

# Annual Shareholders' Meeting

**May 20, 2020**



# Agenda

- ▶ **Call to Order - Gary W. Winger, Chairman**
- ▶ **Introduction of Officers, Directors and Director Nominees**
- ▶ **Secretary's Report**
- ▶ **Presentation of Proposals**
- ▶ **Executive Management Report to Shareholders**
- ▶ **Vote Report**
- ▶ **Adjournment**

# Board of Directors

|  | Director Since |
|--|----------------|
| Susan C. Ballard   | 2012           |
| Tracy S. Bennett   | 2010           |
| Sharon E. Brautigam, Nominating and Governance<br>Committee Chairperson                  | 2004           |
| David C. Mancuso, Asset Liability Management<br>Committee Chairman                       | 1998           |
| John P. McGrath  | 2019           |
| John (“Jack”) L. Mehlretter  | 2016           |
| Ronald J. Passafaro  | 2019           |
| Daniel P. Reininga, President and Chief Executive Officer<br>and Loan Committee Chairman | 1994           |
| Kevin M. Sanvidge, Vice Chairman of the Board and<br>Compensation Committee Chairman     | 2012           |
| Gary W. Winger, Chairman of the Board  | 1997           |
| Nancy L. Yocum, Audit/Risk Committee Chairperson   | 1995           |

# Business of Annual Shareholders Meeting

- ▶ The election of three Class Three directors to serve until the 2023 Annual Meeting and two Class One directors to serve until the 2021 Annual Meeting. Upon the recommendation of the Nominating and Corporate Governance Committee, the following five candidates have been nominated by our Board of Directors:
  - ▶ **Class Three Directors**  
Susan C. Ballard  
John (“Jack”) L. Mehlretter  
Daniel P. Reininga
  - ▶ **Class One Directors**  
John P. McGrath  
Ronald J. Passafaro
- ▶ A non-binding “say on pay” proposal to approve the compensation of the named executive officers;
- ▶ Ratify the appointment of Baker Tilly Virchow Krause, LLP as the Company’s independent registered public accounting firm for the year ending December 31, 2020; and
- ▶ Such other business as may be properly brought before the meeting and any adjournment or postponement thereof.



# Executive Management Presentation

Daniel P. Reininga,  
President and Chief Executive Officer

# Safe Harbor Statement

*This presentation includes “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. We intend such forward-looking statements to be covered by the Safe Harbor Provision and are including this statement for the purpose of such Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995.*

*Such forward-looking statements include, but are not limited to, statements concerning future business, revenue and earnings. They often include words such as “believe,” “expect,” “anticipate,” “estimate,” and “intend” or future or conditional verbs, such as “will,” “would,” “should,” “could,” or “may”. 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.*

*As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, the Company could be subject to any of the following additional risks, any of which could have a material, adverse effect on its business, financial condition, liquidity, and results of operations:*

- demand for our products and services may decline, making it difficult to grow assets and income;*
- if the economy is unable to substantially reopen, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income;*
- collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;*
- our allowance for loan losses may have to be increased if borrowers experience financial difficulties beyond forbearance periods, which will adversely affect our net income;*
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us;*
- as the result of the decline in the Federal Reserve Board’s target federal funds rate to near 0%, the yield on our assets may decline to a greater extent than the decline in our cost of interest-bearing liabilities, reducing our net interest margin and spread and reducing net income;*
- a material decrease in net income over several quarters could result in a decrease in the rate of our quarterly cash dividend;*
- our cyber security risks are increased as the result of an increase in the number of employees working remotely;*
- we rely on third party vendors for certain services and the unavailability of a critical service due to the COVID-19 outbreak could have an adverse effect on us; and*
- FDIC premiums may increase if the agency experiences additional resolution costs.*

# COVID 19 Response and Bank Strategy

- ▶ Pandemic Plan Implemented March 12, 2020
- ▶ Protecting our Customers and Employees
- ▶ Our Mission and Values Drive Our Response to COVID-19

Our primary management strategy has been to maintain our position as an authentic community bank, locally headquartered in Western New York, with over 128 years of service to our community.

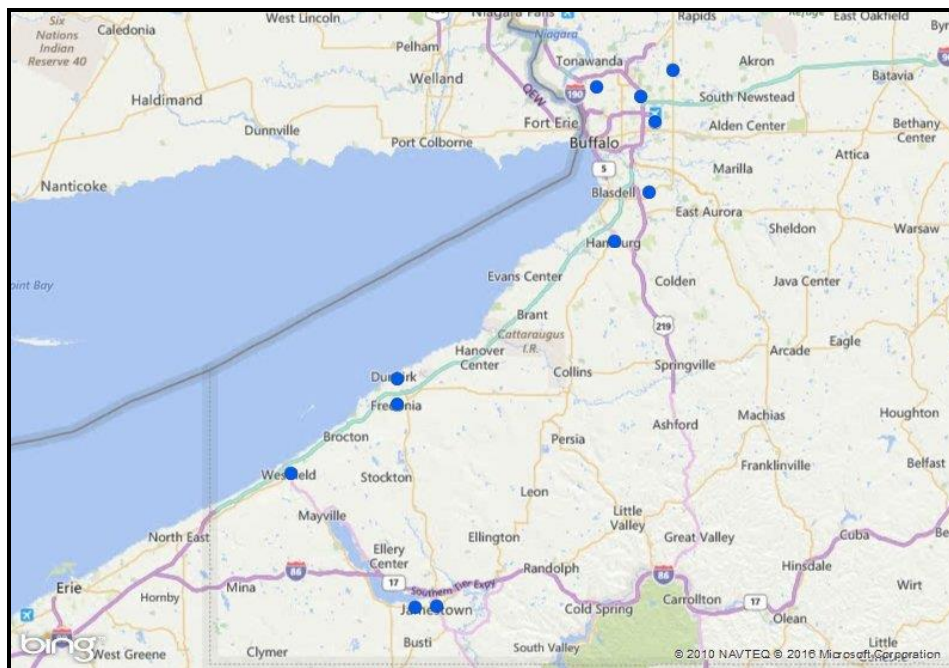
Our management team strives to accomplish this goal by continuing to emphasize our exceptional individualized customer service and financial strength, continued community involvement, effective risk management, strong capital levels, technological services and penetration in our market areas via organic growth of loans and deposits.

