to add talented people to our staff.**

Challenges in 2009

- ☐ Lowest mortgage rates in the last 30 years.
- ☐ Loan refinancing is at an all-time high.
- ☐ Large number of applications for residential mortgage loans have been received in 2009, due to lower interest rates.
- ☐ Lower interest rate yields will result in lower earnings.
- ☐ Holding low rate residential mortgages in our loan portfolio is considered risky.
- ☐ Low rate residential mortgage loans will be sold in the secondary loan market to reduce risk.

Challenges in 2009 (cont'd.)

- ❑ Wait out the storm until rates get to a level where we can again hold loans in our own portfolio.
- ❑ Increase our small business lending in Erie and Chautauqua County. We added two new members to our commercial lending staff. George Gardner in Erie County and Lou Drago in Chautauqua County. Both employees are seasoned lenders with over 20 years of experience.
- ❑ Continue to underwrite all loans using the high standards that have made Lake Shore successful over the years.

Goals for 2009

- ☐ Increase our SBA lending for small business loans.
- ☐ Review new technology to provide the best services available to our customers.
- ☐ Continue to grow our deposit and loans in Erie and Chautauqua Counties.
- ☐ Identify and add two new branches in Erie County by the 3rd quarter of 2011.

Goals for 2009 (cont'd.)

- ☐ Develop a long term Strategic Plan for the future.
- ☐ Continue to improve on our “Branding” in Erie County.
- ☐ Continue to create value for our shareholders.
- ☐ Provide a fair return on investment for our shareholders.

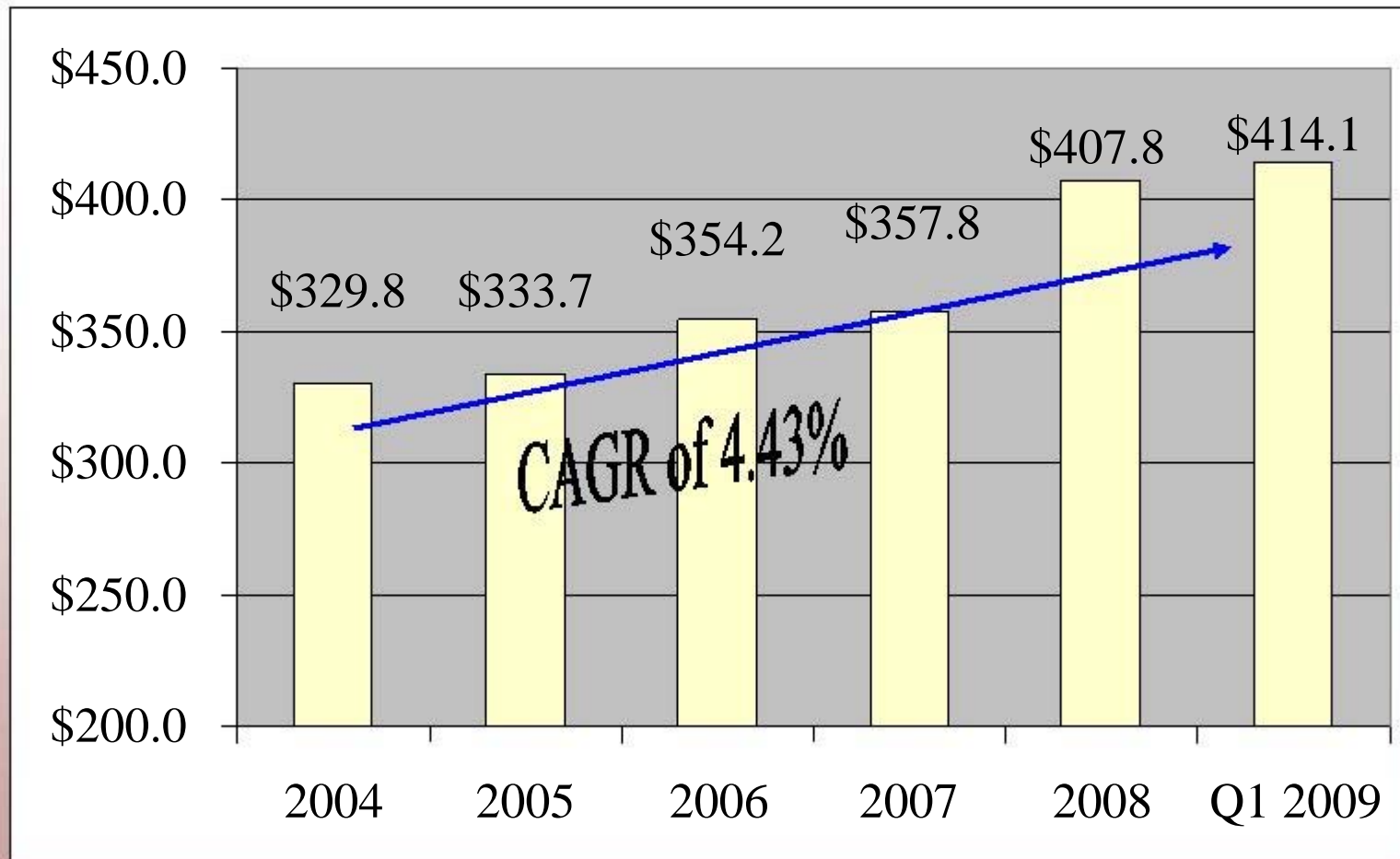


Lake Shore Bancorp, Inc.

