United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2024

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File No.: 000-51821

LAKE SHORE BANCORP, INC.
(Exact name of registrant as specified in its charter)

United States	**20-4729288**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
31 East Fourth Street, Dunkirk, New York	**14048**
(Address of principal executive offices)	(Zip code)

(716) 366-4070
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	LSBK	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

There were 5,737,036 shares of the registrant's common stock, $0.01 par value per share, outstanding at August 9, 2024.

TABLE OF CONTENTS

PART I Financial Information
Item 1. Financial Statements
Lake Shore Bancorp, Inc. and Subsidiary
Consolidated Balance Sheets

	June 30, 2024	December 31, 2023
	(Unaudited)	
	(Dollars in thousands, except share data)	
Assets		
Cash and due from banks	$ 3,283	$ 4,648
Interest earning deposits	57,704	49,082
Cash and Cash Equivalents	60,987	53,730
Securities, at fair value	57,309	60,442
Federal Home Loan Bank stock, at cost	1,742	2,293
Loans receivable, net of allowance for credit losses of $5,916 at June 30, 2024 and $6,463 at December 31, 2023	544,337	555,828
Premises and equipment, net	7,491	7,870
Accrued interest receivable	2,835	2,835
Bank-owned life insurance	29,790	29,355
Other assets	6,551	12,765
Total Assets	$ 711,042	$ 725,118
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Interest bearing	$ 492,981	$ 495,738
Non-interest bearing	96,414	95,186
Total Deposits	589,395	590,924
Long-term debt	23,250	35,250
Advances from borrowers for taxes and insurance	3,376	3,307
Other liabilities	8,089	9,364
Total Liabilities	624,110	638,845
Stockholders' Equity		
Common stock, $0.01 par value per share, 25,000,000 shares authorized; 6,836,514 shares issued and 5,737,036 shares outstanding at June 30, 2024 and 6,836,514 shares issued and 5,686,288 shares outstanding at December 31, 2023	68	68
Additional paid-in capital	31,476	31,456
Treasury stock, at cost (1,099,478 shares at June 30, 2024 and 1,150,226 shares at December 31, 2023)	(13,218)	(13,760)
Unearned shares held by ESOP	(981)	(1,023)
Unearned shares held by compensation plans	(534)	(39)
Retained earnings	80,725	78,956
Accumulated other comprehensive loss	(10,604)	(9,385)
Total Stockholders' Equity	86,932	86,273
Total Liabilities and Stockholders' Equity	$ 711,042	$ 725,118

See notes to unaudited consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary
Consolidated Statements of Income

	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
	(Unaudited) (Dollars in thousands, except per share data)			
Interest Income				
Loans, including fees	$ 7,693	$ 7,480	$ 15,279	$ 14,727
Investment securities, taxable	198	236	405	464
Investment securities, tax-exempt	216	265	433	575
Interest-earning deposits & federal funds sold	647	489	1,246	655
Total Interest Income	8,754	8,470	17,363	16,421
Interest Expense				
Deposits	3,371	1,915	6,615	3,228
Short-term borrowings	—	9	—	87
Long-term debt	166	319	386	575
Finance lease and Other	11	13	23	26
Total Interest Expense	3,548	2,256	7,024	3,916
Net Interest Income	5,206	6,214	10,339	12,505
(Credit) Provision for Credit Losses	(285)	(187)	(637)	(812)
Net Interest Income After (Credit) Provision for Credit Losses	5,491	6,401	10,976	13,317
Non-Interest Income				
Service charges and fees	287	263	552	536
Debit card fees	210	215	405	420
Increase in cash surrender value of bank-owned life insurance	220	109	435	214
Unrealized gain on equity securities	—	1	11	2
Unrealized (loss) on interest rate swap	—	(9)	—	(58)
Recovery on previously impaired investment securities	3	3	3	5
Loss on sale of securities available for sale	—	(49)	—	(49)
Other	18	20	39	37
Total Non-Interest Income	738	553	1,445	1,107
Non-Interest Expense				
Salaries and employee benefits	2,656	2,811	5,413	5,590
Occupancy and equipment	681	700	1,384	1,497
Data processing	446	474	899	852
Professional services	397	848	724	1,698
Advertising	16	179	67	357
FDIC insurance	284	436	563	531
Postage and Supplies	65	62	140	130
Other	352	391	702	763
Total Non-Interest Expense	4,897	5,901	9,892	11,418
Income before Income Taxes	1,332	1,053	2,529	3,006
Income Tax Expense	216	237	399	506
Net Income	$ 1,116	$ 816	$ 2,130	$ 2,500
Basic and Diluted Earnings Per Common Share	$ 0.19	$ 0.14	$ 0.36	$ 0.43
Dividends Declared Per Share	$ 0.18	$ —	$ 0.18	$ —

See notes to unaudited consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income

	Three Months Ended June 30,	
	2024	2023
	(Unaudited)	
	(Dollars in thousands)	
Net Income	$ 1,116	$ 816
Other Comprehensive (Loss), net of tax benefit (expense):		
Unrealized holding losses on securities available for sale, net of tax benefit	(419)	(826)
Reclassification adjustments related to:		
Recovery on previously impaired investment securities included in net income, net of tax expense	(2)	(3)
Net loss on sale of securities included in net income, net of tax benefit	—	39
Total Other Comprehensive (Loss)	(421)	(790)
Total Comprehensive Income	$ 695	$ 26

	Six Months Ended June 30,	
	2024	2023
	(Unaudited)	
	(Dollars in thousands)	
Net Income	$ 2,130	$ 2,500
Other Comprehensive (Loss) Income, net of tax benefit (expense):		
Unrealized holding (losses) gains on securities available for sale, net of tax benefit (expense)	(1,217)	428
Reclassification adjustments related to:		
Recovery on previously impaired investment securities included in net income, net of tax expense	(2)	(4)
Net loss on sale of securities included in net income, net of tax benefit	—	39
Total Other Comprehensive (Loss) Income	(1,219)	463
Total Comprehensive Income	$ 911	$ 2,963

See notes to unaudited consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary
Consolidated Statements of Stockholders' Equity
Three and Six Months Ended June 30, 2024 and 2023 (Unaudited)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Unearned Shares Held by ESOP	Unearned Shares Held by Compensation Plans	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Dollars in thousands, except share data)							
Balance - January 1, 2024	$ 68	$ 31,456	$ (13,760)	$ (1,023)	$ (39)	$ 78,956	$ (9,385)	$ 86,273
Net Income	—	—	—	—	—	1,014	—	1,014
Other comprehensive loss, net of tax benefit of $211	—	—	—	—	—	—	(798)	(798)
ESOP shares earned (1,984 shares)	—	2	—	21	—	—	—	23
Compensation plan shares earned, net of forfeitures (1,086 shares)	—	5	—	—	10	—	—	15
Common stock repurchased on vesting for payroll taxes (1,504 shares)	—	—	(17)	—	—	—	—	(17)
Balance - March 31, 2024	68	31,463	(13,777)	(1,002)	(29)	79,970	(10,183)	86,510
Net Income	—	—	—	—	—	1,116	—	1,116
Other comprehensive loss, net of tax benefit of $112	—	—	—	—	—	—	(421)	(421)
ESOP shares earned (1,984 shares)	—	2	—	21	—	—	—	23
Compensation plan shares granted (52,252 shares)	—	—	559	—	(559)	—	—	—
Compensation plan shares earned, net of forfeitures (5,720 shares)	—	11	—	—	54	—	—	65
Cash dividends declared ($0.18 per share)	—	—	—	—	—	(361)	—	(361)
Balance - June 30, 2024	$ 68	$ 31,476	$ (13,218)	$ (981)	$ (534)	$ 80,725	$ (10,604)	$ 86,932

	Common Stock	Additional Paid-In Capital	Treasury Stock	Unearned Shares Held by ESOP	Unearned Shares Held by Compensation Plans	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Dollars in thousands, except per share data)							
Balance - January 1, 2023	$ 68	$ 31,459	$ (13,571)	$ (1,108)	$ (191)	$ 74,859	$ (10,332)	$ 81,184
Cumulative change in accounting principle	—	—	—	—	—	(723)	—	(723)
Net income	—	—	—	—	—	1,684	—	1,684
Other comprehensive income, net of tax expense of $333	—	—	—	—	—	—	1,253	1,253
ESOP shares earned (1,984 shares)	—	1	—	21	—	—	—	22
Compensation plan shares granted (8,282 shares)	—	—	78	—	(78)	—	—	—
Compensation plan shares earned, net of forfeitures (2,510 shares)	—	(21)	—	—	(28)	—	—	(49)
Compensation plan shares forfeited (15,385 shares)	—	—	(144)	—	144	—	—	—
Common stock repurchased on vesting for payroll taxes (4,764 shares)	—	—	(56)	—	—	—	—	(56)
Balance - March 31, 2023	68	31,439	(13,693)	(1,087)	(153)	75,820	(9,079)	83,315
Net income	—	—	—	—	—	816	—	816
Other comprehensive loss, net of tax benefit of $209	—	—	—	—	—	—	(790)	(790)
ESOP shares earned (1,984 shares)	—	1	—	21	—	—	—	22
Compensation plan shares earned, net of forfeitures (2,328 shares)	—	9	—	—	22	—	—	31
Compensation plan shares forfeited (2,382 shares)	—	—	(22)	—	22	—	—	—
Balance - June 30, 2023	$ 68	$ 31,449	$ (13,715)	$ (1,066)	$ (109)	$ 76,636	$ (9,869)	$ 83,394

See notes to unaudited consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
	(Unaudited) (Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,130	$ 2,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of investment securities	36	27
Net amortization of deferred loan costs	266	315
(Credit) provision for credit losses	(637)	(812)
Recovery on previously impaired investment securities	(3)	(5)
Unrealized gain on equity securities	(11)	(2)
Loss on sale of investment securities	—	49
Unrealized loss on interest rate swap	—	58
Depreciation and amortization of premises and equipment	385	400
Deferred income tax expense	98	—
Increase in cash surrender value of bank-owned life insurance	(435)	(214)
ESOP shares committed to be released	46	44
Stock based compensation expense	80	(18)
Decrease in accrued interest receivable	—	72
Increase in other assets	(191)	(151)
Impairment of foreclosed real estate	8	16
(Decrease) increase in other liabilities	(1,230)	1,143
Net Cash Provided by Operating Activities	542	3,422
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in debt securities:		
Sales	—	5,951
Maturities, prepayments and calls	1,569	2,236
Purchases of Federal Home Loan Bank Stock	—	(1,314)
Redemptions of Federal Home Loan Bank Stock	551	1,297
Loan principal collections and origination, net	11,862	3,748
Proceeds from surrender of bank-owned life insurance	6,585	—
Proceeds from sale of foreclosed real estate	37	—
Additions to premises and equipment	(6)	(323)
Proceeds from sale of interest rate swaps	—	214
Net Cash Provided by Investing Activities	20,598	11,809
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(1,529)	11,846
Net increase in advances from borrowers for taxes and insurance	69	61
Net decrease in short-term borrowings	—	(12,596)
Proceeds from issuance of long-term debt	—	15,250
Repayment of long-term debt	(12,000)	(3,750)
Repayment of finance lease obligations	(45)	(37)
Shares of common stock repurchased on vesting for payroll taxes	(17)	(56)
Cash dividends paid	(361)	—
Net Cash (Used in) Provided by Financing Activities	(13,883)	10,718
Net Increase in Cash and Cash Equivalents	7,257	25,949
CASH AND CASH EQUIVALENTS - BEGINNING	53,730	9,633
CASH AND CASH EQUIVALENTS - ENDING	$ 60,987	$ 35,582
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	$ 7,602	$ 3,547
Income taxes paid	$ 704	$ 506
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized loss on securities available for sale	$ (1,539)	$ (1,045)
Foreclosed real estate acquired in settlement of loans	$ —	$ 60

See notes to unaudited consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary
Notes to Unaudited Consolidated Financial Statements

Note 1 – Basis of Presentation and Significant Accounting Policies and Estimates

The interim unaudited consolidated financial statements include the accounts of Lake Shore Bancorp, Inc. (the "Company", "us", "our", or "we") and Lake Shore Savings Bank (the "Bank"), its wholly owned subsidiary. All intercompany accounts and transactions of the consolidated subsidiary have been eliminated in consolidation.