# Our Mission & Values Drive Our Response to COVID-19

| Response Plan  | Customers   | Credit   | Associates   |
|--|---|--|--|
| <ul style="list-style-type: none"><li>➤ Goal = Protect our Employees, Customers and Communities we serve</li><li>➤ Immediate Work from Home Program</li><li>➤ Separated 70% of back office personnel into alternative work locations</li><li>➤ Closed community banking office lobbies – Drive-thru only with customer appointments</li><li>➤ Implemented workplace Social Distancing and Government required safety measures</li><li>➤ Increased Communication: Board of Directors, Customers and Employees</li><li>➤ Enhanced cleaning protocols and frequency</li></ul> | <ul style="list-style-type: none"><li>➤ No charging for foreign ATM fees</li><li>➤ Established Plan for Consumer and Commercial Loan Payment Deferrals – Up to 90 Days</li><li>➤ Offered Payroll Protection Program loans</li><li>➤ <b>As of May 8, 2020 received and processed 248 PPP loan applications for up to \$26.2M of loans representing 3,101 jobs</b></li><li>➤ Significant outreach to commercial customers initiated by Relationship Managers</li><li>➤ Web-site enhancement communicating programs and initiatives undertaken for customers</li></ul> | <ul style="list-style-type: none"><li>➤ Implemented early identification program for larger dollar credit exposure deterioration</li><li>➤ Updated qualitative factors in ALLL model</li><li>➤ Enhanced monitoring of existing liquidity contingency plan and stress testing</li><li>➤ Implemented monitoring for specific industry segments to highlight higher risk industries and assign individuals to evaluate higher risk of loss cases</li><li>➤ <b>As of May 11, 2020 we have modified / deferred approximately \$103.1M in loans or approximately 21% of the total loan portfolio</b></li></ul> | <ul style="list-style-type: none"><li>➤ Fully Implemented Families First Coronavirus (FFCR) Act – Benefitting All Employees</li><li>➤ Fully Implemented CDC and NY Dept. of Health Guidelines for Workplace Safety</li><li>➤ Provided flexible scheduling and accommodations for staff with unique situations</li><li>➤ No reduction in staff or furloughs</li></ul> |



# An Overview of Lake Shore



- ▶ Lake Shore Savings Bank is a federally chartered, community-oriented financial institution headquartered in Dunkirk, New York, with a longstanding history of community banking since 1891
- ▶ Current focus on organic growth of loan portfolio primarily through commercial real estate and commercial business loans
  - ▶ Since going public, net loans have increased from \$205.3 million on June 30, 2006 to \$473.4 million as of March 31, 2020
- ▶ Operates 11 full-service branch locations in two counties within Western New York
- ▶ Lake Shore ranks 4<sup>th</sup> in deposit market share in Chautauqua County with 5 branches; ranks 10<sup>th</sup> in Erie County with 6 branches
- ▶ Converted to MHC structure on April 4, 2006, raising \$29.8 million in gross proceeds and trades on NASDAQ under the symbol LSBK

| County       | Rank | Branches  | Company Deposits in Market (\$000) | Deposit Market Share (%) | Projected Population Change 2020-2025 (%) | Median HH Income 2020 (\$) | Projected HH Income Change 2020-2025 (%) |
|--------------|------|-----------|------------------------------------|--------------------------|---|----------------------------|--|
| Chautauqua   | 4    | 5         | 248,478                            | 14.83                    | (2.23)                                    | 49,604                     | 11.58                                    |
| Erie         | 10   | 6         | 214,632                            | 0.50                     | 0.16                                      | 61,065                     | 9.96                                     |
| <b>Total</b> |      | <b>11</b> | <b>463,110</b>                     |                          |   |                            |  |

|                           |  |  |  |  |               |               |              |
|---------------------------|--|--|--|--|---------------|---------------|--------------|
| <b>New York Franchise</b> |  |  |  |  | <b>(1.13)</b> | <b>54,913</b> | <b>10.83</b> |
| <b>State of New York</b>  |  |  |  |  | <b>0.16</b>   | <b>71,961</b> | <b>12.66</b> |
| <b>National</b>           |  |  |  |  | <b>3.27</b>   | <b>66,010</b> | <b>9.87</b>  |

## An Overview of Lake Shore (Con't)

| Stockholder Information (NASDAQ: LSBK) |        |                          |         |
|--|--------|--------------------------|---------|
| Dividends                              |        | Market Information       |         |
| Dividend Yield                         | 3.83%  | Total Market Cap (mm)    | \$74.2  |
| Ownership                              |        | Minority Market Cap (mm) | \$28.6  |
| Mutual Holding Company                 | 61.45% | Book Value Per Share     | \$14.16 |
| Institutional                          | 8.69%  | Price / Book             | 88%     |
| Insider*                               | 8.54%  | Price / MRQ EPS          | 26.1x   |

# Positioned for Growth

- ▶ Dedicated to Community Banking Model
- ▶ Focus on
  - ▶ High-Quality, Personalized Customer Service
  - ▶ Enhanced Operating Efficiency
  - ▶ Enterprise Risk Mitigation
  - ▶ Safe, Reasonable, Sustainable Growth

# Customer Value

- ▶ Continue to deploy Technology Driven Solutions, geared at driving optimum customer experience and efficiency
- ▶ LS Rewards debit card program
- ▶ Converted P2P payment system to Zelle from Pop Money
- ▶ Optimization of the mobile experience for the LSSB website
- ▶ Enhanced business banking products



# Technology

- ▶ Improved network infrastructure
- ▶ Deployed new telecommunications system
  - ▶ Seamless mobility
  - ▶ Strictly a financial sector vendor
  - ▶ Cybersecurity Enhancements
  - ▶ Cloud based with enhance mobility
- ▶ Network Backbone, enhanced security
- ▶ Due diligence started on core solutions for best customer facing solutions
- ▶ Virtualization project enabling remote access and enhanced security capabilities



## Continue to....

- ▶ Empower our employees focusing on professional development
- ▶ Promote Ethical Behavior
- ▶ Support the Communities we serve



# Creating Shareholder Value

- ▶ High capital ratios enable organic growth without diluting shareholder value
- ▶ Balanced approach to dividends and stock buybacks

|   | 2013      | 2014      | 2015      | 2016      | 2017      | 2018      | 2019      | 3/31/2020 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Tier 1/Community Bank Leverage Ratio</b> | 12.8%     | 13.2%     | 14.3%     | 14.7%     | 14.4%     | 14.0%     | 13.0%     | 12.9%     |
| <b>Equity / Total Assets</b>                | 13.5%     | 14.7%     | 15.6%     | 15.5%     | 15.1%     | 14.6%     | 13.6%     | 13.3%     |
| <b>Dividends Per Share*</b>                 | \$0.28    | \$0.28    | \$0.28    | \$0.28    | \$0.32    | \$0.40    | \$0.48    | \$0.12    |
| <b>Common Shares Outstanding</b>            | 5,915,835 | 5,990,042 | 6,003,416 | 6,088,674 | 6,098,323 | 6,004,664 | 5,924,339 | 5,918,269 |



# Board Member Changes

- ▶ Retirement of Gary W. Winger, Chairman of the Board
- ▶ Incoming Board Chair – Kevin M. Sanvidge





## New Board Members

- ▶ John P. McGrath
- ▶ Ronald J. Passafaro



## Commercial Division



- ▶ Personalized lending services
- ▶ Experienced team of commercial lenders and support staff
- ▶ Quick turnaround on lending requests due to local approval structure
- ▶ Full suite of commercial lending products with an ever growing product suite from the branch side to provide for a full service commercial relationship.
- ▶ Competitive terms and pricing