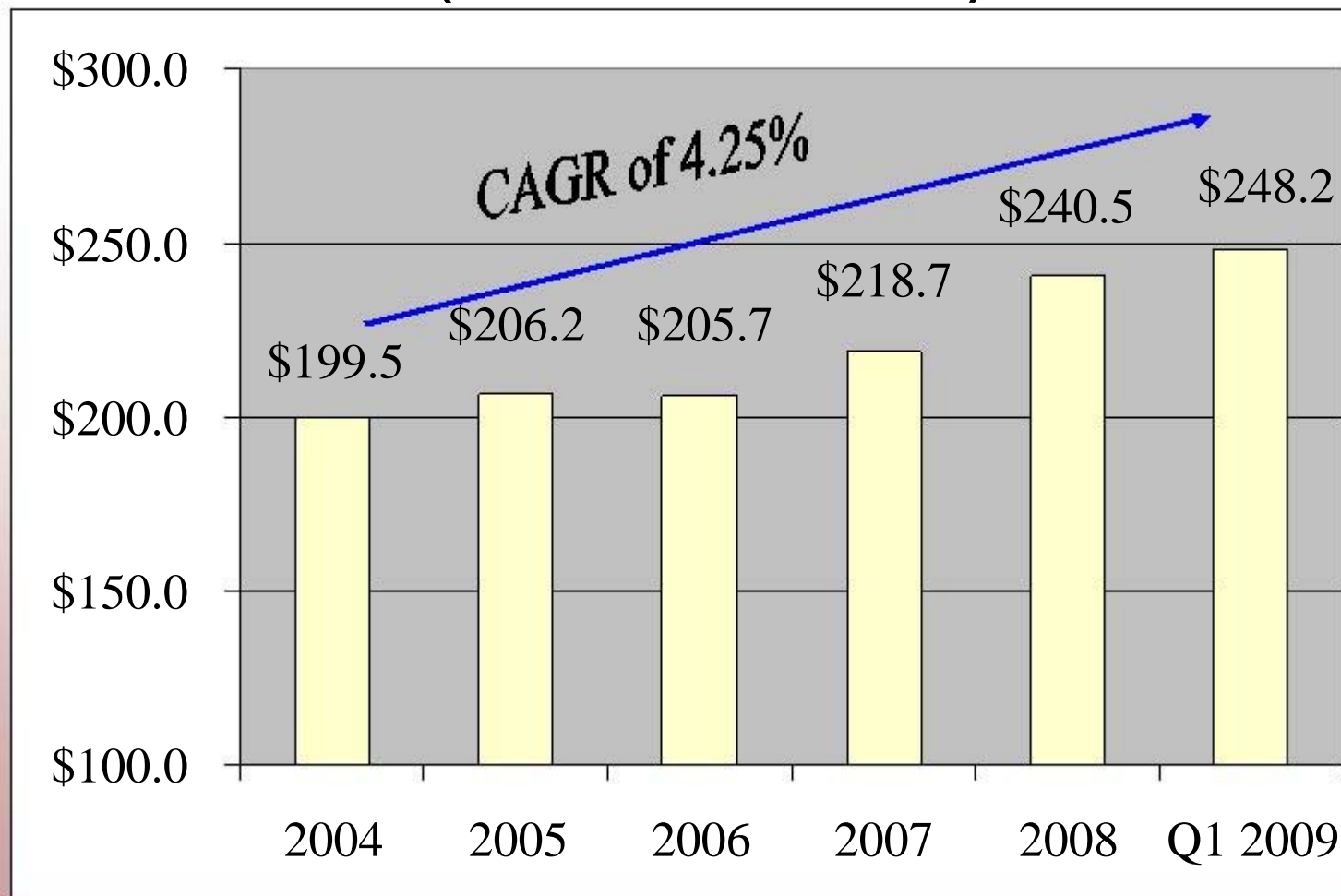
- Financial Presentation
 - Rachel Foley, CFO



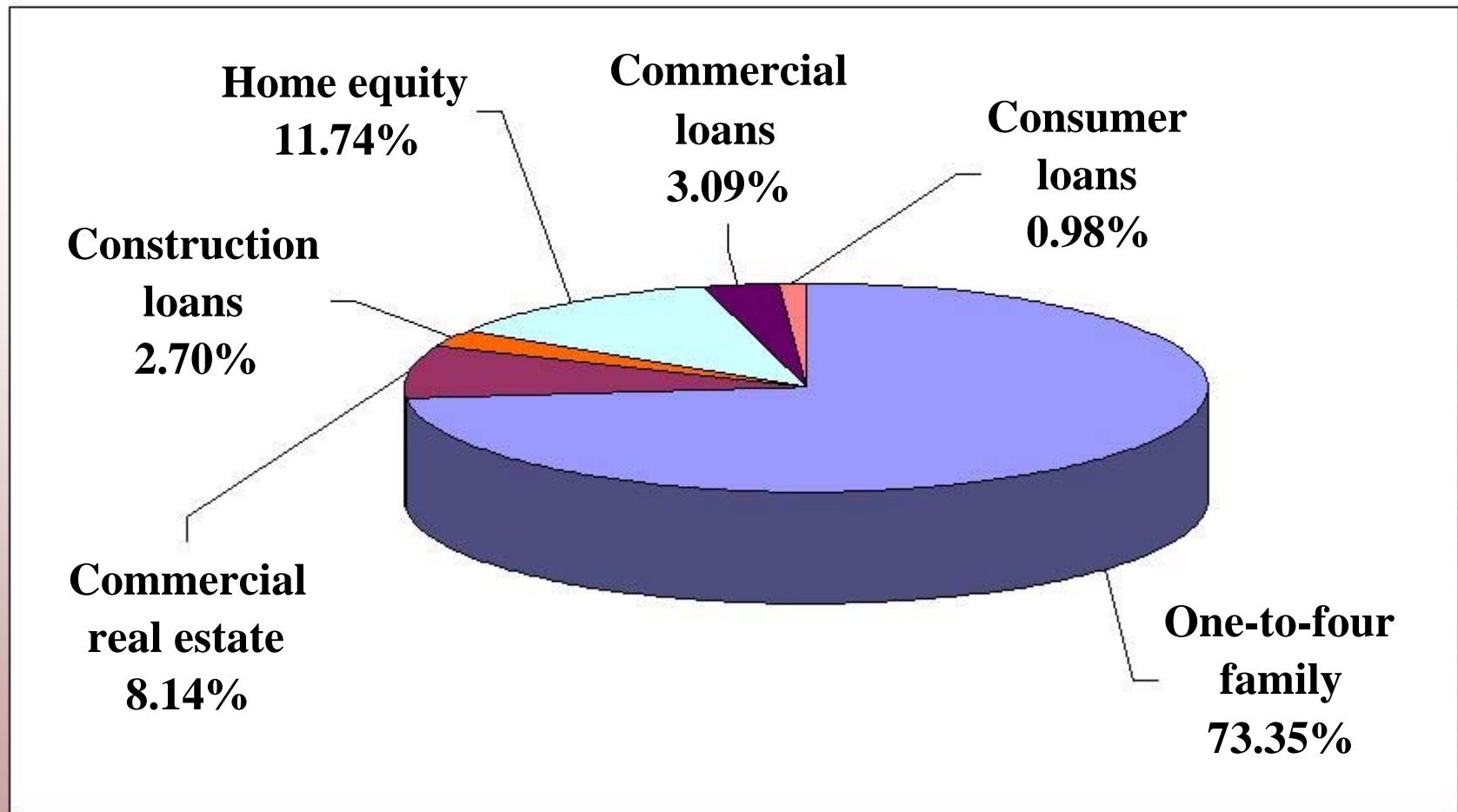
Total Assets (\$ in millions)