The interim unaudited consolidated financial statements included herein as of June 30, 2024 and for the three and six months ended June 30, 2024 and 2023 have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and therefore, do not include all information or footnotes necessary for a complete presentation of the consolidated balance sheets, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated balance sheet at December 31, 2023 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information and to make the financial statements not misleading. These interim unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023. The consolidated statements of income for the three and six months ended June 30, 2024 and 2023 are not necessarily indicative of the results for any subsequent period or the entire year ending December 31, 2024.

The Company's significant accounting policies followed in the preparation of the unaudited consolidated financial statements are disclosed in Note 2 of the audited financial statements and notes thereto for the year ended December 31, 2023 and are contained in the Company's 2023 Annual Report on Form 10-K. There have been no significant changes to the application of significant accounting policies since December 31, 2023. Certain items in the prior period financial statements have been reclassified to conform to the current presentation. These reclassifications had no effect on prior year net income or shareholders' equity.

To prepare these unaudited consolidated financial statements in conformity with GAAP, management of the Company made a number of estimates and assumptions relating to the reporting of assets and liabilities and the reporting of revenue and expenses. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, securities valuation estimates, evaluation of impairment of securities, and income taxes.

Note 2 – New Accounting Standards

Accounting Standards Not Yet Adopted

In December 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity's applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Company does not expect the adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.

Note 3 – Investment Securities

The amortized cost and fair value of securities are as follows:

	June 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
SECURITIES				
Debt Securities Available for Sale				
U.S. government agencies	$ 2,007	$ —	$ (165)	1,842
Municipal bonds	40,746	—	(9,065)	31,681
Mortgage-backed securities:				
Collateralized mortgage obligations-private label	10	—	(1)	9
Collateralized mortgage obligations-government sponsored entities	11,043	—	(1,458)	9,585
Government National Mortgage Association	56	—	(3)	53
Federal National Mortgage Association	11,356	—	(1,781)	9,575
Federal Home Loan Mortgage Corporation	5,482	—	(978)	4,504
Asset-backed securities-private label	—	29	—	29
Asset-backed securities-government sponsored entities	1	—	—	1
Total Debt Securities Available for Sale	$ 70,701	$ 29	$ (13,451)	$ 57,279
Equity Securities	22	8	—	30
Total Securities	$ 70,723	$ 37	$ (13,451)	$ 57,309

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
SECURITIES				
Debt Securities Available for Sale				
U.S. government agencies	$ 2,007	$ —	$ (133)	$ 1,874
Municipal bonds	40,774	—	(7,724)	33,050
Mortgage-backed securities:				
Collateralized mortgage obligations-private label	10	—	—	10
Collateralized mortgage obligations-government sponsored entities	11,844	1	(1,445)	10,400
Government National Mortgage Association	57	—	(2)	55
Federal National Mortgage Association	11,872	1	(1,684)	10,189
Federal Home Loan Mortgage Corporation	5,737	2	(926)	4,813
Asset-backed securities-private label	—	31	—	31
Asset-backed securities-government sponsored entities	2	—	—	2
Total Debt Securities Available for Sale	$ 72,303	$ 35	$ (11,914)	$ 60,424
Equity Securities	22	—	(4)	18
Total Securities	$ 72,325	$ 35	$ (11,918)	$ 60,442

Debt Securities

All of the Company's collateralized mortgage obligations are backed by one- to four-family residential mortgages.

At June 30, 2024 and December 31, 2023, sixteen municipal bonds with a cost of $4.9 million and fair value of $3.5 million and $3.7 million, respectively, were pledged as collateral for customer deposits in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance limits.

The following table sets forth the Company’s investment in securities with gross unrealized losses of less than twelve months and gross unrealized losses of twelve months or more and associated fair values for which an allowance for credit losses has not been recorded for the periods indicated:

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(Dollars in thousands)			
June 30, 2024						
U.S. government agencies	$ —	$ —	$ 1,842	$ (165)	$ 1,842	$ (165)
Municipal bonds	—	—	31,681	(9,065)	31,681	(9,065)
Mortgage-backed securities	—	—	23,632	(4,221)	23,632	(4,221)
	$ —	$ —	$ 57,155	$ (13,451)	$ 57,155	$ (13,451)
December 31, 2023						
U.S. government agencies	$ —	$ —	$ 1,874	$ (133)	$ 1,874	$ (133)
Municipal bonds	6,513	(1,065)	26,537	(6,659)	33,050	(7,724)
Mortgage-backed securities	57	(2)	25,293	(4,055)	25,350	(4,057)
	$ 6,570	$ (1,067)	$ 53,704	$ (10,847)	$ 60,274	$ (11,914)

As of June 30, 2024, the Company's investment portfolio included no securities in the "unrealized losses less than twelve months" category and 173 securities in the "unrealized losses twelve months or more" category.

As of June 30, 2024, the Company had 173 securities with a fair value of $57.2 million in an unrealized loss position. The Company reviews securities in an unrealized loss position to evaluate credit risk. The Company considers payment history, risk ratings from external parties, financial statements for municipal and corporate securities, public statements from issuers and other available credible published sources in evaluating credit risk. No credit risk was found and no allowance for credit losses on securities available for sale was recorded as of June 30, 2024. The unrealized losses are attributed to noncredit-related factors, including changes in interest rates and other market conditions. The Company does not have the intent to sell any of these securities and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The contractual terms of the investments do not permit the issuers to settle the securities at a price less than the cost basis of the investments. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline.

Accrued interest of $257,000 as of June 30, 2024 and $260,000 as of December 31, 2023 on available-for-sale debt securities is included in accrued interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

The unrealized losses on debt securities shown in the previous tables were recorded as a component of accumulated other comprehensive loss, net of tax benefit on the Company’s consolidated statements of stockholders’ equity.

During the three and six months ended June 30, 2024, the Company did not sell any debt securities. During the three and six months ended June 30, 2023, the Company sold twenty-three municipal bonds and two mortgage-backed securities resulting in gross realized losses of $49,000, with an amortized cost of $6.0 million.

Scheduled contractual maturities of debt securities are as follows:

	Amortized Cost	Fair Value
	(Dollars in thousands)	
June 30, 2024:		
Less than one year	$ —	$ —
After one year through five years	2,102	$ 1,939
After five years through ten years	9,900	$ 8,525
After ten years	30,751	$ 23,059
Mortgage-backed securities	27,947	$ 23,726
Asset-backed securities	1	$ 30
Total Debt Securities	$ 70,701	$ 57,279

Equity Securities

At June 30, 2024 and December 31, 2023, equity securities consisted of 22,368 shares of Federal Home Loan Mortgage Corporation ("FHLMC") common stock. During the three months ended June 30, 2024 and 2023, the Company recognized an unrealized gain of $0 and $1,000, respectively, on the equity securities, which was recorded in non-interest income in the consolidated statements of income. During the six months ended June 30, 2024 and 2023, the Company recognized an unrealized gain of $11,000 and $2,000, respectively, on the equity securities, which was recorded in non-interest income in the consolidated statements of income. There were no purchases or sales of equity securities during the three and six months ended June 30, 2024 and 2023.

Note 4 - Loans and Allowance for Credit Losses

Loans consisted of the following segments as of June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
	(Dollars in thousands)	
Real Estate Loans:		
Residential, one- to four-family [(1)]	$ 166,075	$ 172,005
Home Equity	48,612	51,869
Commercial [(2)]	312,396	316,986
Total real estate loans	527,083	540,860
Other Loans:		
Commercial	18,578	16,546
Consumer	1,047	1,130
Total gross loans	546,708	558,536
Net deferred loan costs	3,545	3,755
Allowance for credit losses on loans	(5,916)	(6,463)
Loans receivable, net	$ 544,337	$ 555,828

(1) Includes one- to four-family construction loans.
(2) Includes commercial construction loans.

Real estate loans of approximately $53.0 million and $55.8 million in unpaid principal balance were pledged as collateral for Federal Home Loan Bank (FHLB) advances as of June 30, 2024 and December 31, 2023, respectively.

Loans are stated at the principal amounts outstanding, net of unamortized loan fees and costs, with interest income accrued based upon the outstanding principal balance and the terms of the loans. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. Loans are reported by the portfolio segments identified above and are analyzed by management on this basis. All loan policies identified below apply to all segments of the loan portfolio.

Accrued interest on loans of $2.5 million at both June 30, 2024 and December 31, 2023 is included in accrued interest receivable on the consolidated balance sheet and is excluded from the estimate of credit losses.

Allowance for Credit Losses for Loans

The loan portfolio is segmented into the following loan types by risk level:

Real Estate Loans:

- One- to Four-Family – are loans secured by first lien collateral on residential real estate primarily held in the Western New York region. These loans can be affected by economic conditions and the value of underlying properties. Western New York's housing market has consistently demonstrated stability in home prices despite economic conditions. Furthermore, the Company has conservative underwriting standards and its residential lending policies and procedures verify that its one- to four-family residential mortgage loans generally conform to secondary market guidelines.
- Home Equity - are loans or lines of credit secured by first or second liens on owner-occupied residential real estate primarily held in the Western New York region. These loans can also be affected by economic conditions and the values of underlying properties. Home equity loans may have increased risk of loss if the Company does not hold the first mortgage resulting in the Company being in a secondary position in the event of collateral liquidation. The Company does not originate interest only home equity loans.
- Commercial Real Estate – are loans used to finance the purchase of real property, which generally consists of developed real estate that is held as first lien collateral for the loan. These loans are secured by real estate properties that are primarily held in the Western New York region. Commercial real estate lending involves additional risks compared with one- to four-family residential lending, because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, and/or the collateral value of the commercial real estate securing the loan, and repayment of such loans may be subject to adverse conditions in the real estate market or economic conditions to a greater extent than one- to four-family residential mortgage loans. Also, commercial real estate loans typically involve relatively large loan balances concentrated with single borrowers or groups of related borrowers.

Other Loans:

- Commercial – includes business installment loans, lines of credit, and other commercial loans. Most of our commercial loans are for terms generally not in excess of 5 years. Whenever possible, we collateralize these loans with a lien on business assets and equipment and require the personal guarantees from principals of the borrower. Commercial loans generally involve a higher degree of credit risk, as commercial loans can involve relatively large loan balances to a single borrower or groups of related borrowers, with the repayment of such loans typically dependent on the successful operation of the commercial business and the income stream of the borrower. Such risks can be significantly affected by economic conditions. Although commercial loans may be collateralized by equipment or other business assets, the liquidation of collateral in the event of a borrower default may be an insufficient source of repayment because the equipment or other business assets may be obsolete or of limited use, among other things. Accordingly, the repayment of a commercial loan depends primarily on the credit worthiness of the borrowers (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.
- Consumer – consist of loans secured by collateral such as an automobile or a deposit account, unsecured loans and lines of credit. Consumer loans tend to have a higher credit risk due to the loans being either unsecured or secured by rapidly depreciable assets. Furthermore, consumer loan payments are dependent on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Included in the Real Estate Loans for one-to four-family and commercial real estate are loans to finance the construction of either a one- to four-family owner occupied home or commercial real estate. At the end of the construction period, the loan automatically converts to either a one- to four-family residential mortgage or a commercial real estate mortgage, as applicable. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion compared to the actual cost of construction. The Company limits its risk during construction as disbursements are not made until the required work for each advance has been completed and an updated lien search is performed. The completion of the construction progress is verified by a Company loan officer or inspections performed by an independent appraisal firm or other third party. Construction loans also expose us to the risk of construction delays which may impair the borrower's ability to repay the loan.

The following tables detail the changes in the allowance for credit losses by loan segment for the three and six months ended June 30, 2024 and 2023.