## Summary

*After more than 128 years in business, we continue to be a local bank that cares about its customers and communities.*

*At Lake Shore Savings, that has always meant “Putting People First”.*

*We will continue to put our customers, communities and shareholders “First”, as we adopt new technology, products and services to meet the future needs of our customers.*



# Financial Highlights

Rachel A. Foley,  
Chief Financial Officer and Treasurer

# Financial Highlights

| <i>Dollars in Thousands<br/>(except per share amounts)</i> | <b>FY 2019</b> | <b>FY 2018</b> | <b>YoY<br/>Change</b> |
|--|----------------|----------------|-----------------------|
| <b>Assets</b>  | \$610,869      | \$545,708      | <b>11.9%</b>          |
| <b>Net Loans</b>   | \$470,816      | \$392,471      | <b>20.0%</b>          |
| <b>Deposits</b>  | \$483,476      | \$432,458      | <b>11.8%</b>          |
| <b>Net Income</b>  | \$4,087        | \$4,000        | <b>2.2%</b>           |
| <b>Basic Earnings Per Share</b>                            | \$0.68         | \$0.66         | <b>3.0%</b>           |
| <b>Book Value Per Share</b>                                | \$13.98        | \$13.29        | <b>5.2%</b>           |
| <b>Dividend Yield*</b>                                     | 3.14%          | 2.66%          | <b>18.0%</b>          |
| <b>ROAA</b>  | 0.71%          | 0.75%          | <b>(5.3%)</b>         |
| <b>Efficiency Ratio</b>                                    | 73.83%         | 75.62%         | <b>(2.4%)</b>         |
| <b>Non-Performing Assets</b>                               | \$4,326        | \$3,896        | <b>11.0%</b>          |

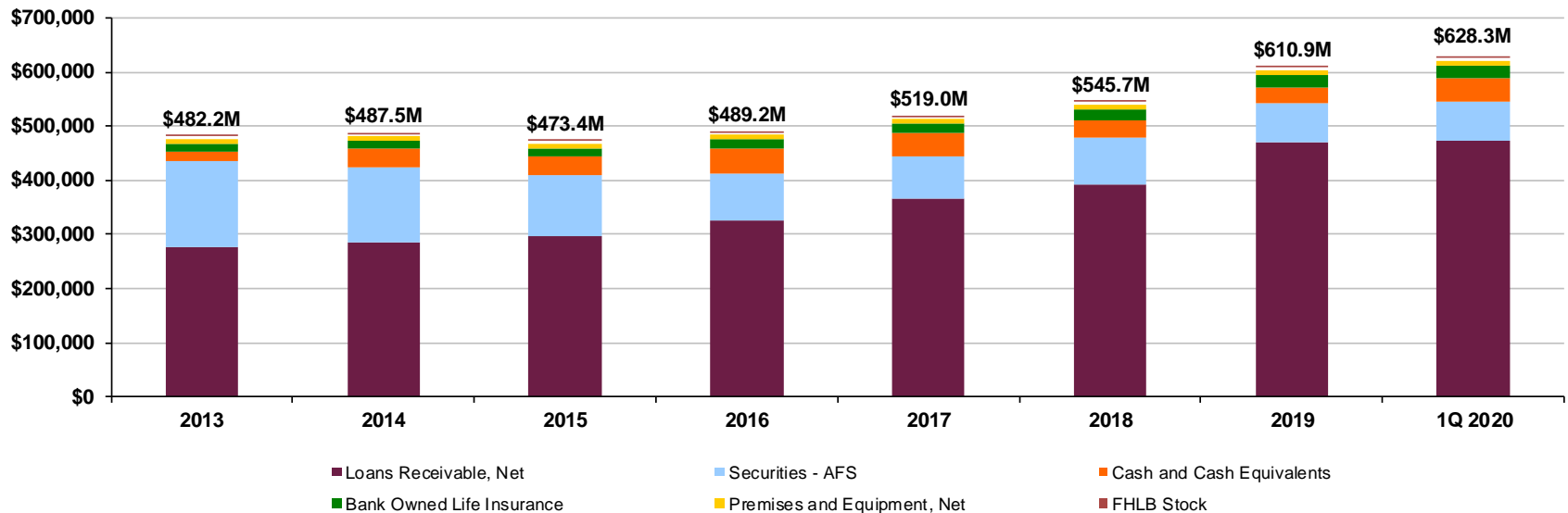
| <i>Dollars in Thousands<br/>(except per share amounts)</i> | <b>2020 FQ1</b> | <b>2019 FQ1</b> | <b>QoQ<br/>Change</b> |
|--|-----------------|-----------------|-----------------------|
| <b>Assets</b>  | \$628,326       | \$554,497       | <b>13.3%</b>          |
| <b>Net Loans</b>   | \$473,354       | \$401,047       | <b>18.0%</b>          |
| <b>Deposits</b>  | \$501,199       | \$440,540       | <b>13.8%</b>          |
| <b>Net Income</b>  | \$731           | \$898           | <b>(18.6%)</b>        |
| <b>Basic Earnings Per Share</b>                            | \$0.12          | \$0.15          | <b>(20.0%)</b>        |
| <b>Book Value Per Share</b>                                | \$14.16         | \$13.50         | <b>4.9%</b>           |
| <b>Dividend Yield*</b>                                     | 4.57%           | 3.04%           | <b>50.3%</b>          |
| <b>ROAA</b>  | 0.47%           | 0.66%           | <b>(28.8%)</b>        |
| <b>Efficiency Ratio</b>                                    | 74.71%          | 78.08%          | <b>(4.3%)</b>         |
| <b>Non-Performing Assets</b>                               | \$4,696         | \$4,116         | <b>14.1%</b>          |

Financial data is presented for Lake Shore's Fiscal Year Ended December 31 for each respective year or for Lake Shore's quarter ended March 31 for each respective quarter.

\* Dividend Yield is as of December 31 for each respective year or as of March 31 for each respective quarter.