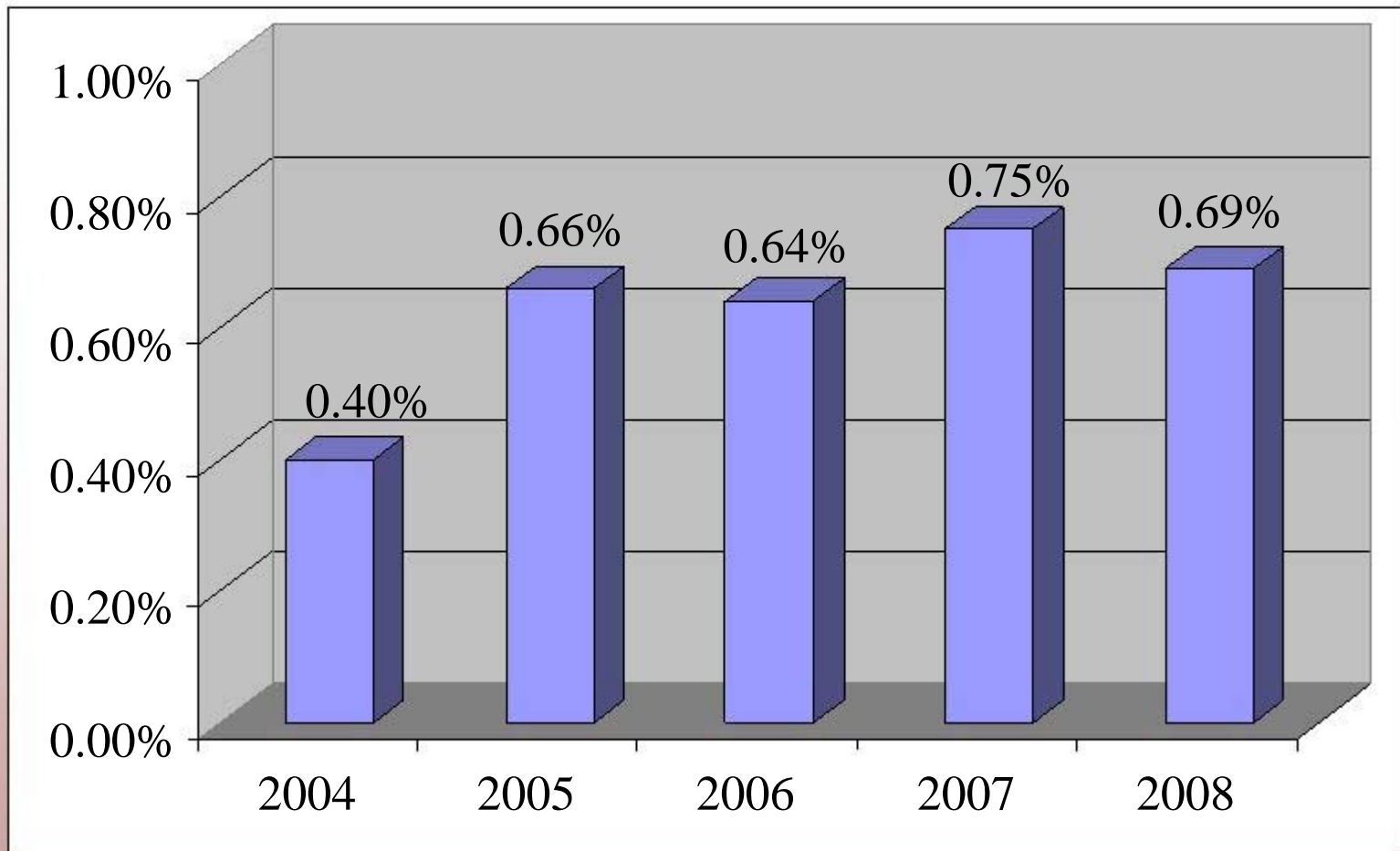
Loans, net (\$ in millions)