	Real Estate Loans			Other Loans		
	One- to Four-Family[(1)]	Home Equity	Commercial Real Estate [(2)]	Commercial	Consumer	Total
	(Dollars in thousands)					
June 30, 2024						
Allowance for Credit Loss on Loans						
Balance – April 1, 2024	$ 504	$ 249	$ 5,004	$ 467	$ 13	$ 6,237
Charge-offs	—	—	—	—	(5)	(5)
Recoveries	2	—	—	—	3	5
(Credit) provision	(33)	(33)	(315)	56	4	(321)
Balance – June 30, 2024	$ 473	$ 216	$ 4,689	$ 523	$ 15	$ 5,916
Balance - January 1, 2024	$ 532	$ 213	$ 5,231	$ 471	$ 16	$ 6,463
Charge-offs	—	—	—	—	(13)	(13)
Recoveries	5	—	—	—	5	10
(Credit) provision	(64)	3	(542)	52	7	(544)
Balance – June 30, 2024	$ 473	$ 216	$ 4,689	$ 523	$ 15	$ 5,916
Ending balance: individually evaluated	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance: collectively evaluated	$ 473	$ 216	$ 4,689	$ 523	$ 15	$ 5,916
Gross Loans Receivable[(3)]:						
Ending balance	$ 166,075	$ 48,612	$ 312,396	$ 18,578	$ 1,047	$ 546,708
Ending balance: individually evaluated	$ 136	$ —	$ 1,242	$ —	$ —	$ 1,378
Ending balance: collectively evaluated	$ 165,939	$ 48,612	$ 311,154	$ 18,578	$ 1,047	$ 545,330

(1) There were no one-to four-family construction loans at June 30, 2024.
(2) Includes commercial construction loans of $14.1 million.
(3) Gross Loans Receivable does not include allowance for credit losses of $(5,916) or deferred loan costs of $3,545.

	Real Estate Loans			Other Loans			
	One- to Four-Family[(1)]	Home Equity	Commercial Real Estate [(2)]	Commercial	Consumer	Unallocated	Total
				(Dollars in thousands)			
June 30, 2023							
Allowance for Credit Loss on Loans							
Balance- April 1, 2023	$ 544	$ 261	$ 5,384	$ 519	$ —	$ —	$ 6,708
Charge-offs	—	—	—	—	(15)	—	(15)
Recoveries	—	—	—	29	1	—	30
(Credit) provision	(3)	(4)	38	(28)	32	—	35
Balance – June 30, 2023	$ 541	$ 257	$ 5,422	$ 520	$ 18	$ —	$ 6,758
Balance- January 1, 2023	$ 411	$ 217	$ 5,746	$ 509	$ 47	$ 135	$ 7,065
Impact of adopting ASC 326	201	114	55	72	(25)	(135)	282
Charge-offs	—	—	—	—	(32)	—	(32)
Recoveries	—	—	—	29	4	—	33
(Credit) provision	(71)	(74)	(379)	(90)	24	—	(590)
Balance – June 30, 2023	$ 541	$ 257	$ 5,422	$ 520	$ 18	$ —	$ 6,758
Ending balance: individually evaluated	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance: collectively evaluated	$ 541	$ 257	$ 5,422	$ 520	$ 18	$ —	$ 6,758
Gross Loans Receivable[(3)]:							
Ending balance	$ 174,940	$ 50,750	$ 326,987	$ 18,585	$ 1,151	$ —	$ 572,413
Ending balance: individually evaluated	$ 146	$ 14	$ —	$ —	$ —	$ —	$ 160
Ending balance: collectively evaluated	$ 174,794	$ 50,736	$ 326,987	$ 18,585	$ 1,151	$ —	$ 572,253

(1) Includes one- to four-family construction loans of $3.0 million.
(2) Includes commercial construction loans of $23.0 million.
(3) Gross Loans Receivable does not include allowance for credit losses of $(6,758) or deferred loan costs of $3,848.

The following table summarizes the distribution of the allowance for credit losses and loans receivable by loan segment and impairment method as of December 31, 2023:

	Real Estate Loans			Other Loans		
	One- to Four-Family[(1)]	Home Equity	Commercial Real Estate [(2)]	Commercial	Consumer	Total
			(Dollars in thousands)			
December 31, 2023						
Allowance for Credit Losses on Loans						
Balance – December 31, 2023	$ 532	$ 213	$ 5,231	$ 471	$ 16	$ 6,463
Ending balance: individually evaluated	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance: collectively evaluated	$ 532	$ 213	$ 5,231	$ 471	$ 16	$ 6,463
Gross Loans Receivable[(3)]:						
Ending Balance	$ 172,005	$ 51,869	$ 316,986	$ 16,546	$ 1,130	$ 558,536
Ending balance: individually evaluated	$ 140	$ —	$ 1,242	$ —	$ —	$ 1,382
Ending balance: collectively evaluated	$ 171,865	$ 51,869	$ 315,744	$ 16,546	$ 1,130	$ 557,154

(1) Includes one- to four-family construction loans of $466,000.
(2) Includes commercial construction loans of $16.4 million.
(3) Gross Loans Receivable does not include allowance for credit losses of $(6,463) or deferred loan costs of $3,755.

Allowance for Credit Losses on Unfunded Loan Commitments

The Company's allowance for credit losses on unfunded loan commitments is recognized as a liability and included within other liabilities on the unaudited consolidated balance sheets, with adjustments to the reserve recognized in (credit) provision for credit losses on the unaudited consolidated statements of income. The Company did not record an allowance on unfunded loan commitments prior to January 1, 2023. The Company's activity in the allowance for credit losses on unfunded loan commitments for the three and six months ended June 30, 2024 and the three and six months ended June 30, 2023 was as follows:

	For the Six Months Ended June 30, 2024	
	(Dollars in thousands)	
Balance at December 31, 2023	$	487
Provision for Credit Losses		(129)
Balance at March 31, 2024	$	358
Provision for Credit Losses		36
Balance at June 30, 2024	$	394

	For the Six Months Ended June 30, 2023	
	(Dollars in thousands)	
Balance at December 31, 2022	$	—
Impact of CECL Adoption		633
Balance at March 31, 2023	$	633
Provision for Credit Losses		(222)
Balance at June 30, 2023	$	411

Non-accrual Loans and Delinquency Status

The following table presents the amortized cost basis of loans on non-accrual status and loans on non-accrual status with no allowance for credit losses recorded. The Company did not have any loans past due 90 days or more and still accruing at June 30, 2024 and December 31, 2023.

	Total Non-accrual				Non-accrual with no Allowance for Credit Losses			
	June 30, 2024		December 31, 2023		June 30, 2024		December 31, 2023	
	(Dollars in thousands)							
Real Estate Loans:								
Residential, one- to four-family [(1)]	$	2,067	$	1,904	$	2,067	$	1,904
Home Equity		678		196		678		196
Commercial Real Estate [(2)]		1,226		1,242		1,226		1,242
Other Loans:								
Commercial		—		—		—		—
Consumer		21		5		21		5
Total loans	$	3,992	$	3,347	$	3,992	$	3,347

(1) Includes one- to four-family construction loans.
(2) Includes commercial construction loans.

There was no interest income recognized on non-accrual loans during the three and six months ended June 30, 2024 and the three and six months ended June 30, 2023. The accrual of interest on loans is discontinued when in management's opinion, the borrower may be unable to meet payments as they become due. A loan does not have to be 90 days delinquent in order to be classified as non-accrual. When interest accrual is discontinued, all unpaid accrued interest is reversed. If ultimate collection of principal is in doubt, all cash receipts on non-accrual loans are applied to reduce the principal balance.

The following tables provide an analysis of past due loans as of the dates indicated:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Due	Total Gross Loans Receivable
			(Dollars in thousands)			
June 30, 2024:						
Real Estate Loans:						
Residential, one- to four-family[1]	$ 708	$ 444	$ 584	$ 1,736	$ 164,339	$ 166,075
Home equity	478	49	581	1,108	47,504	48,612
Commercial[2]	—	—	1,242	1,242	311,154	312,396
Other Loans:						
Commercial	—	—	—	—	18,578	18,578
Consumer	51	—	13	64	983	1,047
Total	$ 1,237	$ 493	$ 2,420	$ 4,150	$ 542,558	$ 546,708

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Due	Total Gross Loans Receivable
			(Dollars in thousands)			
December 31, 2023:						
Real Estate Loans:						
Residential, one- to four-family[1]	$ 1,488	$ 3	$ 276	$ 1,767	$ 170,238	$ 172,005
Home equity	315	583	56	954	50,915	51,869
Commercial[2]	—	—	1,242	1,242	315,744	316,986
Other Loans:						
Commercial	—	—	—	—	16,546	16,546
Consumer	6	—	1	7	1,123	1,130
Total	$ 1,809	$ 586	$ 1,575	$ 3,970	$ 554,566	$ 558,536

(1) Includes one- to four-family construction loans.
(2) Includes commercial real estate construction loans.

Collateral-Dependent Loans

Collateral-dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral-dependent loans, the Company has adopted the practical expedient to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is measured on an individual loan basis based on the difference between the fair value of the loan's collateral, which is adjusted for liquidation costs, and the amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance for credit losses is required. Refer to Note 8 - Fair Value of Financial Instruments for additional information.

The following table presents an analysis of the amortized cost of collateral-dependent loans of the Company as of June 30, 2024 and December 31, 2023 by collateral type and loan segment:

	Residential Properties	Business Assets	Land	Commercial Property	Other	Total Loans
June 30, 2024:	(Dollars in thousands)					
Real Estate Loans:						
Residential, one- to four-family	$ 139	$ —	$ —	$ —	$ —	$ 139
Home Equity	—	—	—	—	—	—
Commercial	200	—	1,026	—	—	1,226
Total	$ 339	$ —	$ 1,026	$ —	$ —	$ 1,365
December 31, 2023:						
Real Estate Loans:						
Residential, one- to four-family	$ 143	$ —	$ —	$ —	$ —	$ 143
Home Equity	—	—	—	—	—	—
Commercial	200	—	1,026	—	—	1,226
Total	$ 343	$ —	$ 1,026	$ —	$ —	$ 1,369

There was no allowance for credit losses recorded on the above noted collateral-dependent loans as of June 30, 2024 and December 31, 2023.

Credit Quality Indicators

The Company's policies provide for the classification of loans as follows:

- Pass/Performing;
- Special Mention – does not currently expose the Company to a sufficient degree of risk but does possess credit deficiencies or potential weaknesses deserving the Company's close attention;
- Substandard – has one or more well-defined weaknesses and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. A substandard asset would be one inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral, if applicable;
- Doubtful – has all the weaknesses inherent in substandard loans with the additional characteristic that the weaknesses present make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss; and
- Loss – loan is considered uncollectible and continuance without the establishment of a specific valuation reserve is not warranted.

Each commercial loan is individually assigned a loan classification. The Company's consumer loans, including residential one- to four-family loans and home equity loans, are classified by using the delinquency status as the basis for classifying these loans. Generally, all consumer loans more than 90 days past due are classified and placed in non-accrual. Such loans that are well-secured and in the process of collection will remain in accrual status.

Asset quality indicators for all loans and the Company's risk rating process are reviewed on a monthly basis. Risk ratings are updated as circumstances that could affect the repayment of individual loans are brought to management's attention through an established monitoring process. Written action plans are maintained and reviewed on a quarterly basis for all classified commercial loans. In addition to the Company's internal process, an outsourced independent credit review function is in place for commercial loans to further assess assigned risk classifications and monitor compliance with internal lending policies and procedures.

The following table presents loans by credit quality indicator by origination year at June 30, 2024:

	YTD 2024	2023	2022	2021	2020	Prior	Revolving Loans	Total
				(Dollars in thousands)				
Residential, one-to four-family[(1)]:								
Pass	2,210	11,992	34,471	28,049	16,833	70,106	—	163,661
Substandard	—	—	322	267	89	1,736	—	2,414
Doubtful	—	—	—	—	—	—	—	—
Total	2,210	11,992	34,793	28,316	16,922	71,842	—	166,075
Current period gross charge-offs	—	—	—	—	—	—	—	—
Home Equity:								
Pass	—	3,158	2,718	89	42	685	41,097	47,788
Substandard	—	—	—	—	—	—	824	824
Doubtful	—	—	—	—	—	—	—	—
Total	—	3,158	2,718	89	42	685	41,921	48,612
Current period gross charge-offs	—	—	—	—	—	—	—	—
Commercial Real Estate[(2)]:								
Pass	9,906	16,574	84,597	44,088	39,348	105,822	644	300,979
Special mention	—	—	—	—	909	524	—	1,433
Substandard	—	—	—	—	1,242	8,742	—	9,984
Doubtful	—	—	—	—	—	—	—	—
Total	9,906	16,574	84,597	44,088	41,499	115,088	644	312,396
Current period gross charge-offs	—	—	—	—	—	—	—	—
Commercial Loans:								
Pass	327	1,112	2,196	598	414	2,007	8,268	14,923
Special mention	—	—	—	215	—	151	—	366
Substandard	—	—	—	—	—	2,333	956	3,289
Doubtful	—	—	—	—	—	—	—	—
Total	327	1,112	2,196	813	414	4,491	9,224	18,578
Current period gross charge-offs	—	—	—	—	—	—	—	—
Consumer Loans:								
Pass	170	185	194	49	112	121	196	1,027
Substandard	5	—	2	1	1	—	11	20
Doubtful	—	—	—	—	—	—	—	—
Total	175	185	196	50	113	121	207	1,047
Current period gross charge-offs	—	—	—	—	—	—	13	13

(1) Includes one- to four-family construction loans.
(2) Includes commercial construction loans.