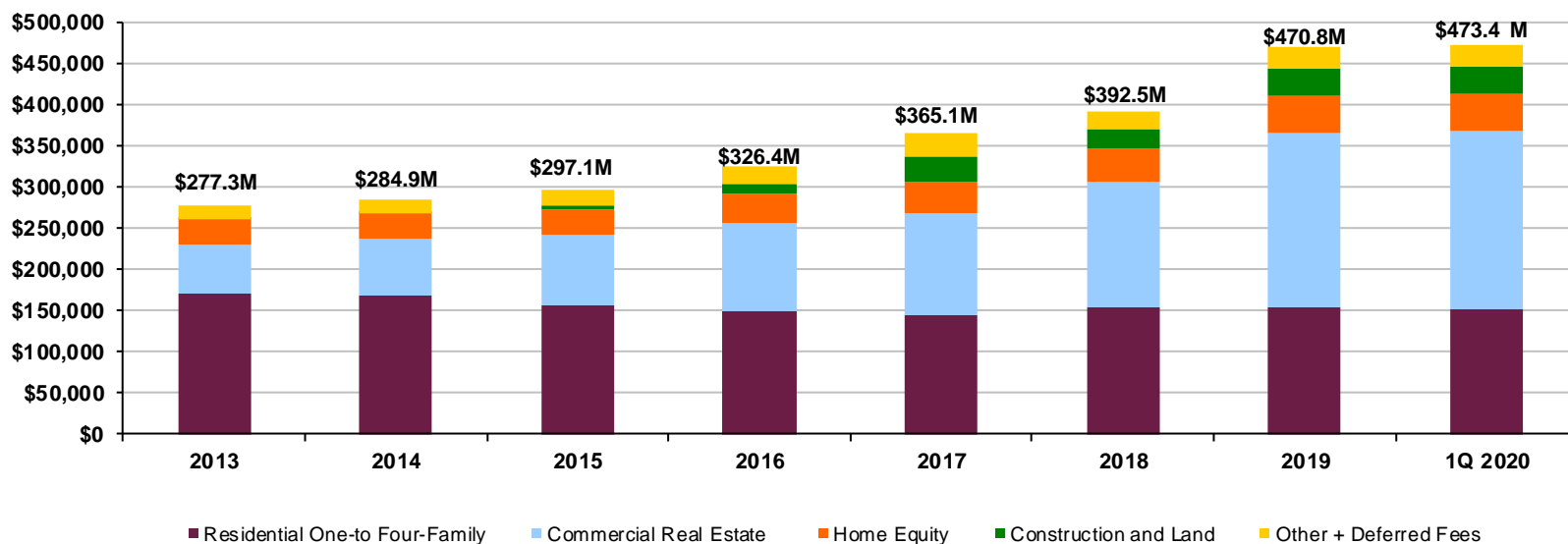
# Total Assets

- Focused on asset diversification to improve margins.



# Loan Growth

- ▶ Lake Shore continues to execute its strategic plan of organic growth primarily through loan originations.
- ▶ From December 31, 2016 through March 31, 2020, net loans increased 45.0% primarily due to net organic commercial loan growth of 96.45%.



# Loan Originations

| <b>New Loans</b>                      | <b>2015</b>    | <b>2016</b>    | <b>2017</b>    | <b>2018</b>     | <b>2019</b>     | <b>3/31/2020</b> |
|---------------------------------------|----------------|----------------|----------------|-----------------|-----------------|------------------|
| Residential Mortgage - New & Modified | \$21.37        | \$16.48        | \$18.65        | \$28.58         | \$21.53         | \$4.19           |
| Commercial Mortgage - New & Modified  | 27.55          | 39.06          | 49.64          | 60.68           | 70.17           | 16.58            |
| Commercial Loans                      | 11.69          | 7.28           | 14.63          | 8.37            | 12.97           | 1.80             |
| Home Equity Loans                     | 6.40           | 11.45          | 15.54          | 16.25           | 16.12           | 2.62             |
| Consumer Loans                        | 0.33           | 0.36           | 0.45           | 0.68            | 0.77            | 0.12             |
| <b>Total New Loans</b>                | <b>\$67.34</b> | <b>\$74.63</b> | <b>\$98.91</b> | <b>\$114.56</b> | <b>\$121.57</b> | <b>\$25.30</b>   |

**6.12% YOY Increase as of December 31, 2019**



## COVID-19 Loan Deferrals

- ▶ As of May 11, 2020, we had received requests to modify 219 loans with a balance outstanding of \$103.1 million, or 21.0%, of the Bank's loan portfolio.
- ▶ Modifications are primarily for 3 month deferral of principal and interest payments.

| Loan Type                                   | Number of Loans | Balance Outstanding | Weighted Average Interest Rate |
|---|-----------------|---------------------|--------------------------------|
| Residential, one-to four-family real estate | 79              | \$10,163            | 4.77%                          |
| Home Equity                                 | 22              | 2,032               | 5.22%                          |
| Commercial real estate                      | 86              | 82,393              | 5.00%                          |
| Commercial business                         | 30              | 8,495               | 5.17%                          |
| Consumer                                    | 2               | 9                   | 12.50%                         |
|   | 219             | \$103,092           | 5.00%                          |