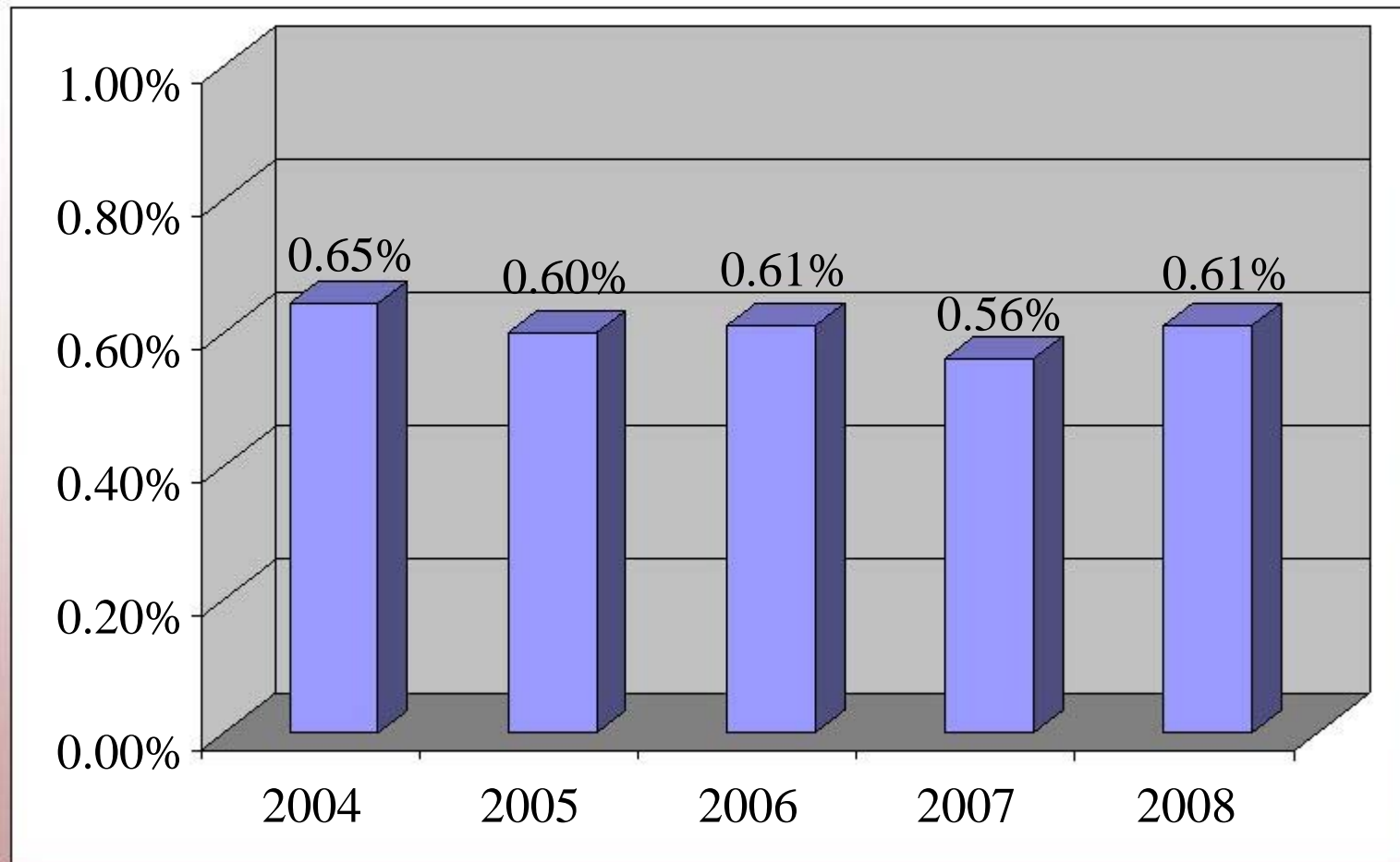
Loan Composition (as of December 31, 2008)



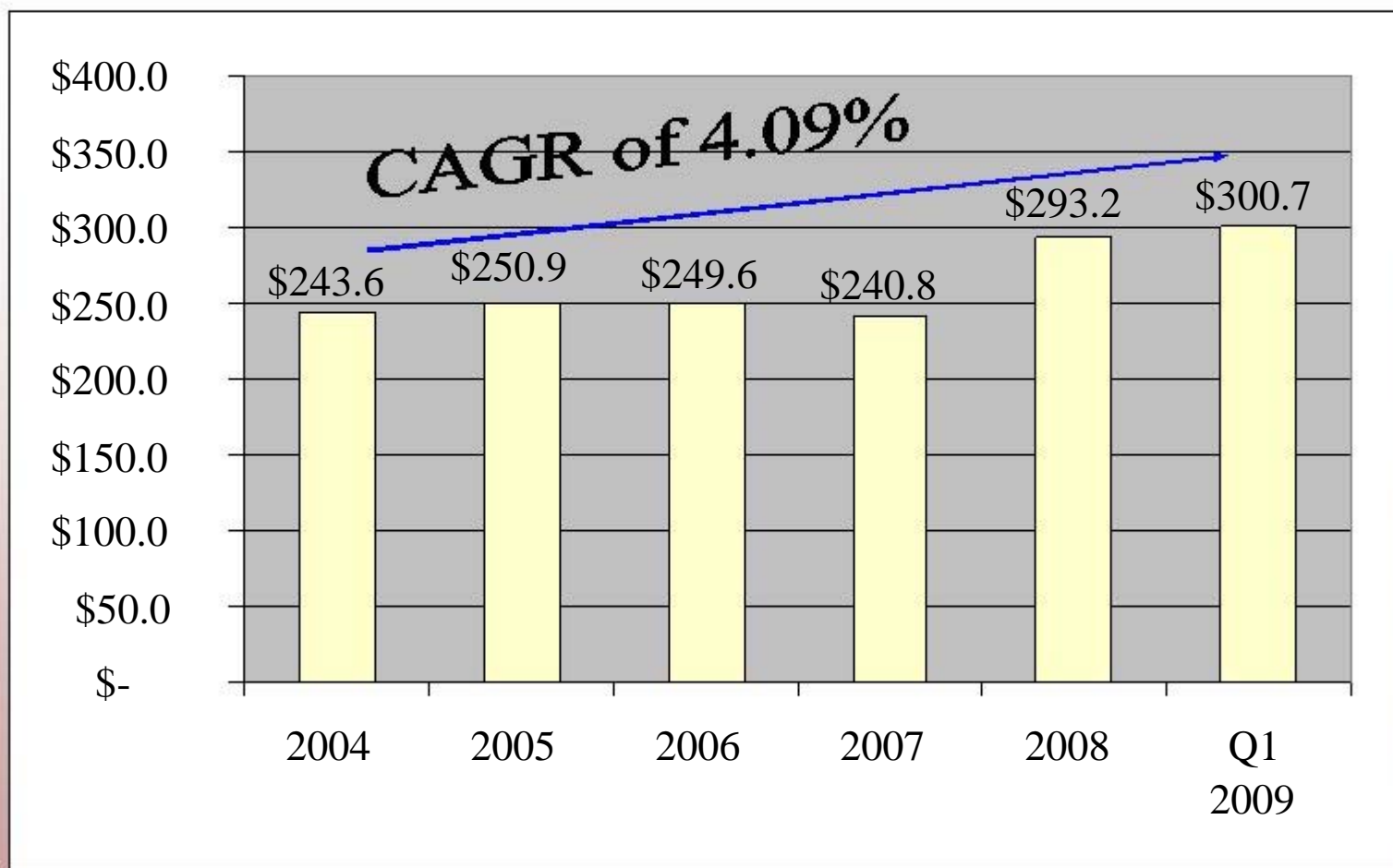
Non-performing Loans as a percentage of Gross Loans