The following table presents loans by credit quality indicator by origination year at December 31, 2023:

	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
				(Dollars in thousands)				
Residential, one-to four-family[1]:								
Pass	$ 12,203	$ 36,103	$ 29,486	$ 17,975	$ 10,075	$ 63,928	$ —	$ 169,770
Substandard	—	262	39	92	270	1,572	—	2,235
Doubtful	—	—	—	—	—	—	—	—
Total	$ 12,203	$ 36,365	$ 29,525	$ 18,067	$ 10,345	$ 65,500	$ —	$ 172,005
Current period gross charge-offs	$ —	$ —	$ 3	$ —	$ —	$ —	$ —	$ 3
Home Equity:								
Pass	$ 3,660	$ 3,120	$ 102	$ 47	$ 274	$ 511	$ 43,862	$ 51,576
Substandard	—	—	—	—	—	—	293	293
Doubtful	—	—	—	—	—	—	—	—
Total	$ 3,660	$ 3,120	$ 102	$ 47	$ 274	$ 511	$ 44,155	$ 51,869
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial Real Estate[2]:								
Pass	$ 15,396	$ 85,587	$ 50,797	$ 42,226	$ 38,694	$ 72,256	$ —	$ 304,956
Special mention	—	—	—	984	682	—	—	1,666
Substandard	—	—	—	1,242	5,386	3,736	—	10,364
Doubtful	—	—	—	—	—	—	—	—
Total	$ 15,396	$ 85,587	$ 50,797	$ 44,452	$ 44,762	$ 75,992	$ —	$ 316,986
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial Loans:								
Pass	$ 1,243	$ 2,591	$ 732	$ 622	$ 1,901	$ 4,997	$ —	$ 12,086
Special mention	—	—	263	—	764	—	—	1,027
Substandard	—	—	—	—	3,114	319	—	3,433
Doubtful	—	—	—	—	—	—	—	—
Total	$ 1,243	$ 2,591	$ 995	$ 622	$ 5,779	$ 5,316	$ —	$ 16,546
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer Loans:								
Pass	$ 269	$ 245	$ 79	$ 136	$ 2	$ 210	$ 184	$ 1,125
Substandard	—	—	2	1	—	—	2	5
Doubtful	—	—	—	—	—	—	—	—
Total	$ 269	$ 245	$ 81	$ 137	$ 2	$ 210	$ 186	$ 1,130
Current period gross charge-offs	$ —	$ 8	$ 3	$ 3	$ 4	$ —	$ 40	$ 58

(1) Includes one- to four-family construction loans.
(2) Includes commercial construction loans.

Modifications with Borrowers Experiencing Financial Difficulty:

Occasionally, the Company modifies loans to borrowers in financial distress by providing modifications to loans that it would not normally grant. Such modifications could include principal forgiveness, term extension, a significant payment delay, an interest rate reduction or the addition of a co-borrower or guarantor. When principal forgiveness is provided, the amount of the forgiveness is charged-off against the allowance for credit losses.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses, a change to the allowance for credit losses is generally not recorded upon modification.

In some cases, the Company provides multiple types of modifications on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another modification may be granted, such as principal forgiveness.

There were no loans modified to borrowers experiencing financial difficulty during the three and six months ended June 30, 2024.

The following table presents the amortized cost basis of loans at June 30, 2023 that were experiencing financial difficulty and were modified during the three and six months ended June 30, 2023, by loan class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivables is also presented.

	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Add Co-Borrower/ Guarantor	Combination Term Extension and Add Co-Borrower	Percentage of Total Class of Financing Receivable
	(Dollars in thousands)						
Real Estate Loans							
Commercial real estate	$ —	$ —	$ —	$ —	$ 4,935	$ —	1.50 %
Other loans							
Commercial	—	—	—	—	—	1,114	5.80 %
Total	$	$ —	$ —	$ —	$ 4,935	$ 1,114	

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

Loan Type	Term Extension and Added Co-Borrower Financial Effect
Commercial Real Estate	Added a co-borrower with financial ability to strengthen the credit risk related to this particular loan. No other modification was made to this loan that had a financial effect on the borrower(s).
Other - Commercial	Added a weighted-average of 5 years to the life of the loans, which reduced the monthly payment amount for the borrowers. Added a co-borrower with financial ability to strengthen the credit risk related to these particular loans.

There were no modified loans past due or on non-accrual as of June 30, 2024.

There were no modified loans made during the three and six months ended June 30, 2024 and 2023 that subsequently defaulted.

The Company has not committed to lending additional amounts to the borrowers included in the previous tables.

Foreclosed real estate consists of property acquired in settlement of loans which is carried at its fair value less estimated selling costs. Write-downs from cost to fair value less estimated selling costs are recorded at the date of acquisition or repossession and are charged to the allowance for credit losses. Foreclosed real estate was $16,000 and $34,000 at June 30, 2024 and December 31, 2023, respectively, and was included as a component of other assets on the consolidated balance sheet. The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction was $797,000 at June 30, 2024 and $158,000 at December 31, 2023.

Note 5 – Earnings per Share

Earnings per share was calculated for the three and six months ended June 30, 2024 and 2023. Basic earnings per share is based upon the weighted average number of common shares outstanding, exclusive of unearned shares held by the Employee Stock Ownership Plan of Lake Shore Bancorp, Inc. (the "ESOP") and by the Lake Shore Bancorp, Inc. 2012 Equity Incentive Plan ("EIP"). Diluted earnings per share is based upon the weighted average number of common shares outstanding and common share equivalents that would arise from the exercise of dilutive securities. Stock options are regarded as potential common stock and are considered in the diluted earnings per share calculations to the extent they would be dilutive and computed using the treasury stock method.

The calculated basic and diluted earnings per share are as follows:

	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023
Numerator – net income	$ 1,116,000	$ 816,000
Denominator:		
Basic weighted average shares outstanding	5,885,764	5,846,240
Increase in weighted average shares outstanding due to:		
Stock options(1)	—	—
Diluted weighted average shares outstanding(1)	5,885,764	5,846,240
Earnings per share:		
Basic	$ 0.19	$ 0.14
Diluted	$ 0.19	$ 0.14

	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Numerator – net income	$ 2,130,000	$ 2,500,000
Denominator:		
Basic weighted average shares outstanding	5,865,744	5,858,356
Increase in weighted average shares outstanding due to:		
Stock options(1)	—	—
Diluted weighted average shares outstanding(1)	5,865,744	5,858,356
Earnings per share:		
Basic	$ 0.36	$ 0.43
Diluted	$ 0.36	$ 0.43

(1) Weighted average stock options to purchase 29,142 shares under the Company's 2006 Stock Option Plan and 17,750 shares under the EIP at $14.38 and $10.69, respectively, were outstanding during the three months ended June 30, 2024. Weighted average stock options to purchase 40,408 shares under the Company's 2006 Stock Option Plan and 15,135 shares under the EIP at $14.38 and $10.69, respectively, were outstanding during the six months ended June 30, 2024, but were not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive. Weighted average stock options to purchase 58,857 shares under the Company's 2006 Stock Option Plan and 20,000 shares under the EIP at $14.38 were outstanding during the three and six months ended June 30, 2023 but were not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive.

Note 6 – Commitments to Extend Credit

The Company has commitments to extend credit with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

Commitments to extend credit are generally agreements to lend to a customer as long as there is no violation of any condition established in the contract, and generally have fixed expiration dates or other termination clauses. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

The Company's exposure to credit loss is represented by the contractual amount of the commitments which are not unconditionally cancellable. There was a $394,000 and $487,000 allowance for credit losses associated with these commitments at June 30, 2024 and December 31, 2023, respectively. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

The following commitments to extend credit were outstanding as of the dates specified:

	Contract Amount	
	June 30, 2024	December 31, 2023
	(Dollars in thousands)	
Commitments to grant loans	$ 6,743	$ 21,045
Unfunded commitments to fund loans and lines of credit	84,126	75,721
Commercial and Standby letters of credit	1,212	1,212

Note 7 – Stock-based Compensation

As of June 30, 2024, the Company had three active stock-based compensation plans, which are described below. The compensation cost related to these plans amounted to $88,000 and $53,000 for the three months ended June 30, 2024 and 2023, respectively, and $126,000 and $26,000 for the six months ended June 30, 2024 and 2023, respectively, and is included within salary and benefits expense in the non-interest expense section of the consolidated statements of income.

2006 Stock Option Plan

The Company's 2006 Stock Option Plan (the "Stock Option Plan"), which was approved by the Company's stockholders, permitted the grant of options to its employees and non-employee directors for up to 297,562 shares of common stock. The Stock Option Plan expired on October 24, 2016, and grants of options can no longer be awarded.

Both incentive stock options and non-qualified stock options have been granted under the Stock Option Plan. The exercise price of each stock option equals the market price of the Company's common stock on the date of grant and an option's maximum term is ten years. The stock options generally vest over a five year period.

A summary of the status of the Stock Option Plan during the six months ended June 30, 2024 and 2023 is presented below:

	2024			2023		
	Options	Weighted Average Exercise Price	Remaining Contractual Life	Options	Weighted Average Exercise Price	Remaining Contractual Life
Outstanding at beginning of year	58,857	$ 14.38		58,857	$ 14.38	
Granted	—	—		—	—	
Exercised	—	—		—	—	
Forfeited	(29,715)	14.38		—	—	
Outstanding at end of period	29,142	$ 14.38	2.3 years	58,857	$ 14.38	3.3 years
Options exercisable at end of period	29,142	$ 14.38	2.3 years	58,857	$ 14.38	3.3 years
Fair value of options granted	—	$ —		—	$ —	

At June 30, 2024, stock options had no intrinsic value and there were no remaining options available for grant under the Stock Option Plan. At June 30, 2024, all compensation cost and expense related to the Stock Option Plan has been recognized in prior periods.

2012 Equity Incentive Plan

The Company's 2012 Equity Incentive Plan (the "EIP"), which was approved by the Company's stockholders on May 23, 2012, authorizes the issuance of up to 180,000 shares of common stock pursuant to grants of restricted stock awards and up to 20,000 shares of common stock pursuant to grants of incentive stock options and non-qualified stock options, subject to permitted adjustments for certain corporate transactions. Employees and non-employee directors of Lake Shore Bancorp or its subsidiaries are eligible to receive awards under the EIP, except that non-employees may not be granted incentive stock options. The EIP expired on April 24, 2024, and grants of awards can no longer be made.