Note: Data as of 5/11/20. Dollars in thousands

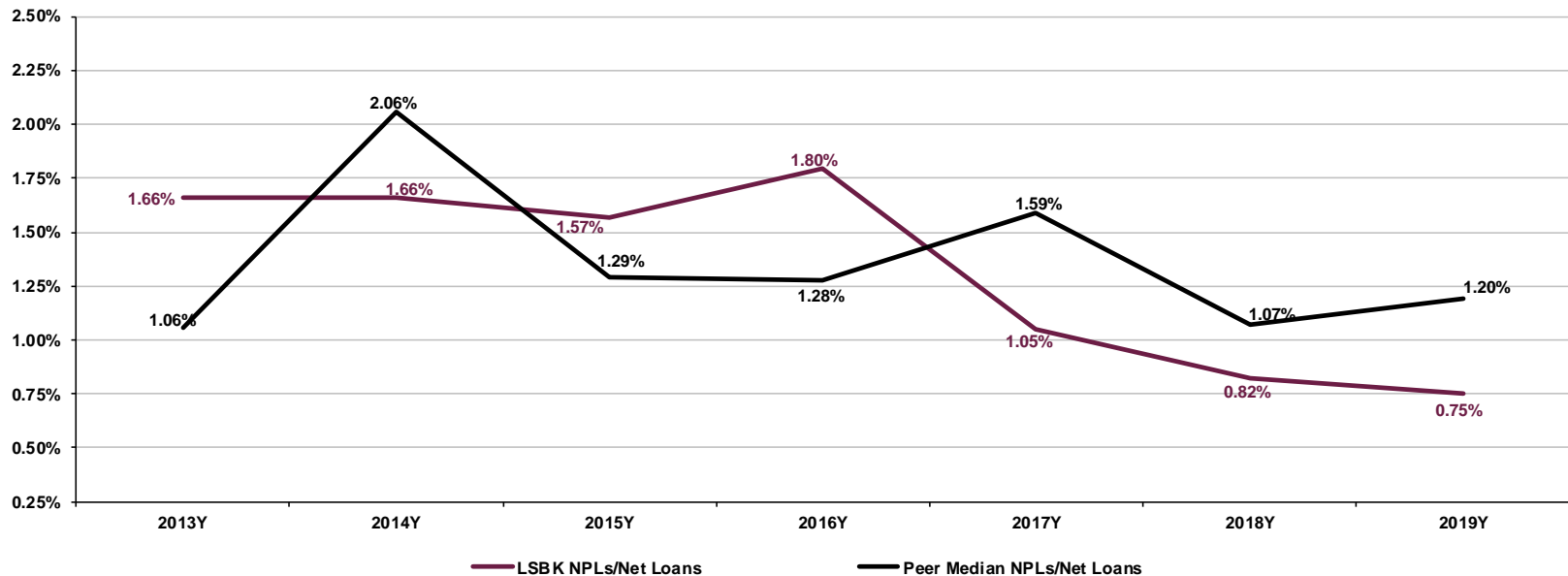
## COVID-19 - At-Risk Loans

| Industry Type                       | Number of Loans | Balance Outstanding (in thousands) | % of total Loans Outstanding | Loan Commitments (in thousands) | Total Outstanding with Payment Deferrals (in thousands) |
|-------------------------------------|-----------------|------------------------------------|------------------------------|---------------------------------|---|
| Retail (non-essential)              | 18              | \$17,713                           | 3.7%                         | \$193                           | \$2,688   |
| Eating & Drinking Establishments    | 38              | 16,040                             | 3.4%                         | 3,152                           | 13,769  |
| Hotels/Accommodations               | 17              | 11,276                             | 2.4%                         | 786                             | 9,989   |
| Construction Trades                 | 40              | 8,202                              | 1.7%                         | 9,110                           | 496   |
| Dental & Medical Practices and Gyms | 13              | 3,731                              | 0.8%                         | 2,053                           | 3,131   |
|                                     | 126             | \$56,962                           | 12.0%                        | \$15,294                        | \$30,073  |

Note: Data as of 3/31/20

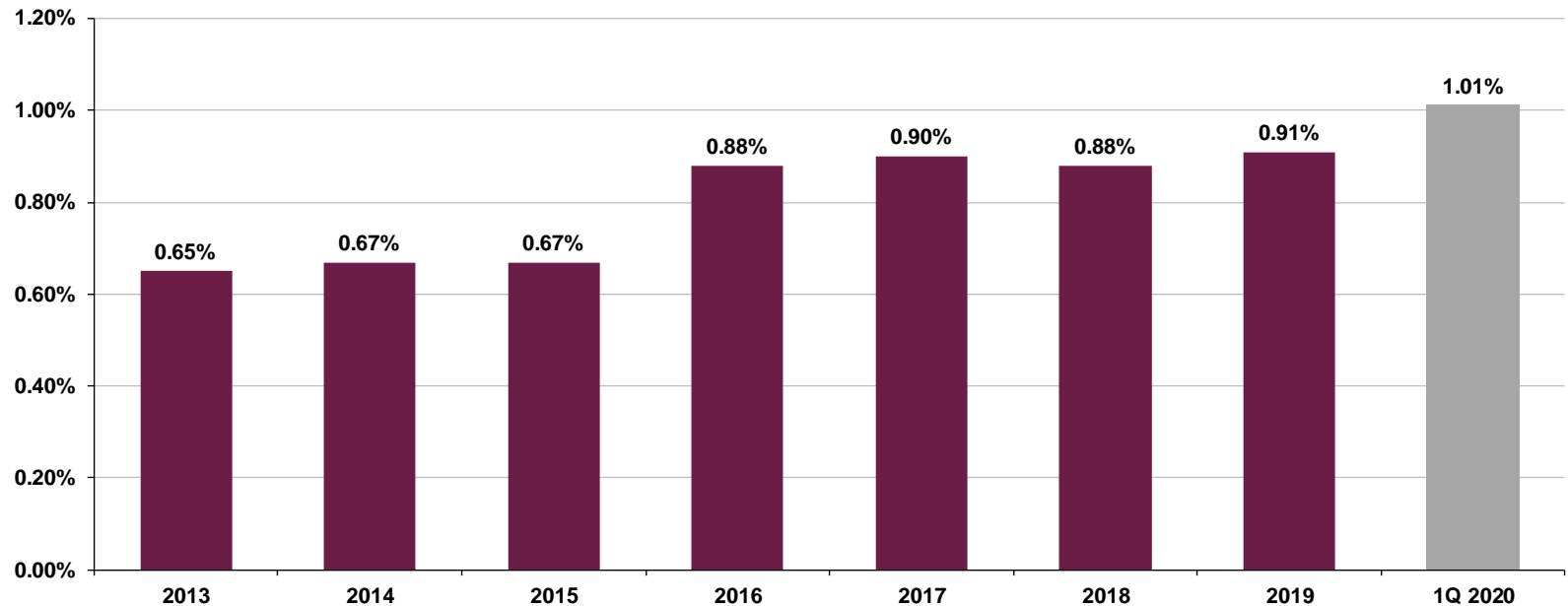
## NPLs / Total Net Loans

- ▶ During the last three years Lake Shore's nonaccrual loans have consistently remained at lower levels compared to its peers.



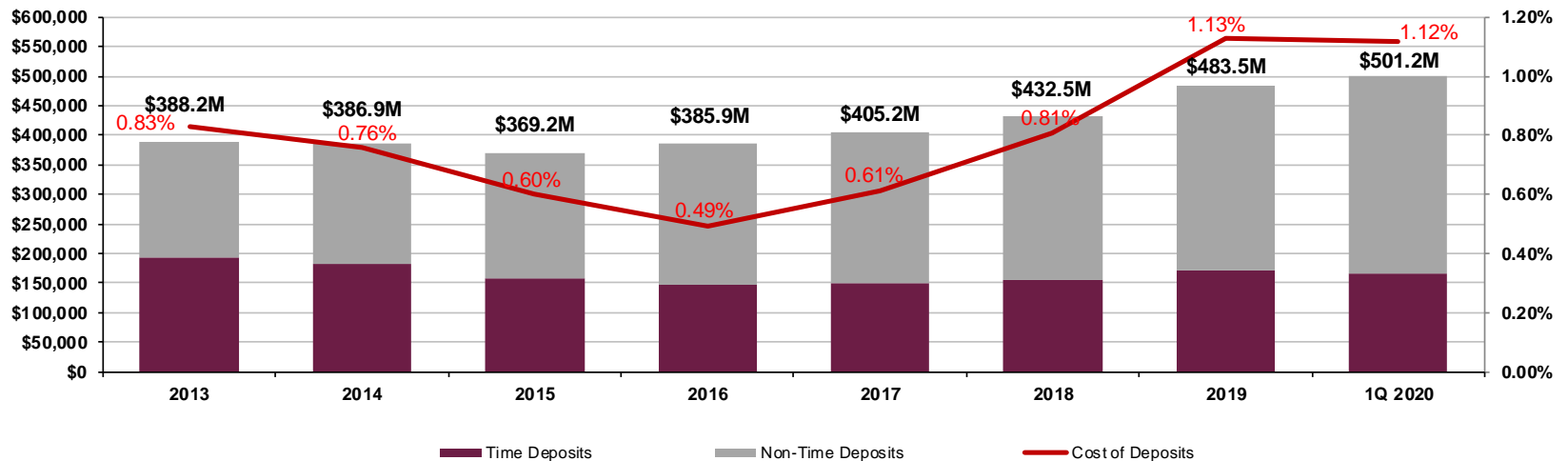
## Loan Loss Reserves / Total Net Loans

- ▶ First quarter 2020 net income reflected a \$425,000 increase in provision for loan losses primarily related to declining economic conditions as a result of the COVID-19 pandemic.