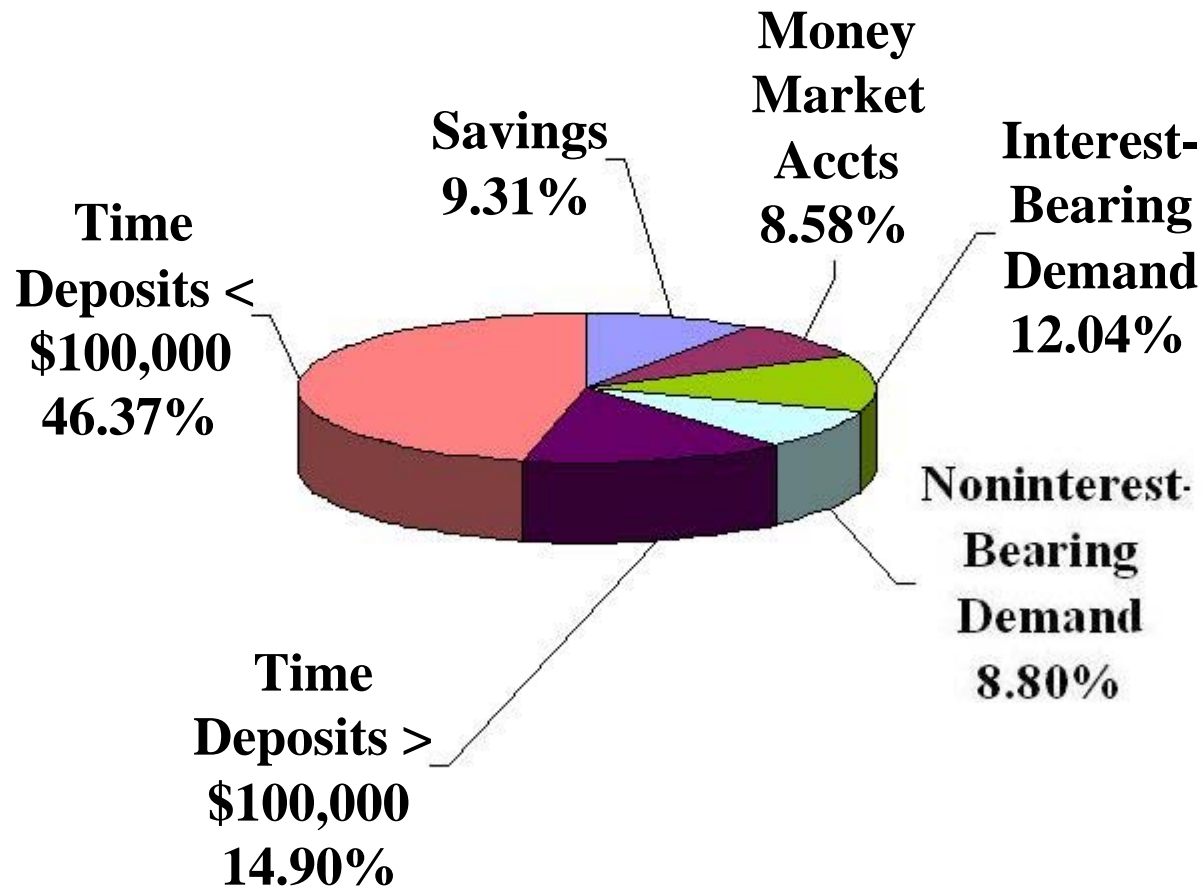
Loan Loss Reserves as a percentage of Loans



Total Deposits (\$ in millions)



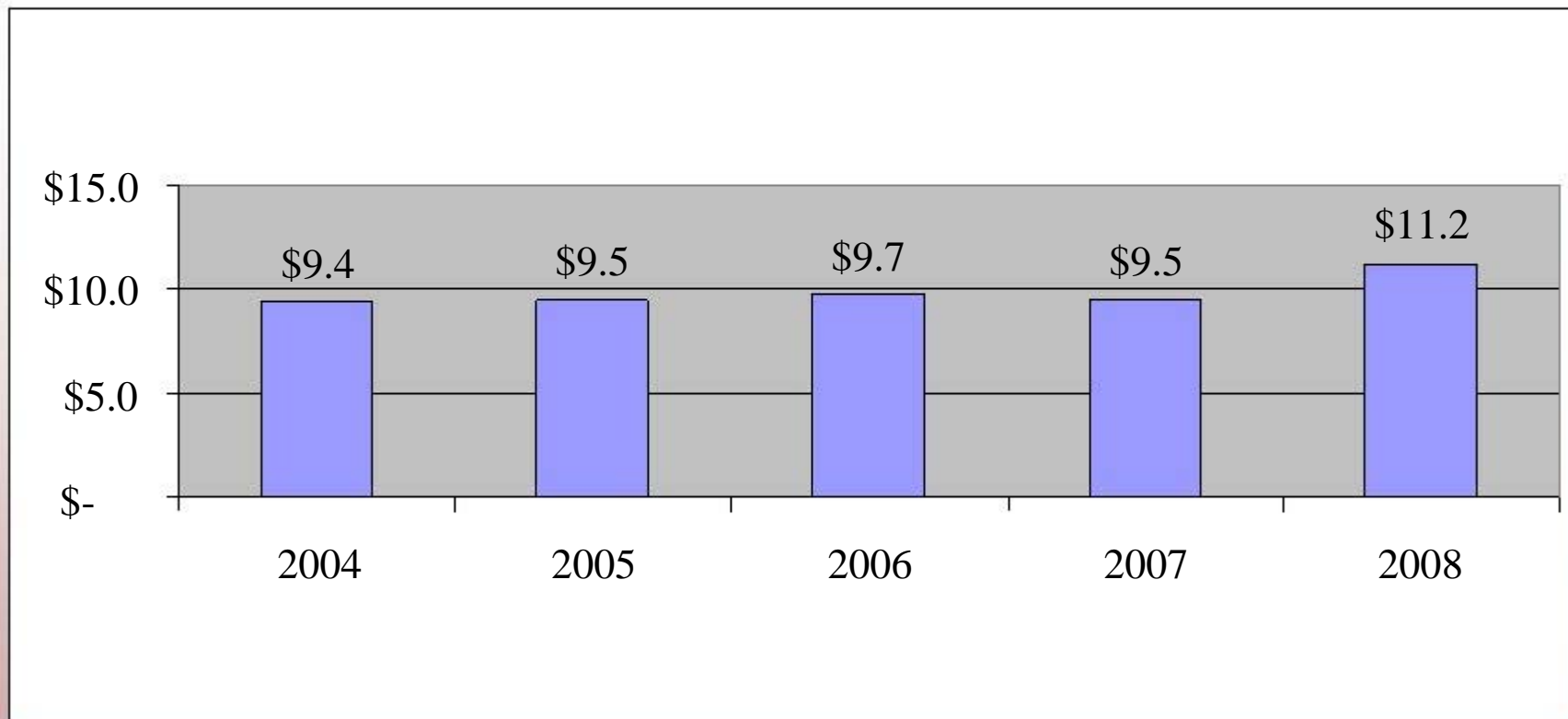
Deposit Composition (as of December 31, 2008)