The Board of Directors granted restricted stock awards under the EIP during the six months ended June 30, 2024 as follows:

Grant Date	Number of Restricted Stock Awards	Vesting	Fair Value per Share of Award on Grant Date	Awardees
April 23, 2024	19,730	100% on April 23, 2025	$ 10.69	Non-employee directors
April 23, 2024	32,522	25% per year for four years with first vesting on April 23, 2025	$ 10.69	Employees

The Board of Directors granted stock options under the EIP during the six months ended June 30, 2024 as follows:

Grant Date	Number of Stock Option Awards	Vesting	Exercise Price	Awardees
April 23, 2024	9,306	20% per year for five years with first vesting on April 23, 2025	$ 10.69	Non-employee directors

A summary of the status of unvested restricted stock awards under the EIP for the six months ended June 30, 2024 and 2023 is as follows:

	For the Six Months Ended June 30, 2024	Weighted Average Grant Price (per Share)	For the Six Months Ended June 30, 2023	Weighted Average Grant Price (per Share)
Unvested shares outstanding at beginning of year	17,719	$ 13.94	43,866	$ 15.02
Granted	52,252	10.69	8,282	12.91
Vested	(10,926)	13.64	(11,734)	15.39
Forfeited	—	—	(17,767)	14.91
Unvested shares outstanding at end of period	59,045	$ 11.12	22,647	$ 14.14

As of June 30, 2024, there were 120,946 shares of restricted stock that vested or were distributed to eligible participants under the EIP and the plan expired on April 24, 2024. Accordingly, there were no remaining shares available for grant. Compensation expense related to unvested restricted stock awards under the EIP amounted to $65,000 and $31,000 for the three months ended June 30, 2024 and 2023, respectively. Compensation expense related to unvested restricted stock awards under the EIP amounted to $80,000 and $(18,000) for the six months ended June 30, 2024 and 2023, respectively. At June 30, 2024, $540,000 of unrecognized compensation cost related to unvested restricted stock awards is expected to be recognized over a period of 31 months.

A summary of the status of stock options under the EIP for the six months ended June 30, 2024 and 2023 is presented below:

	2024				2023		
	Options	Exercise Price	Intrinsic Value	Remaining Contractual Life	Options	Exercise Price	Remaining Contractual Life
Outstanding at beginning of year	13,101	$ 14.38			20,000	$ 14.38	
Granted	9,306	10.69			—	—	
Exercised	—	—			—	—	
Forfeited	(2,407)	14.38			—	—	
Expired	—	—					
Outstanding at end of period	20,000	$ 12.66	$ 17,000	5.8 years	20,000	$ 14.38	3.3 years
Options exercisable at end of period	10,694	$ 14.38	—	2.3 years	20,000	$ 14.38	3.3 years

	Options	Exercise Price	Fair Value	Remaining Contractual Life
Fair value of options granted	9,306	$ 10.69	$ 28,000	9.8 years

Compensation expense related to unvested stock options under the EIP amounted to $1,000 for the three and six months ended June 30, 2024. There was no compensation expense related to unvested stock options under the EIP for the three and six months ended June 30, 2023. At June 30, 2024 $27,000 of unrecognized compensation cost related to unvested stock options is expected to be recognized over a period of 57 months. During April 2024, the Company granted all remaining options available under the EIP. The EIP expired on April 24, 2024 and no additional options were available for grant nor issued after this date.

Employee Stock Ownership Plan ("ESOP")

The Company established the ESOP for the benefit of eligible employees of the Company and Bank. All Company and Bank employees meeting certain age and service requirements are eligible to participate in the ESOP. Participants' benefits become fully vested after five years of service once the employee is eligible to participate in the ESOP. The Company utilized $2.6 million of the proceeds of its 2006 stock offering to extend a loan to the ESOP and the ESOP used such proceeds to purchase 238,050 shares of stock on the open market at an average price of $10.70 per share, plus commission expenses. As a result of the purchase of shares by the ESOP, total stockholders' equity of the Company was reduced by $2.6 million. As of June 30, 2024, the balance of the loan to the ESOP was $1.3 million and the fair value of unallocated shares was $1.1 million. As of June 30, 2024, there were 69,071 allocated shares and 95,219 unallocated shares compared to 74,895 allocated shares and 103,153 unallocated shares at December 31, 2023. The ESOP compensation expense was $23,000 for the three months ended June 30, 2024 and $22,000 for the three months ended June 30, 2023 based on 1,984 shares earned in each of those quarters. The ESOP compensation expense was $46,000 for the six months ended June 30, 2024 and $44,000 for the six months ended June 30, 2023 based on 3,968 shares earned in each of those six month periods.

Note 8 - Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of June 30, 2024 and December 31, 2023 and have not been re-evaluated or updated for purposes of these unaudited consolidated financial statements subsequent to those respective dates. The estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported here.

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.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities measurements (Level 1) and the lowest priority to unobservable input measurements (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company's consolidated balance sheets contain investment securities that are recorded at fair value on a recurring basis. For financial instruments measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2024 and December 31, 2023 were as follows:

		Fair Value Measurements at June 30, 2024		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Measured at fair value on a recurring basis:				
Securities:				
Debt Securities				
U.S. government agencies	$ 1,842	$ —	$ 1,842	$ —
Municipal bonds	31,681	—	31,681	—
Mortgage-backed securities:				
Collateralized mortgage obligations-private label	9	—	9	—
Collateralized mortgage obligations-government sponsored entities	9,585	—	9,585	—
Government National Mortgage Association	53	—	53	—
Federal National Mortgage Association	9,575	—	9,575	—
Federal Home Loan Mortgage Corporation	4,504	—	4,504	—
Asset-backed securities:				
Private label	29	—	29	—
Government sponsored entities	1	—	1	—
Total Debt Securities	$ 57,279	$ —	$ 57,279	$ —
Equity securities	30	30	—	—
Total Securities	$ 57,309	$ 30	$ 57,279	$ —

	Fair Value Measurements at December 31, 2023			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Measured at fair value on a recurring basis:				
Securities:				
Debt Securities				
U.S. government agencies	$ 1,874	$ —	$ 1,874	$ —
Municipal bonds	33,050	—	33,050	—
Mortgage-backed securities:				
Collateralized mortgage obligations-private label	10	—	10	—
Collateralized mortgage obligations-government sponsored entities	10,400	—	10,400	—
Government National Mortgage Association	55	—	55	—
Federal National Mortgage Association	10,189	—	10,189	—
Federal Home Loan Mortgage Corporation	4,813	—	4,813	—
Asset-backed securities:				
Private label	31	—	31	—
Government sponsored entities	2	—	2	—
Total Debt Securities	$ 60,424	$ —	$ 60,424	$ —
Equity securities	18	18	—	—
Total Securities	$ 60,442	$ 18	$ 60,424	$ —

Level 2 inputs for assets or liabilities measured at fair value on a recurring basis might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment projections, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means. The following is a description of valuation methodologies used for financial assets recorded at fair value on a recurring basis:

- Investment securities - the fair values are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1) or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted prices. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution date, market consensus prepayment projections, credit information, and the security' terms and conditions, among other things. Level 2 securities which are fixed income instruments that are not quoted on an exchange, but are traded in active markets, are valued using prices obtained from our custodian, who use third party data service providers.

In addition to disclosure of the fair value of assets on a recurring basis, GAAP requires disclosures for assets and liabilities measured at fair value on a non-recurring basis. The following is a description of the valuation methods used for assets measured at fair value on a non-recurring basis.

Collateral-Dependent Loans. Loans for which repayment is substantially expected to be provided through the operations or sale of collateral are considered collateral dependent. They are held at the lower of cost or fair value, and are considered to be measured at fair value when recorded below cost. Collateral-dependent loans are valued based on the estimated fair value of the collateral, less estimated costs to sell at the reporting date, based on either a recent appraisal performed by a third-party independent appraiser or discounted cash flows based on current market conditions. Accordingly, collateral dependent loans are classified within Level 3 of the fair value hierarchy. The Company did not record an allowance for credit losses for its collateral-dependent loans as of June 30, 2024 and December 31, 2023.

Foreclosed Real Estate and Repossessed Assets. Foreclosed real estate and repossessed assets are held at the lower of cost or fair value and are considered to be measured at fair value when recorded below cost. The fair value of foreclosed real estate is calculated using independent appraisals, less estimated selling costs. Certain repossessed assets may require assumptions about factors that are not observable in an active market when determining fair value. Accordingly, foreclosed real estate and repossessed assets are classified within Level 3 of the fair value hierarchy. Foreclosed real estate was $16,000 and $34,000 at June 30, 2024 and December 31, 2023, respectively and was included as a component of other assets on the consolidated balance sheets. The Company did not have repossessed assets at June 30, 2024 and December 31, 2023.

Mortgage Servicing Rights. Mortgage servicing rights do not trade in an active market with readily observable market data. As a result, the Company estimates the fair value of loan servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The key assumptions used in the model include the estimated life of loans sold with servicing retained and the estimated cost to service the loans. Loan servicing rights are classified as Level 3 measurements due to the use of unobservable inputs, as well as management judgment and estimation. Mortgage servicing rights amounted to $184,000 and $191,000 at June 30, 2024 and December 31, 2023, respectively, and was included as a component of other assets on the consolidated balance sheets.

For assets subject to measurement at fair value on a non-recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2024 and December 31, 2023 were as follows:

		Fair Value Measurements		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Measured at fair value on a non-recurring basis:				
At June 30, 2024				
Foreclosed real estate	$ 16	$ —	$ —	$ 16
Mortgage servicing rights	184	—	—	184
At December 31, 2023				
Foreclosed real estate	34	—	—	34
Mortgage servicing rights	191	—	—	191

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	Quantitative Information about Level 3 Fair Value Measurements				
(Dollars in thousands)	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
At June 30, 2024					
Foreclosed real estate	$ 16	Appraisal of collateral (1)	Direct Disposal Costs (2)	8.00 %	8.00 %
Mortgage servicing rights	184	Discounted Cash Flow Model (3)	Servicing Fees	0.25 %	0.25 %
			Servicing Costs	0.10 %	0.10 %
			Estimated Life of Loans	5.38 years	5.38 years
At December 31, 2023					
Foreclosed real estate	34	Appraisal of collateral (1)	Direct Disposal Costs (2)	8.00 %	8.00 %
Mortgage servicing rights	191	Discounted Cash Flow Model (3)	Servicing Fees	0.25 %	0.25 %
			Servicing Costs	0.09 %	0.09 %
			Estimated Life of Loans	5.32 years	5.32 years

(1) Fair value is generally determined through independent third-party appraisals of the underlying collateral, which generally includes various Level 3 inputs which are not observable.

(2) The fair value basis of collateral-dependent loans and foreclosed real estate may be adjusted to reflect management estimates of disposal costs including, but not necessarily limited to, real estate brokerage commissions, legal fees, and delinquent property taxes.

(3) The fair value is based on a discounted cash flow model. The model's key assumptions are the estimated life of loans sold with servicing retained and the estimated cost to service the loans.

The carrying amount and estimated fair value, based on the exit price notion, of the Company’s financial instruments, whether carried at cost or fair value, are as follows:

	Fair Value Measurements at June 30, 2024				
	Carrying Amount	**Estimated Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
			(Dollars in thousands)		
Financial assets:					
Cash and cash equivalents	$ 60,987	$ 60,987	$ 60,987	$ —	$ —
Securities	57,309	57,309	30	57,279	—
Federal Home Loan Bank stock	1,742	1,742	—	1,742	—
Loans receivable, net	544,337	522,204	—	—	522,204
Accrued interest receivable	2,835	2,835	—	2,835	—
Bank-owned life insurance	29,790	29,790	—	29,790	—
Mortgage servicing rights	184	184	—	—	184
Financial liabilities:					
Deposits	589,395	587,655	—	587,655	—
Long-term debt	23,250	22,987	—	22,987	—
Accrued interest payable	251	251	—	251	—

	Fair Value Measurements at December 31, 2023				
	Carrying Amount	**Estimated Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
			(Dollars in thousands)		
Financial assets:					
Cash and cash equivalents	$ 53,730	$ 53,730	$ 53,730	$ —	$ —
Securities	60,442	60,442	18	60,424	—
Federal Home Loan Bank stock	2,293	2,293	—	2,293	—
Loans receivable, net	555,828	530,735	—	—	530,735
Accrued interest receivable	2,835	2,835		2,835	
Bank-owned life insurance	29,355	29,355	—	29,355	—
Mortgage servicing rights	191	191	—	—	191
Financial liabilities:					
Deposits	590,924	589,243	—	589,243	—
Long-term debt	35,250	34,757	—	34,757	—
Accrued interest payable	829	829	—	829	—

Note 9 – Treasury Stock

During the three and six months ended June 30, 2024, the Company did not repurchase any shares of common stock under the existing stock repurchase program. As of June 30, 2024, there were 30,626 shares remaining to be repurchased under the existing stock repurchase program. During the six months ended June 30, 2024, the Company transferred 52,252 shares of common stock out of treasury stock reserved for the 2012 Equity Incentive Plan, at an average cost of $10.69 per share to fund awards that had been granted under the plan. During the six months ended June 30, 2024 the Company repurchased 1,504 shares upon vesting of shares under the 2012 Equity Incentive Plan for the purpose of remitting payroll taxes on behalf of awardees who were employees, at an average cost of $11.62 per share.