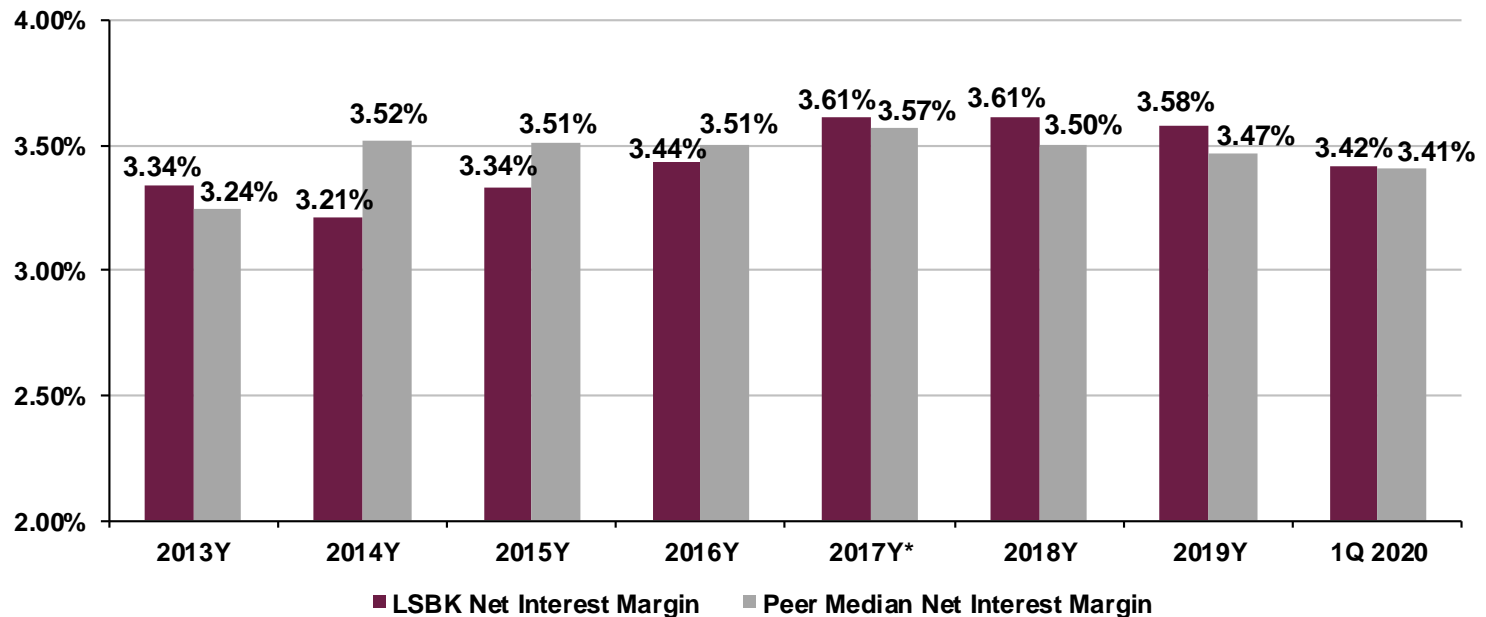
# Continued Focus on Deposit Growth

- ▶ Our focus has been on reducing our cost of funds by concentrating our efforts on growing core deposits.
- ▶ Core Deposits as of March 31, 2020 were 66.8% of total deposits, an increase of 32.6% since December 31, 2013.

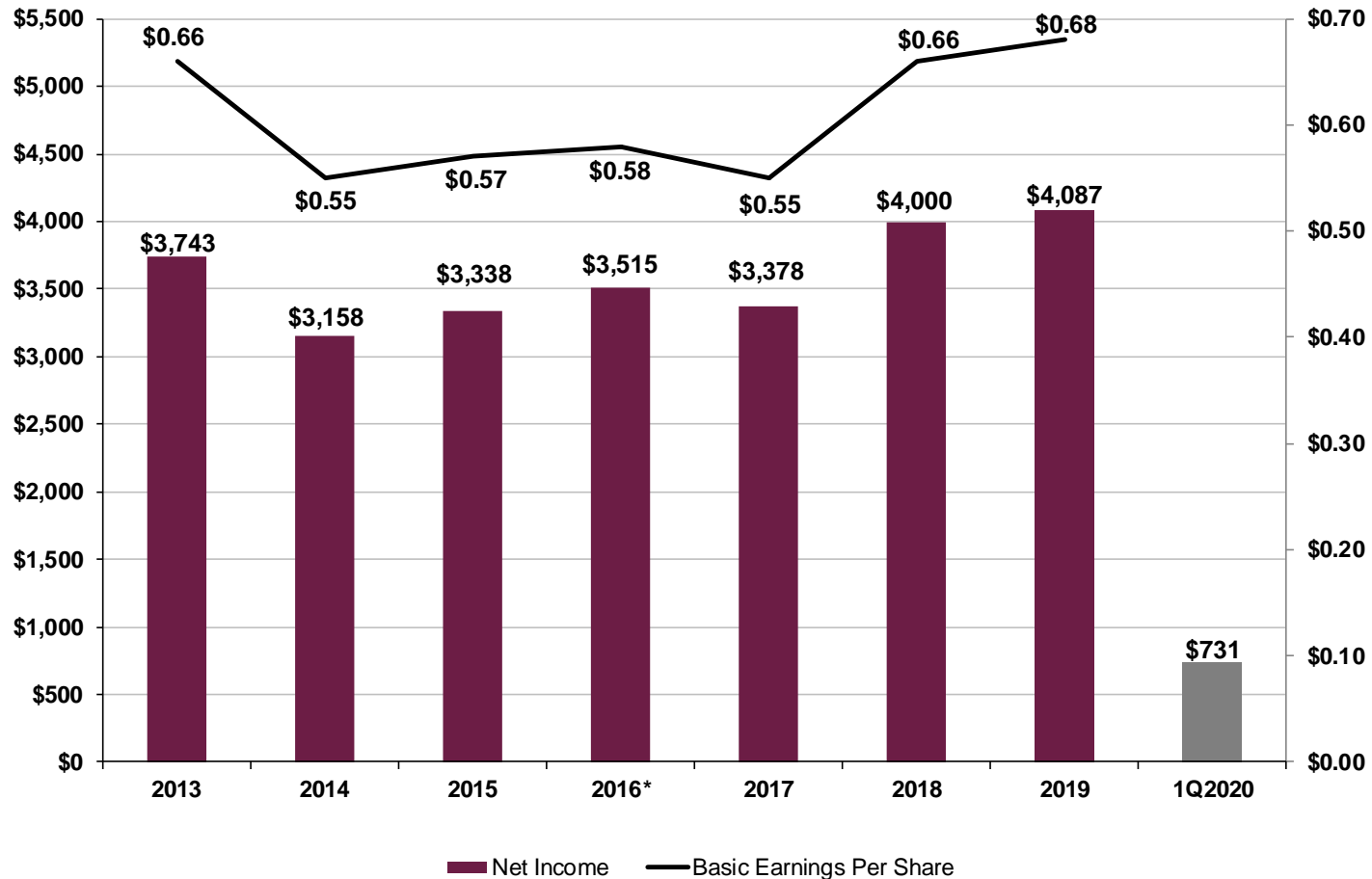


## Strong Net Interest Margin

- ▶ Despite operating in an environment that places significant pressure on spread and margin, Lake Shore's margin remained constant during the three years ended 12/31/2019 due to changes in loan/deposit mix.