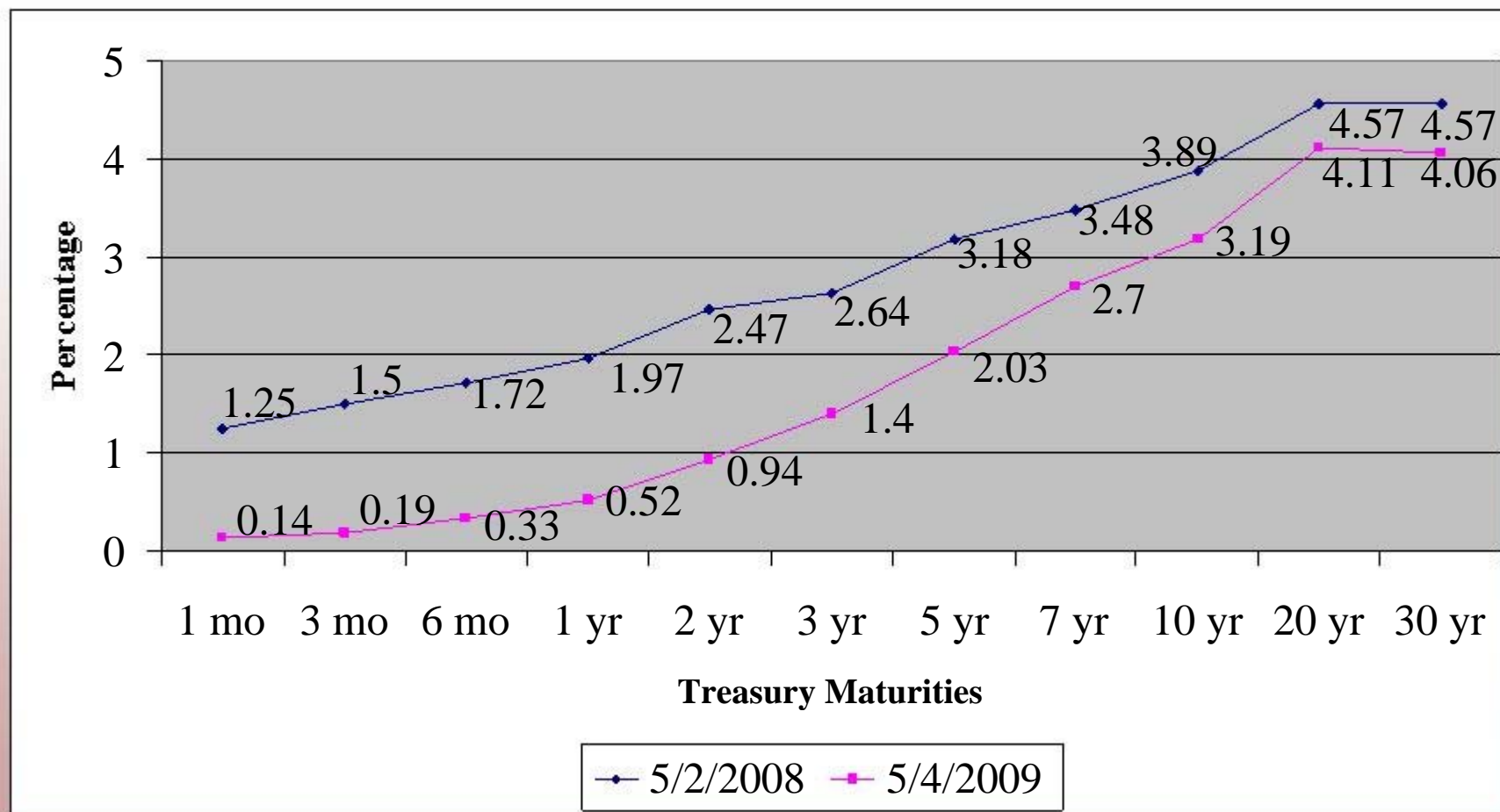
Regulatory Capital Requirements

		Actual				For Capital Adequacy		To be Well Capitalized under Prompt Corrective Action Provisions			
								Amount		Ratio	
		Amount	Ratio	Amount	Ratio	Amount	Ratio				
(Dollars in Thousands)											
As of December 31, 2008:											
Total capital (to risk-weighted assets)		\$46,442	22.1	%	\$≥16,849	≥ 8.0	%	\$≥21,061	≥10.0	%	
Tier 1 capital (to adjusted total assets)		44,971	11.2		≥16,062	≥ 4.0		≥20,077	≥5.0		
Tangible equity (to tangible assets)		44,971	11.2		≥ 6,023	≥ 1.5		N/A	N/A		
Tier 1 capital (to risk-weighted assets)		44,971	21.4		≥ 8,424	≥ 4.0		≥12,637	≥6.0		