During the three and six months ended June 30, 2023, the Company did not repurchase any shares of common stock under the existing stock repurchase program. As of June 30, 2023, there were 30,626 shares remaining to be repurchased under the existing stock repurchase program. During the six months ended June 30, 2023, the Company transferred 8,282 shares of common stock out of treasury stock reserved for the 2012 Equity Incentive Plan, at an average cost of $9.39 per share to fund awards that had been granted under the plan. During the six months ended June 30, 2023, there were 17,767 shares transferred back into treasury stock reserved for the 2012 Equity Incentive Plan at an average cost of $9.39 per share due to forfeitures. The Company repurchased 4,764 shares upon vesting of shares under the 2012 Equity Incentive Plan for the purpose of remitting payroll taxes on behalf of awardees who were employees, at an average cost of $11.63 per share, during the six months ended June 30, 2023.

Note 10 – Other Comprehensive (Loss) Income

In addition to presenting the consolidated statements of other comprehensive (loss) income herein, the following table shows the tax effects allocated to the Company's single component of other comprehensive (loss) income for the periods presented:

	For the Three Months Ended June 30, 2024			For The Three Months Ended June 30, 2023		
	Pre-Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Pre-Tax Amount	Tax Benefit	Net of Tax Amount
	(Dollars in thousands)					
Net unrealized losses on securities available for sale:						
Net unrealized (losses) arising during the period	$ (530)	$ 111	$ (419)	$ (1,045)	$ 219	$ (826)
Less: reclassification adjustment related to:						
Loss on sale of securities included in net income	—	—	—	49	(10)	39
Recovery on previously impaired investment securities included in net income	(3)	1	(2)	(3)	-	(3)
Total Other Comprehensive (Loss) Income	$ (533)	$ 112	$ (421)	$ (999)	$ 209	$ (790)

	For the Six Months Ended June 30, 2024			For The Six Months Ended June 30, 2023		
	Pre-Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Pre-Tax Amount	Tax Benefit	Net of Tax Amount
	(Dollars in thousands)					
Net unrealized losses on securities available for sale:						
Net unrealized (losses) gains arising during the period	$ (1,539)	$ 322	$ (1,217)	$ 542	$ (114)	$ 428
Less: reclassification adjustment related to:						
Loss on sale of securities included in net income	—	—	—	49	(10)	39
Recovery on previously impaired investment securities included in net income	(3)	1	(2)	(5)	1	(4)
Total Other Comprehensive (Loss) Income	$ (1,542) $	$ 323	$ (1,219)	$ 586	$ (123)	$ 463

The following table presents the amounts reclassified out of the single component of the Company's accumulated other comprehensive loss for the indicated periods:

Details about Accumulated Other Comprehensive Loss Components	**Amounts Reclassified from Accumulated Other Comprehensive Loss for the three months ended June 30, 2024**	**2023**	**Affected Line Item on the Consolidated Statements of Income**
	(Dollars in thousands)		
Net unrealized (gains) losses on securities available for sale:			
Loss on sale of securities included in net income	$ —	$ 49	Loss on sale of securities available for sale
Recovery on previously impaired investment securities	(3)	(3)	Recovery on previously impaired investment securities
Provision for income tax expense	1	(10)	Income tax expense
Total reclassification for the period	$ (2)	$ 36	Net Income

Details about Accumulated Other Comprehensive Loss Components	**Amounts Reclassified from Accumulated Other Comprehensive Loss for the six months ended June 30, 2024**	**2023**	**Affected Line Item on the Consolidated Statements of Income**
	(Dollars in thousands)		
Net unrealized losses on securities available for sale:			
Loss on sale of securities included in net income	$ —	$ 49	Loss on sale of securities available for sale
Recovery on previously impaired investment securities	(3)	$ (5)	Recovery on previously impaired investment securities
Provision for income tax expense	1	(9)	Income tax expense
Total reclassification for the period	$ (2)	$$ 35	Net Income

Note 11 – Subsequent Events

On July 31, 2024, the Board of Directors of the Company declared a cash dividend of $0.18 per share on its outstanding common stock. The dividend is expected to be paid on August 16, 2024 to stockholders of record as of August 12, 2024. The Company received the written approval from the Federal Reserve Bank of Philadelphia, (the "Reserve Bank") on July 8, 2024 to pay a cash dividend of $0.18 per share to its stockholders. Lake Shore, MHC (the "MHC"), the Company's mutual holding company parent, which holds 3,636,875, or 63.4% of the Company's total outstanding common stock as of June 30, 2024, has elected to waive receipt of the dividend on its shares.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

Safe-Harbor

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, that are based on current expectations, estimates and projections about the Company's and the Bank's industry, and management's beliefs and assumptions. Words such as anticipates, expects, intends, plans, believes, estimates and variations of such words and expressions are intended to identify forward-looking statements. Such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast. Therefore, actual results may differ materially from those expressed or forecast in such forward-looking statements.

Potential risks and uncertainties that could cause our actual results to differ from those anticipated in any forward-looking statements include, but are not limited to, those described in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2023, Part II, Item 1A of this Quarterly Report on Form 10-Q and the following:

- compliance with the Consent Order and Individual Minimum Capital Requirement from the Office of the Comptroller of the Currency (the "OCC");
- compliance with the Written Agreement with the Federal Reserve Bank of Philadelphia (the "Reserve Bank");
- risks from data loss or other security breaches, including a breach of our operational or security systems, policies, or procedures, including cyber-attacks on us or on our third-party vendors or service providers;
- the failure of financial institutions may adversely affect our business, and the market price of our common stock;
- the strength of the United States economy in general and of the local economies in which we conduct operations;
- the effect of change in monetary and fiscal policy, including changes in interest rate policies of the Board of Governors of the Federal Reserve System;
- inflation, and market and monetary fluctuations;
- climate change;
- deterioration in the credit quality of our loan portfolio and/or the value of the collateral securing repayment of loans;
- unanticipated changes in our liquidity position;
- reduction in the value of our investment securities;
- the cost and ability to attract and retain key employees;
- regulatory or legal developments, tax policy changes;
- our ability to implement and execute our business plan and strategy and expand our operations;
- the ability of our customers to make loan payments;
- the effect of competition on rates of deposit and loan growth and net interest margin;
- our ability to continue to control costs and expenses;
- any future FDIC insurance premium increases, or special assessment may adversely affect our earnings;
- risks relating to pandemics and other public health issues;
- risks relating to geopolitical conflicts;
- changes in accounting principles, policies, or guidelines;
- our success in managing the risks involved in our business; and
- other economic, competitive, geopolitical, governmental, regulatory and technological factors affecting our operations, pricing, products and services.

Any and all of our forward-looking statements in this Quarterly Report on Form 10-Q and in any other public statements we make may differ from actual outcomes. They can be affected by inaccurate assumptions we might make or known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. Except as required by law, we undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

Overview

The following discussion and analysis is presented to assist in the understanding and evaluation of our consolidated financial condition, results of operations and other relevant statistical data. It is intended to complement the unaudited consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q and should be read in conjunction therewith. The detailed discussion focuses on our consolidated financial condition as of June 30, 2024 compared to the consolidated financial condition as of December 31, 2023 and the consolidated results of operations for the three and six months ended June 30, 2024 and 2023.

Our results of operations depend primarily on our net interest income, which is the difference between the interest income we earn on loans and investments and the interest expense we pay on deposits, borrowings and other interest-bearing liabilities. Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates we earn or pay on these balances.

Our operations are also affected by non-interest income, such as service charges and fees, debit card fees, earnings on bank owned life insurance, and the sales of securities, our provision for credit losses and non-interest expenses which include salaries and employee benefits, occupancy and equipment costs, data processing, professional services, advertising, FDIC insurance and other general and administrative expenses.

Financial institutions like us, in general, are significantly affected by economic conditions, competition, and the monetary and fiscal policies of the federal government. Lending activities are influenced by the demand for and supply of housing and commercial real estate, competition among lenders, interest rate conditions, and funds availability. Our operations and lending are principally concentrated in the Western New York area, and our operations and earnings are influenced by local economic conditions. Deposit balances and cost of funds are influenced by prevailing market rates on competing investments, customer preferences, and levels of personal income and savings in our primary market area. Operations are also significantly impacted by government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact the Company.

Recent Events

As previously reported on a Current Report on Form 8-K filed on July 31, 2024, the Company's Board of Directors declared a cash dividend of $0.18 per share on its outstanding common stock, which received written approval from the Reserve Bank on July 8, 2024. The dividend is expected to be paid on August 16, 2024 to stockholders of record as of August 12, 2024. The MHC has elected to waive receipt of the dividend on its shares.

As previously reported on a Current Report on Form 8-K filed on April 25, 2024, the Company received written approval from the Reserve Bank to pay a cash dividend of $0.18 per share to its stockholders. In addition, the Reserve Bank also issued a non-objection to Lake Shore, MHC (the "MHC"), the Company's mutual holding company parent, to waive the MHC's receipt of cash dividends on its common stock up to $0.72 per share during the twelve-month period ending April 2, 2025 (the "Dividend Waivers"). As the Company has previously disclosed, the MHC received the approval of its members (depositors of Lake Shore Savings Bank) for the Dividend Waivers on April 2, 2024. On April 25, 2024, the Company's Board of Directors declared a cash dividend of $0.18 per share on its outstanding common stock. The dividend was paid on May 10, 2024 to stockholders of record as of May 6, 2024. The MHC elected to waive receipt of the dividend on its shares.

As previously reported on a Current Report on Form 8-K filed on June 28, 2023 with the SEC, Lake Shore, MHC and Lake Shore Bancorp, Inc. (collectively, the "Companies"), the parent savings and loan holding companies of Lake Shore Savings Bank, entered into a written agreement (the "Agreement") with the Reserve Bank, the Companies' regulator. The Agreement provides, among other things, that the Companies take appropriate steps to fully utilize the Companies' financial and managerial resources to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with the Consent Order (described below) and not, directly or indirectly, declare or pay dividends, increase or guarantee any debt. We expect that our non-interest expenses will continue at their increased levels as a result of the Agreement and the Order, which may adversely affect our financial performance.

As previously reported on a Current Report on Form 8-K filed on February 9, 2023 with the SEC, the Bank consented to the issuance of a Consent Order (the "Order") by the OCC, the Bank's primary federal regulator. The Order requires the Bank to correct deficiencies related to information technology, security, automated clearing house program, audit, management and BSA/AML. Management and the Bank's Board of Directors are committed to promptly addressing the action items included in the Order. We expect that our non-interest expenses will continue at their increased levels as a result of remediation actions we will take in order to comply with the requirements of the Order which may adversely affect our financial performance.

Management Strategy

There have been no material changes in the Company's management strategy from what was disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Critical Accounting Estimates

The Company's consolidated financial statements are prepared in accordance with GAAP. The financial information contained within our statements is, to a significant extent, based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value obtained when earning income, recognizing an expense, recovering an asset, or relieving a liability. Although the economics of the Company's transactions may not change, the timing of events that would impact the transactions could change. Critical accounting policies are most important to the portrayal of the Company's financial condition or results of operations and require management's most difficult, subjective, and complex judgments about matters that are inherently uncertain. If conditions occur that differ from our assumptions, depending upon the severity of such differences, the Company's financial condition or results of operations may be materially impacted. The Company has designated its allowance for credit losses accounting policy as a critical accounting estimate due to the significant judgment required and the assumptions utilized in the estimation of the allowance. The Company evaluates its critical accounting estimates and assumptions on an ongoing basis and updates them as needed. Please refer to the Company's 2023 Form 10-K, Note 2: Summary of Significant Accounting Policies for information on these and other accounting policies.

Analysis of Net Interest Income

Net interest income represents the difference between the interest we earn on our interest-earning assets, such as commercial and residential mortgage loans and investment securities, and the expense we pay on interest-bearing liabilities, such as deposits and borrowings. Net interest income depends on both the volume of our interest-earning assets and interest-bearing liabilities and the interest rates we earn or pay on them.