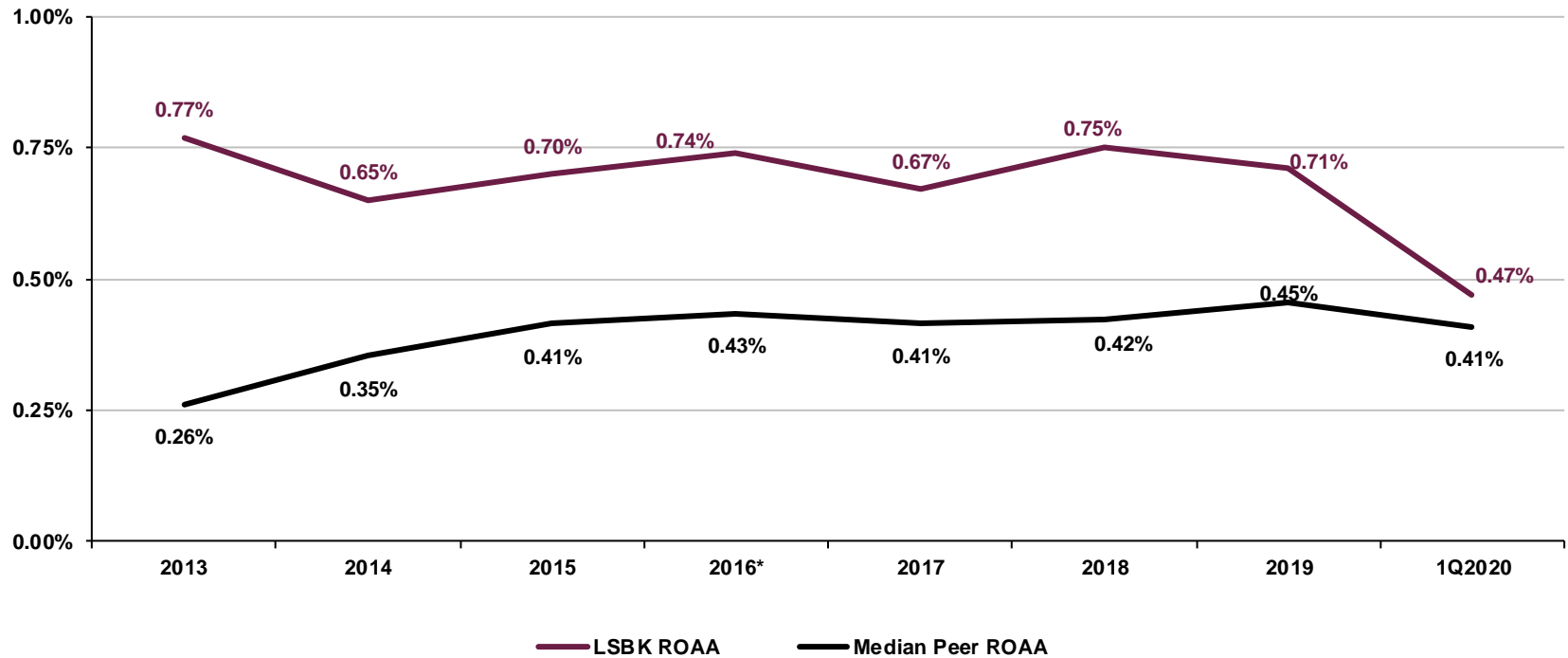


# Net Income Trends



Financial data is presented for Lake Shore's Fiscal Year Ended December 31 for each respective year and for the three months ended March 31, 2020. Dollars in thousands except per share amounts. \*In the first quarter of 2016, Lake Shore sold \$14.4 million of U.S. Treasury Bonds resulting in realized gains of \$1.6 million. In the first quarter 2020, net income reflected a \$425,000 increase in provision for loan losses primarily related to declining economic conditions as a result of the COVID-19 pandemic.