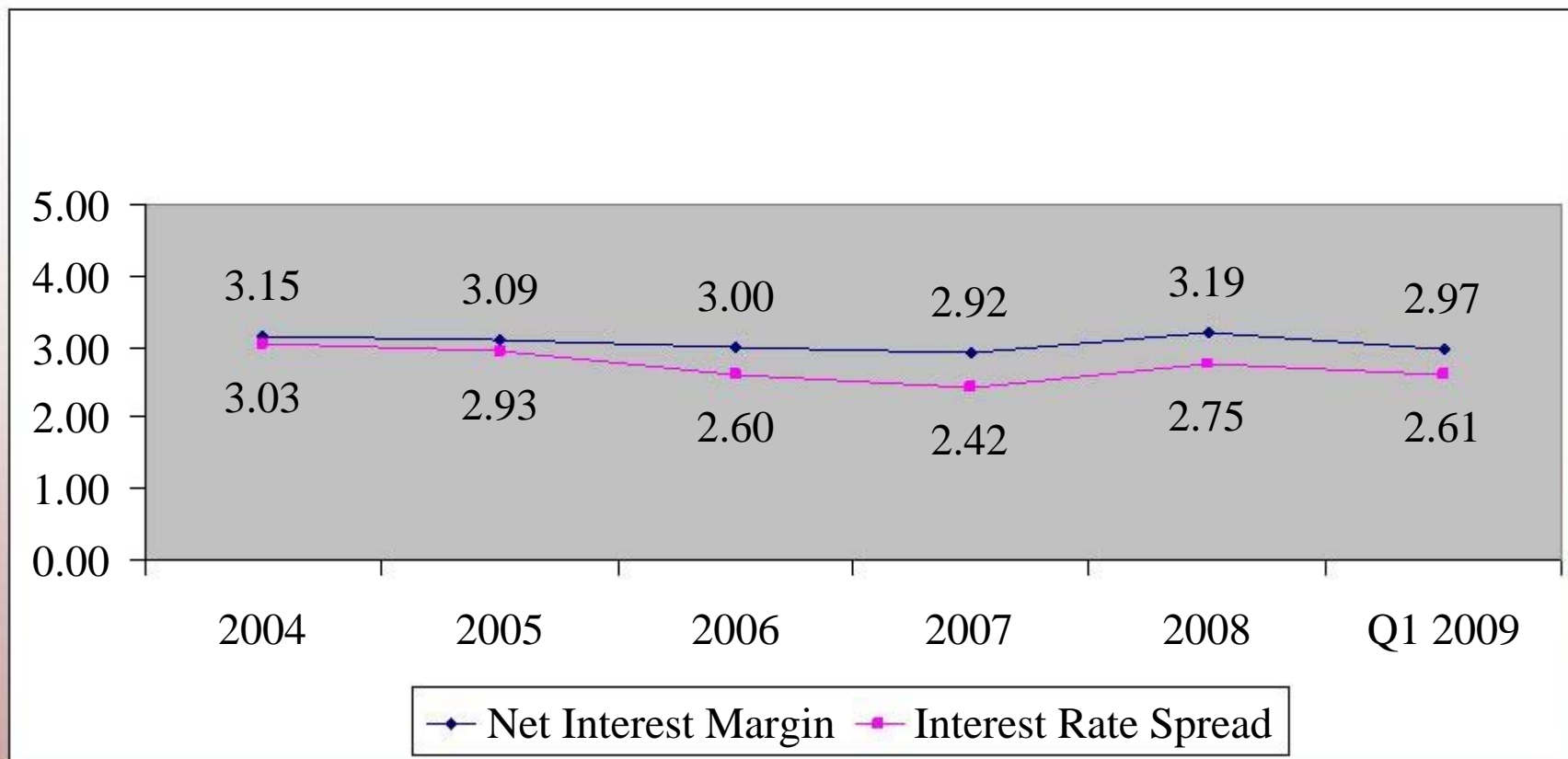
Net Interest Income (\$ in millions)