Average Balances, Interest and Average Yields. The following tables set forth certain information relating to our average balance sheets and reflects the average yield on interest-earning assets and average cost of interest-bearing liabilities, interest earned and interest paid for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods presented. Average balances are derived from daily balances over the periods indicated. The average balances for loans are net of allowance for credit losses but include non-accrual loans. The loan yields include net amortization of certain deferred fees and costs that are considered adjustments to yields. The net amortization of deferred loan fees and costs were $142,000 and $177,000 for the three months ended June 30, 2024 and 2023, respectively. The net amortization of deferred loan fees and costs were

$266,000 and $315,000 for the six months ended June 30, 2024 and 2023, respectively. Interest income on securities does not include a tax equivalent adjustment for tax exempt securities.

	Three Months Ended June 30, 2024			Three Months Ended June 30, 2023		
	Average Balance	Interest Income/ Expense	Yield/ Rate[2]	Average Balance	Interest Income/ Expense	Yield/ Rate[2]
	(Dollars in thousands)					
Interest-earning assets:						
Interest-earning deposits & federal funds sold	$ 52,618	$ 647	4.92 %	$ 38,438	$ 489	5.09 %
Securities[1]	58,988	414	2.81 %	69,926	501	2.87 %
Loans, including fees	551,091	7,693	5.58 %	572,129	7,480	5.23 %
Total interest-earning assets	662,697	8,754	5.28 %	680,493	8,470	4.98 %
Other assets	49,661			45,622		
Total assets	$ 712,358			$ 726,115		
Interest-bearing liabilities						
Demand & NOW accounts	$ 67,167	$ 16	0.10 %	$ 77,525	$ 19	0.10 %
Money market accounts	140,759	947	2.69 %	132,748	376	1.13 %
Savings accounts	60,528	10	0.07 %	71,307	12	0.07 %
Time deposits	228,023	2,398	4.21 %	213,224	1,508	2.83 %
Total deposits	496,477	3,371	2.72 %	494,804	1,915	1.55 %
Borrowed funds & other interest-bearing liabilities	25,313	177	2.80 %	39,676	341	3.44 %
Total interest-bearing liabilities	521,790	3,548	2.72 %	534,480	2,256	1.69 %
Other non-interest bearing liabilities	104,529			107,738		
Stockholders' equity	86,039			83,897		
Total liabilities & stockholders' equity	$ 712,358			$ 726,115		
Net interest income		$ 5,206			$ 6,214	
Interest rate spread			2.56 %			3.29 %
Net interest margin			3.14 %			3.65 %

(1) The tax equivalent adjustment for bank qualified tax exempt municipal securities results in rates of 3.20% and 3.27% for the three months ended June 30, 2024 and 2023, respectively.
(2) Annualized.

	Six Months Ended June 30, 2024			Six Months Ended June 30, 2023		
	Average Balance	Interest Income/ Expense	Yield/ Rate[2]	Average Balance	Interest Income/ Expense	Yield/ Rate[2]
	(Dollars in thousands)					
Interest-earning assets:						
Interest-earning deposits & federal funds sold	$ 48,329	$ 1,246	5.16 %	$ 29,558	$ 655	4.43 %
Securities[1]	60,358	838	2.78 %	72,935	1,039	2.85 %
Loans, including fees	553,621	15,279	5.52 %	572,501	14,727	5.14 %
Total interest-earning assets	662,308	17,363	5.24 %	674,994	16,421	4.87 %
Other assets	50,263			45,785		
Total assets	$ 712,571			$ 720,779		
Interest-bearing liabilities						
Demand & NOW accounts	$ 68,460	$ 33	0.10 %	$ 78,851	$ 38	0.10 %
Money market accounts	140,277	1,913	2.73 %	138,316	686	0.99 %
Savings accounts	61,606	21	0.07 %	73,527	22	0.06 %
Time deposits	225,101	4,648	4.13 %	198,060	2,482	2.51 %
Total deposits	495,444	6,615	2.67 %	488,754	3,228	1.32 %
Borrowed funds & other interest-bearing liabilities	27,434	409	2.98 %	40,721	688	3.38 %
Total interest-bearing liabilities	522,878	7,024	2.69 %	529,475	3,916	1.48 %
Other non-interest bearing liabilities	103,414			108,053		
Stockholders' equity	86,279			83,251		
Total liabilities & stockholders' equity	$ 712,571			$ 720,779		
Net interest income		$ 10,339			$ 12,505	
Interest rate spread			2.55 %			3.39 %
Net interest margin			3.12 %			3.71 %

(1) The tax equivalent adjustment for bank qualified tax exempt municipal securities results in rates of 3.16% and 3.27% for the six months ended June 30, 2024 and 2023, respectively.
(2) Annualized.

Rate Volume Analysis. The following table analyzes the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. The table shows the amount of the change in interest income or expense caused by either changes in outstanding balances (volume) or changes in interest rates. The effect of a change in volume is measured by applying the average rate during the first period to the volume change between the two periods. The effect of changes in rate is measured by applying the change in rate between the two periods to the average volume during the first period. Changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the absolute value of the change due to volume and the change due to rate.

	Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023		
	Rate	Volume	Net Change
		(Dollars in thousands)	
Interest-earning assets:			
Interest-earning deposits & federal funds sold	$ (16)	$ 174	$ 158
Securities	(10)	(77)	(87)
Loans, including fees	507	(294)	213
Total interest-earning assets	481	(197)	284
Interest-bearing liabilities:			
Demand & NOW accounts	(1)	(2)	(3)
Money market accounts	517	54	571
Savings accounts	—	(2)	(2)
Time deposits	734	156	890
Total deposits	1,250	206	1,456
Other interest-bearing liabilities:			
Borrowed funds & other interest-bearing liabilities	(64)	(100)	(164)
Total interest-bearing liabilities	1,186	106	1,292
Total change in net interest income	$ (705)	$ (303)	$ (1,008)

	Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023		
	Rate	Volume	Net Change
		(Dollars in thousands)	
Interest-earning assets:			
Interest-earning deposits & federal funds sold	$ 107	$ 484	$ 591
Securities	(26)	(175)	(201)
Loans, including fees	1,073	(521)	552
Total interest-earning assets	1,154	(212)	942
Interest-bearing liabilities:			
Demand & NOW accounts	0	(5)	(5)
Money market accounts	1,200	27	1,227
Savings accounts	3	(4)	(1)
Time deposits	1,608	558	2,166
Total deposits	2,811	576	3,387
Other interest-bearing liabilities:			
Borrowed funds & other interest-bearing liabilities	(81)	(198)	(279)
Total interest-bearing liabilities	2,730	378	3,108
Total change in net interest income	$ (1,576)	$ (590)	$ (2,166)

As shown in the above tables, the decrease in net interest income for the three months ended June 30, 2024 was primarily impacted by an increase in the average interest rate paid on interest-bearing deposits, partially offset by an increase in the average yield earned on interest-earning assets when compared to the prior year period. The average interest rate paid on interest-bearing liabilities increased 103 basis points from 1.69% during the three months ended June 30, 2023 to 2.72% during the three months ended June 30, 2024. The increase in the average interest rate paid on interest-bearing liabilities during the three months ended June 30, 2024 was primarily due to a 156 basis points increase in the average interest rate paid on money market accounts and a 138 basis points increase in the average interest rate paid on time deposits as compared to the prior year period. The increase in average interest rate paid on money market accounts and time deposits was primarily due to an increase in customer demand for these types of deposit products due to the elevated and competitive interest rate environment. The average yield on interest-earning assets for the three months ended June 30, 2024 increased by 30 basis points when compared to the prior year period primarily due to an increase in the average interest rate earned on the loan portfolio from 5.23% during the three months ended June 30, 2023 to 5.58% during the three months ended June 30, 2024.

Net interest margin decreased to 3.14% for the three months ended June 30, 2024 as compared to 3.65% for the same period of the prior year.

As shown in the above tables, the decrease in net interest income for the six months ended June 30, 2024 was primarily impacted by an increase in the average interest rate paid on interest-bearing deposits, partially offset by an increase in the average yield earned on interest-earning assets when compared to the prior year period. The average interest rate paid on interest-bearing liabilities increased 121 basis points from 1.48% during the six months ended June 30, 2023 to 2.69% during the six months ended June 30, 2024. The increase in the average interest rate paid on interest-bearing liabilities during the six months ended June 30, 2024 was primarily due to a 174 basis points increase in the average interest rate paid on money market accounts and a 162 basis points increase in the average interest rate paid on time deposits in comparison to the prior year period. The increase in average interest rate paid on money market accounts and time deposits was primarily due to an increase in customer demand for these types of deposit products due to the elevated and competitive interest rate environment. The average yield on interest-earning assets for the six months ended June 30, 2024 increased by 37 basis points when compared to the prior year period primarily due to an increase in the average interest rate earned on the loan portfolio from 5.14% during the six months ended June 30, 2023 to 5.52% during the six months ended June 30, 2024. Net interest margin decreased to 3.12% for the six months ended June 30, 2024 as compared to 3.71% for the six months ended June 30, 2023.

Comparison of Financial Condition at June 30, 2024 and December 31, 2023

Total assets at June 30, 2024 were $711.0 million, a decrease of $14.1 million, or 1.9%, from $725.1 million at December 31, 2023. The decrease in total assets was primarily due to a $11.5 million or 2.1% decrease in loans receivable, net, a $6.2 million, or 48.7% decrease in other assets related to bank-owned life insurance and a $3.1 million, or 5.2% decrease in securities available-for-sale, partially offset by an increase in cash and cash equivalents of $7.3 million, or 13.5%.

Cash and cash equivalents increased by $7.3 million, or 13.5%, from $53.7 million at December 31, 2023 to $61.0 million at June 30, 2024. The increase was primarily due to a decrease in loans receivable, net, of $11.5 million due to paydowns and the proceeds received from the surrender of bank-owned life insurance of $6.6 million, partially offset by the repayment of long-term debt of $12.0 million during the six months ended June 30, 2024.

Securities decreased by $3.1 million, or 5.2%, from $60.4 million at December 31, 2023 to $57.3 million at June 30, 2024, primarily due to securities paydowns of $1.6 million, a $1.5 million increase in the gross unrealized losses on available-for-sale securities, and net amortization of premiums of $36,000.

Net loans receivable decreased slightly during the six months ended June 30, 2024 as shown in the table below:

	At June 30, 2024	At December 31, 2023	Change $	Change %
	(Dollars in thousands)			
Real Estate Loans:				
Residential, one- to four-family[1]	$ 166,075	$ 172,005	$ (5,930)	(3.4) %
Home equity	48,612	51,869	(3,257)	(6.3) %
Commercial[2]	312,396	316,986	(4,590)	(1.4) %
Total real estate loans	527,083	540,860	(13,777)	(2.5) %
Other Loans:				
Commercial	18,578	16,546	2,032	12.3 %
Consumer	1,047	1,130	(83)	(7.3) %
Total gross loans	546,708	558,536	(11,828)	(2.1) %
Allowance for credit losses	(5,916)	(6,463)	547	(8.5) %
Net deferred loan costs	3,545	3,755	(210)	(5.6) %
Loans receivable, net	$ 544,337	$ 555,828	$ (11,491)	(2.1) %

(1) Includes one- to four-family construction loans.
(2) Includes commercial construction loans.

The loans receivable, net balance decreased $11.5 million, or 2.1%, from $555.8 million at December 31, 2023 to $544.3 million at June 30, 2024. The decrease was primarily due to decreases in residential one- to four- family, commercial real estate, and home equity loans, partially offset by an increase in commercial loans. During the six months ended June 30, 2024, we remained strategically focused on originating shorter duration, adjustable-rate loans to diversify our asset mix and to manage interest rate risk.