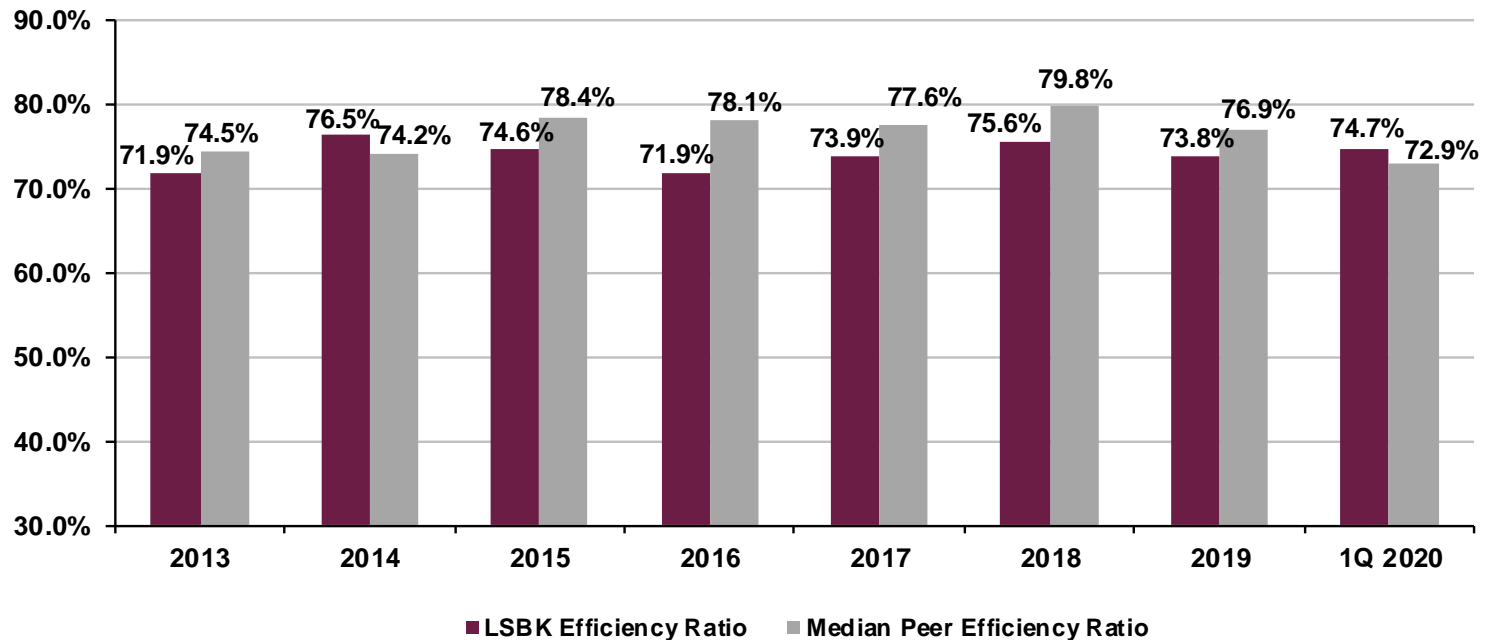
# Comparison of ROAA Results to Peers





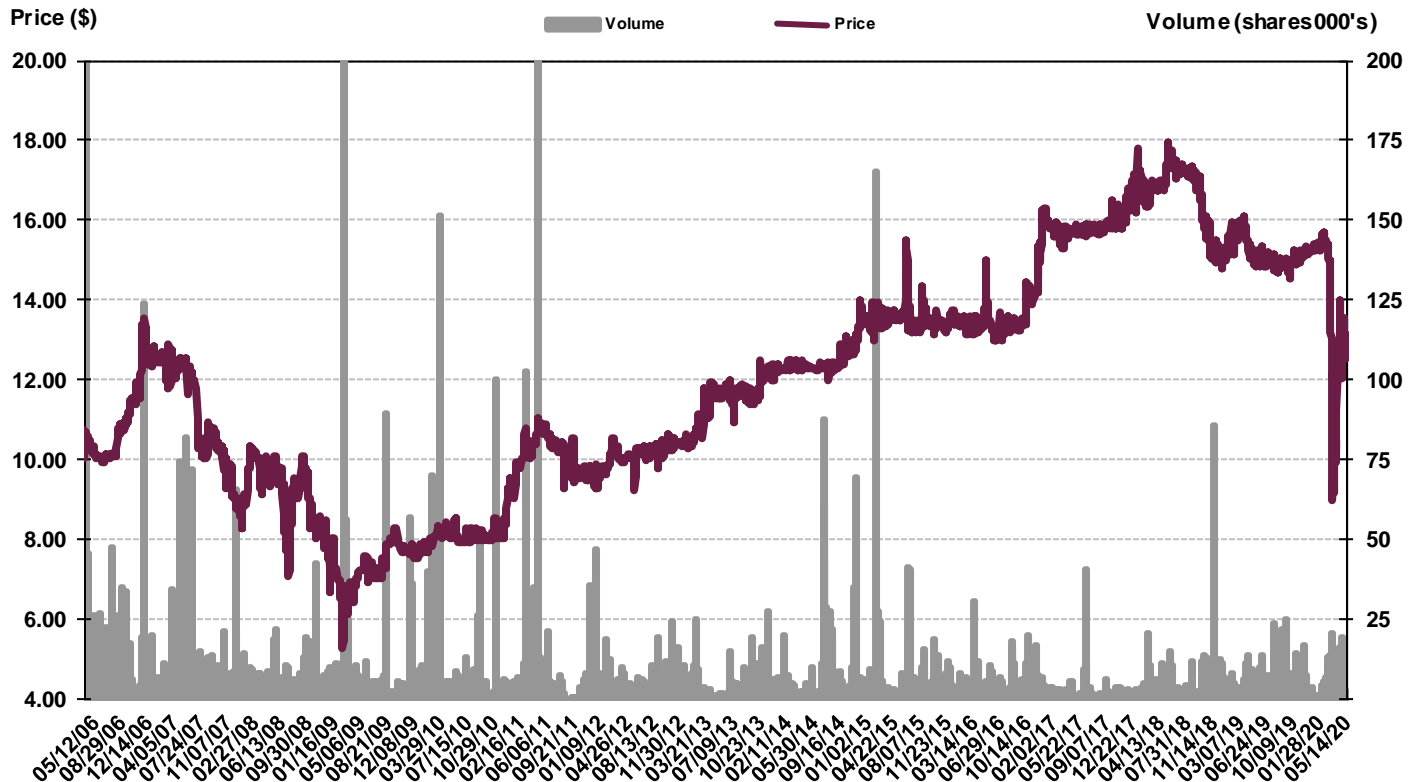
# Continued Focus on Cost Control

- ▶ Lake Shore's efficiency ratios are generally below the peer group.



# LSBK Price / Volume Chart Since IPO

Price on 5/14/20 - \$12.53



**QUESTIONS  
&  
ANSWERS**

# Appendix: Lake Shore Peer Data

| Institution Name                        | Ticker | City, State       | Total Assets (\$mm) |
|---|--------|-------------------|---------------------|
| Columbia Financial, Inc. (MHC)          | CLBK   | Fair Lawn, NJ     | \$8,325             |
| Greene County Bancorp, Inc. (MHC)       | GCBC   | Catskill, NY      | \$1,584             |
| Pioneer Bancorp, Inc. (MHC)             | PBFS   | Albany, NY        | \$1,392             |
| PDL Community Bancorp (MHC)             | PDLB   | Bronx, NY         | \$1,151             |
| Rhinebeck Bancorp, Inc. (MHC)           | RBKB   | Poughkeepsie, NY  | \$1,007             |
| NorthEast Community Bancorp, Inc. (MHC) | NECB   | White Plains, NY  | \$908               |
| Bogota Financial Corp. (MHC)            | BSBK   | Teaneck, NJ       | \$709               |
| Magyar Bancorp, Inc. (MHC)              | MGYR   | New Brunswick, NJ | \$658               |
| William Penn Bancorp, Inc. (MHC)        | WMPN   | Levittown, PA     | \$462               |
| First Seacoast Bancorp (MHC)            | FSEA   | Dover, NH         | \$409               |
| BV Financial, Inc. (MHC)                | BVFL   | Baltimore, MD     | \$398               |
| Seneca-Cayuga Bancorp, Inc. (MHC)       | SCAY   | Seneca Falls, NY  | \$347               |
| Lincoln Park Bancorp (MHC)              | LPBC   | Lincoln Park, NJ  | \$308               |
| Seneca Financial Corp. (MHC)            | SNNF   | Baldwinsville, NY | \$210               |
| SSB Bancorp, Inc. (MHC)                 | SSBP   | Pittsburgh, PA    | \$209               |
| Gouverneur Bancorp, Inc. (MHC)          | GOVB   | Gouverneur, NY    | \$125               |
| Auburn Bancorp, Inc. (MHC)              | ABBB   | Auburn, ME        | \$85                |
| <b>Average</b>                          |        |                   | <b>\$1,076</b>      |
| <b>Median</b>                           |        |                   | <b>\$462</b>        |

# Lake Shore, MHC Annual Meeting of Members

- ▶ Call to Order
- ▶ Introduction of Proposal to Elect Directors
- ▶ Tabulation of Votes
- ▶ Adjournment