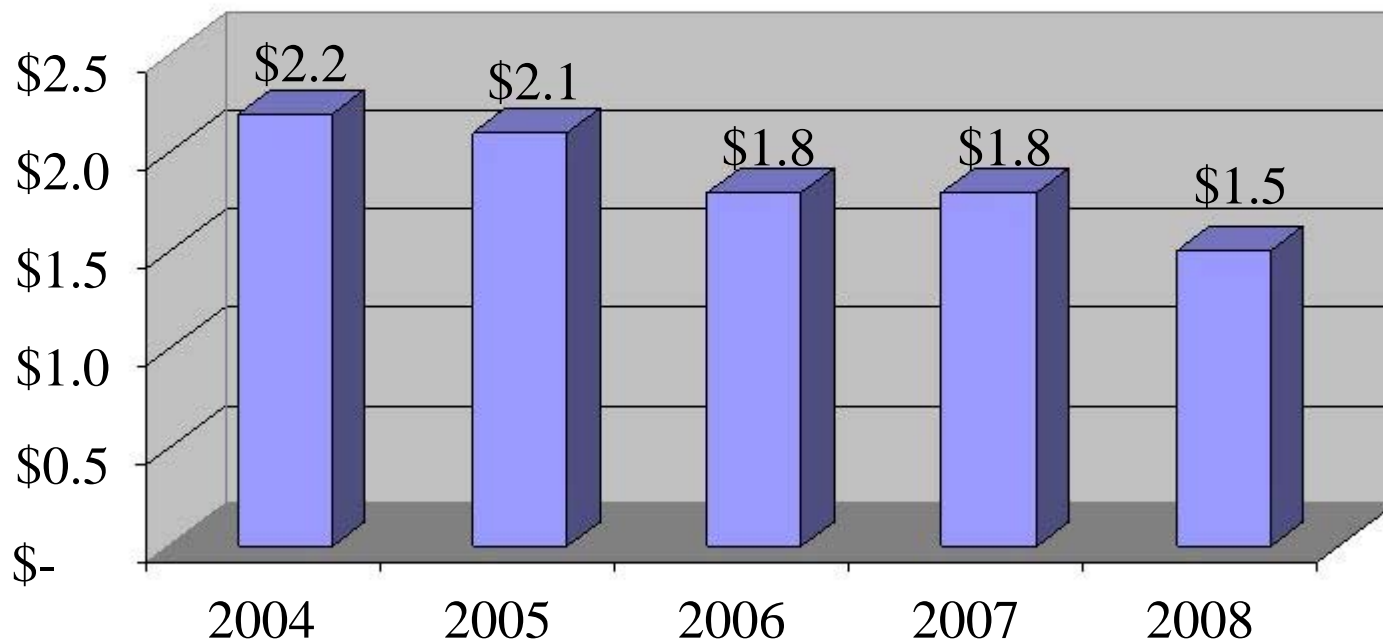
Treasury Yield



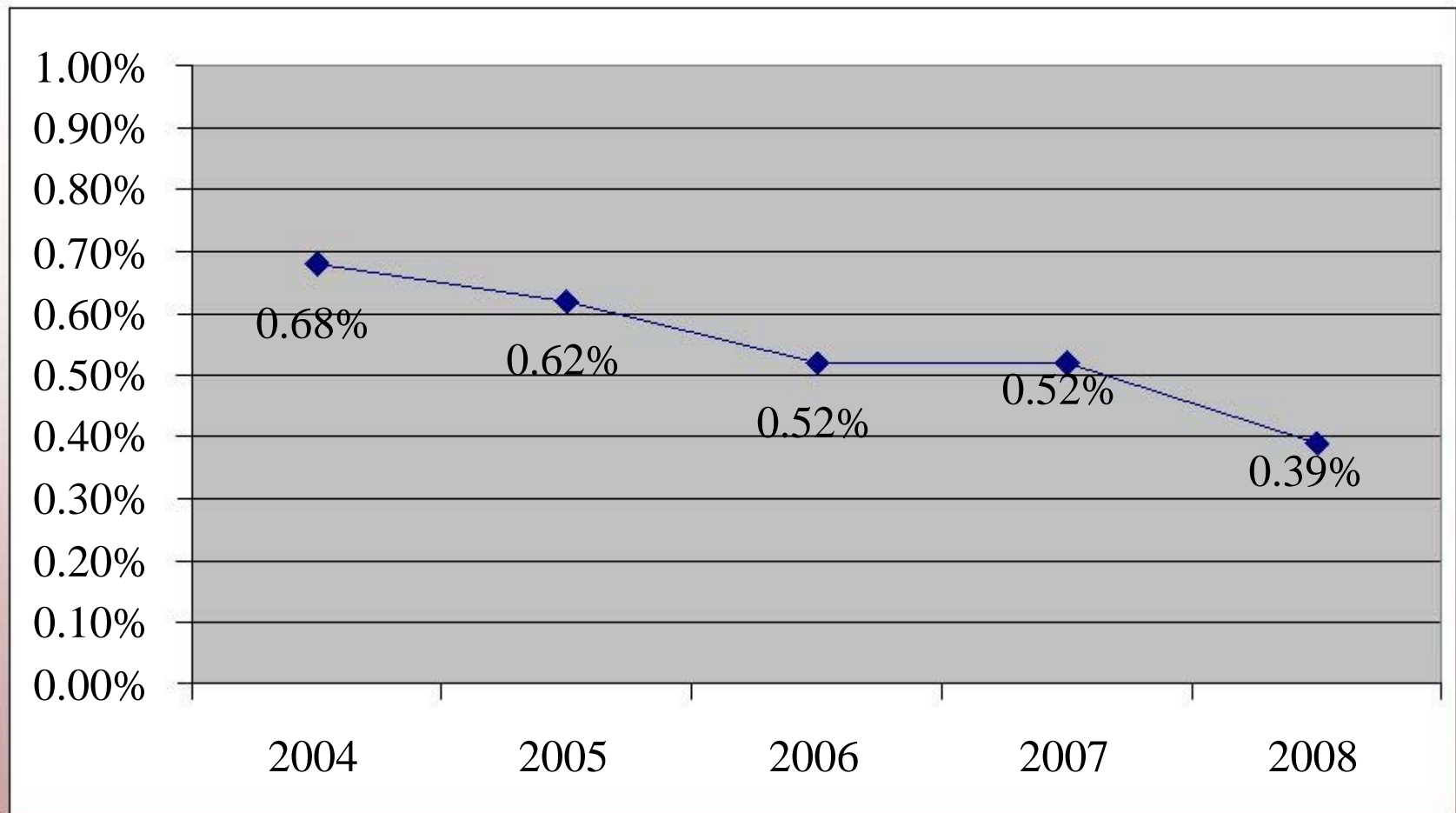
Interest Rate Margin & Spread (in percentages)



Net Income (\$ in millions)



Return on Average Assets (in percentages)



Investment Impairment

- Due to disruptions in the security & housing markets during 2008, some of our investments experienced a severe decline in market value. As a result, we recorded a pre-tax impairment loss of \$1.9 million (\$1.2 million net of tax) on the value of our investment portfolio in 2008.
- If the impairment had not been taken, our net income for 2008 would have been \$2.7 million, an increase of \$839,000, or 46.2%, over 2007 results.

Interest Rate Floor

- Purchased August 2006.
- Cost \$221,000.
- Covers \$10 Million “notional” amount of variable rate loans tied to prime rate.
- Receive interest income if prime rate falls below 8%.
- Prime rate fell below 8% in September 2007.
- \$346,180 interest income received through January 30, 2009.

Interest Rate Floor (cont'd.)

- Floor product is a derivative.
- Increase or decrease in fair market value is recorded as interest income.
- Fair market value increased in 2007 and 2008 due to falling interest rates.
- Since inception, we recorded \$669,000 in gains in the fair value of this asset.
- We sold the floor on January 30, 2009. Management determined that the value of the product had reached its peak, based on an evaluation of estimated prime rate changes in the future.
- Total cash flow received on the investment, net of cost, was \$1,015,180 over the last 2.5 years, resulting in an internal rate of return of 79.3%.

1st Quarter 2009 Results

- Total Assets up \$6.2M since Dec. 31st
– Loans, net up \$7.7M.
- Total Deposits up \$7.4M since Dec. 31st
- Increases primarily due to the new branch office that opened in Kenmore, NY on December 1, 2008, and due to low interest rates being offered on residential mortgage loans.

1st Quarter 2009 vs. 1st Quarter 2008 Results

- \$405,000 net income compared to \$658,000 in 1st quarter of 2008, a 38.4% decrease.
 - \$302,000 decrease in interest income due to fair value and interest income on interest rate floor being \$43,000 prior to sale on January 30, 2009, versus a \$345,000 increase on floor product in 1st Q of 2008.
 - \$198,000 decrease in interest expense due to lower interest rates in 2009.

Dividends Paid per Share