Asset Quality. The following tables set forth activity in our allowance for credit losses on loans and other ratios at or for the dates indicated:

	At or for the Six Months Ended June 30,	
	2024	2023
	(Dollars in thousands)	
Beginning balance	$ 6,463	$ 7,065
Impact of adopting ASC 326	—	282
(Credit) provision for credit losses	(544)	(590)
Charge-offs:		
Consumer	(13)	(32)
Total charge-offs	(13)	(32)
Recoveries:		
Real estate loans:		
Residential, one- to four-family	5	—
Other loans:		
Commercial	—	29
Consumer	5	4
Total recoveries	10	33
Net charge-offs	(3)	1
Balance at end of period	$ 5,916	$ 6,758
Average loans outstanding	$ 553,621	$ 572,501
Allowance for credit losses as a percentage of total net loans	1.08 %	1.19 %
Allowance for credit losses as a percentage of amortized cost of non-performing loans	148.20 %	240.58 %

	For the Six Months Ended June 30,	
	2024	2023
Ratio of net recoveries (charge-offs) to average loans outstanding by loan type, annualized:		
Real estate loans:		
Residential, one- to four-family	0.01 %	— %
Home equity	— %	— %
Commercial	— %	— %
Other loans:		
Commercial	— %	0.30 %
Consumer	(1.51) %	(4.71) %
Ratio of net charge-offs to average loans outstanding	— %	(0.01) %

	At June 30, 2024	At December 31, 2023
	(Dollars in thousands)	
Loans accounted for on a non-accrual basis, at amortized cost:		
Real estate loans:		
Residential, one- to four-family[1]	$ 2,067	$ 1,904
Home equity	678	196
Commercial[2]	1,226	1,242
Other loans:		
Commercial	—	—
Consumer	21	5
Total non-accrual loans	3,992	3,347
Total non-performing loans	3,992	3,347
Foreclosed real estate	16	34
Total non-performing assets	$ 4,008	$ 3,381
Ratios:		
Non-performing loans as a percentage of total net loans:	0.73 %	0.60 %
Non-performing assets as a percentage of total assets:	0.56 %	0.47 %

(1) Includes one- to four- family construction loans.
(2) Includes Commercial construction loans.

Total non-performing assets increased by $627,000, or 18.5%, to $4.0 million at June 30, 2024 from $3.4 million at December 31, 2023, primarily due to an increase in non-accrual loans, including one home equity loan totaling $539,000 which was moved to non-accrual status during the first quarter of 2024. The Company had no loans past due 90 days or more but still accruing at June 30, 2024 or December 31, 2023.

Other assets decreased $6.2 million, or 48.7%, to $6.6 million at June 30, 2024 from $12.8 million at December 31, 2023 primarily due to the $6.6 million of proceeds received from the surrender of bank-owned life insurance which was in process at the end of 2023, partially offset by an increase in the Company's deferred tax assets related to the unrealized mark-to-market losses on the available for sale securities portfolio as a result of the increase in market interest rates.

The table below shows changes in deposit balances by type of deposit account between June 30, 2024 and December 31, 2023:

	At June 30, 2024	At December 31, 2023	Change $	Change %
	(Dollars in thousands)			
Core Deposits				
Demand deposits and NOW accounts:				
Non-interest bearing	$ 96,414	$ 95,186	$ 1,228	1.3 %
Interest bearing	67,379	72,966	(5,587)	(7.7) %
Money market	141,493	137,374	4,119	3.0 %
Savings	59,479	64,584	(5,105)	(7.9) %
Total core deposits	364,765	370,110	(5,345)	(1.4) %
Non-core Deposits				
Time deposits[1]	224,630	220,814	3,816	1.7 %
Total deposits	$ 589,395	$ 590,924	$ (1,529)	(0.3) %

(1) Includes brokered deposits of $5.0 million and $16.0 million at June 30, 2024 and December 31, 2023, respectively.

The decrease in total deposits was due to decreases in brokered time deposits and interest-bearing checking and savings accounts, offset by increases in money market accounts and customer time deposits. The change in deposit mix was driven by customer demand due to the competitive interest rate environment. The increase in time deposits was primarily due to a $14.8 million increase in customer time deposits, offset by a $11.0 million decrease in brokered time deposits. The decrease in brokered time deposits was a result of the Company's strategic focus, which is centered on organic growth of deposits among its retail and commercial customers to reduce the reliance on wholesale funding and to strengthen customer relationships. At June 30, 2024 and December 31, 2023, the Company's percentage of uninsured deposits to total deposits was 12.0% and 12.8%, respectively.

During the six months ended June 30, 2024, long-term borrowings decreased by $12.0 million to $23.3 million at June 30, 2024 from $35.3 million at December 31, 2023 in connection with the repayment of $12.0 million of long-term debt with the Federal Home Loan Bank of New York ("FHLBNY").

Stockholders' equity at June 30, 2024 was $86.9 million, a $659,000 increase, or 0.8%, as compared to $86.3 million at December 31, 2023. The increase in stockholders' equity was primarily attributed to $2.1 million in net income earned during the first half of 2024, partially offset by a $1.2 million unrealized loss, net of tax, on the available for sale securities portfolio recognized in other comprehensive loss.

Comparison of Results of Operations for the Three Months Ended June 30, 2024 and 2023

General. Net income was $1.1 million for the three months ended June 30, 2024, or $0.19 per diluted share, an increase of $300,000, or 36.8%, compared to net income of $816,000, or $0.14 per diluted share, for the three months ended June 30, 2023. Net income for the three months ended June 30, 2024 reflected a $1.0 million decrease in non-interest expense, a $185,000 increase in non-interest income, and a $98,000 change in the (credit) provision for credit losses, partially offset by a $1.0 million decrease in net interest income.

Interest Income. Interest income increased by $284,000, or 3.4%, to $8.8 million for the three months ended June 30, 2024, when compared to the three months ended June 30, 2023 due primarily to an increase in loan interest income. Loan interest income increased by $213,000, or 2.8%, to $7.7 million for the three months ended June 30, 2024, as compared to the prior year period primarily due to a 35 basis points increase in the average yield on loans, partially offset by a decrease in the average balance of the loan portfolio of $21.0 million, or 3.7%, from $572.1 million for the three months ended June 30, 2023, to $551.1 million for the three months ended June 30, 2024. The average yield on loans, including fees was 5.58% for the three months ended June 30, 2024, as compared to 5.23% for the three months ended June 30, 2023, primarily due to the impact of higher interest rates on variable rate loans and new loan originations. The decrease in the average balance of the loan portfolio was primarily driven by a decrease in the average balance of commercial real estate and residential loans due to payoffs.

Investment securities interest income decreased $87,000, or 17.4%, to $414,000 for the three months ended June 30, 2024, compared to the three months ended June 30, 2023, primarily due to a $10.9 million decrease in the average balance of investment securities and a six basis points decrease in the average yield of investment securities due to security sales and paydowns.

Interest-earning deposits and federal funds sold interest income increased $158,000, or 32.3%, to $647,000 for the three months ended June 30, 2024, compared to the three months ended June 30, 2023, due to a $14.2 million, or 36.9% increase in the average balance of interest-earning deposits and federal funds sold.

Interest Expense. Interest expense increased $1.3 million, or 57.3%, to $3.5 million for the three months ended June 30, 2024, compared to $2.3 million for the three months ended June 30, 2023, primarily due to an increase in interest paid on deposits. Interest accrued on deposits increased by $1.5 million, or 76.0%, to $3.4 million for the three months ended June 30, 2024, when compared to the three months ended June 30, 2023. The increase in interest expense on deposits was primarily due to a 117 basis points increase in the average interest rate paid on deposit accounts as the deposit mix shifted towards higher-cost time deposits and money market accounts. The average balance of deposits increased by $1.7 million, or 0.3%, from $494.8 million for the three months ended June 30, 2023, to $496.5 million for the three months ended June 30, 2024 primarily due to an increase in the average balance of time deposits and money market accounts. Interest expense on borrowed funds and other interest-bearing liabilities decreased by $164,000, or 48.1%, to $177,000 for the three months ended June 30, 2024 when compared to the three months ended June 30, 2023, primarily due to a $14.4 million decrease in the average balance of borrowed funds and other interest-bearing liabilities, and a 64 basis points decrease in the average rate paid on borrowings. The decrease in borrowings was a result of management's strategy to reduce reliance on wholesale funding and focus on organic growth of deposits among its retail and commercial customers.

(Credit) Provision for Credit Losses. The provision for credit losses represents a charge or credit made to earnings to maintain a sufficient allowance for credit losses. The allowance for credit losses is management's estimate of expected lifetime losses in the loan portfolio as of the balance sheet date and is measured using the vintage method. The allowance for credit losses also applies to off-balance sheet credit exposures, including loan commitments and standby letters of credit, as well as available-for-sale debt securities. Management considers past events, current conditions, and reasonable and supportable forecasts as the basis for the estimation of excepted credit losses.

The Company recorded a $285,000 credit to the provision for credit losses on loans and unfunded commitments during the three months ended June 30, 2024, as compared to a credit of $187,000 to the provision for credit losses during the three months ended June 30, 2023. The current period (credit) provision for credit losses was primarily due to a decrease in the qualitative loss factor derived from the forecasting factor.

Non-Interest Income. Non-interest income increased by $185,000, or 33.5%, to $738,000 for the three months ended June 30, 2024, as compared to $553,000 for the three months ended June 30, 2023. The increase was primarily due to a $111,000 increase in earnings on bank-owned life insurance in connection with the restructuring of bank-owned life insurance during the fourth quarter of 2023 and a $49,000 increase related to the loss on the sale of securities available for sale that occurred during the second quarter of 2023 as part of a balance sheet restructuring.

Non-Interest Expense. Non-interest expense was $4.9 million for the three months ended June 30, 2024, a decrease of $1.0 million, or 17.0%, as compared to $5.9 million for the three months ended June 30, 2023. The decrease related primarily to a decline in professional services expense of $451,000, or 53.2%, with the use of fewer external consultants in the current period. Additionally, advertising costs decreased by $163,000, or 91.1%, due to a decrease in marketing spending. As a result of management's efforts to rationalize staffing and optimize operating expenses, salaries and employee benefits decreased by $155,000, or 5.5%.

Income Taxes Expense. Income tax expense was $216,000 for the three months ended June 30, 2024, a decrease of $21,000, or 8.9%, as compared to $237,000 for the three months ended June 30, 2023. The decrease in income tax expense was primarily due to a decrease in the effective tax rate related to the restructuring of bank-owned life insurance. The effective tax rate was 16.2% and 22.5% for the three months ended June 30, 2024 and 2023, respectively.

Comparison of Results of Operations for the Six Months Ended June 30, 2024 and 2023

General. Net income was $2.1 million for the six months ended June 30, 2024, or $0.36 per diluted share, a decrease of $370,000, or 14.8%, compared to net income of $2.5 million, or $0.43 per diluted share, for the six months ended June 30, 2023. Net income for the six months ended June 30, 2024 reflected a $2.2 million decrease in net interest income and a $175,000 change in the (credit) provision for credit losses, partially offset by a $1.5 million decrease in non-interest expense and a $338,000 increase in non-interest income.

Interest Income. Interest income increased by $942,000, or 5.7%, to $17.4 million for the six months ended June 30, 2024, when compared to the six months ended June 30, 2023. Loan interest income increased by $552,000, or 3.7%, to $15.3 million for the six months ended June 30, 2024, as compared to the prior year period primarily due to a 38 basis point increase in the average yield on loans, partially offset by a decrease in the average balance of the loan portfolio of $18.9 million, or 3.3%, from $572.5 million for the six months ended June 30, 2023, to $553.6 million for the six months ended June 30, 2024. The average yield on loans, including fees was 5.52% for the six months ended June 30, 2024, as compared to 5.14% for the six months ended June 30, 2023, primarily due to the impact of higher interest rates on variable rate loans and new loan originations. The decrease in the average balance of the loan portfolio was primarily driven by a decrease in the average balance of commercial real estate and residential loans due to payoffs.

Investment securities interest income decreased $201,000, or 19.3%, to $838,000 for the six months ended June 30, 2024, compared to the six months ended June 30, 2023, primarily due to a $12.6 million decrease in the average balance of investment securities and a seven basis points decrease in the average yield of investment securities due to security sales and paydowns.

Interest-earning deposits and federal funds sold interest income increased $591,000, or 90.2%, to $1.2 million for the six months ended June 30, 2024, compared to the six months ended June 30, 2023, due to a $18.8 million, or 63.5% increase in the average balance of interest-earning deposits and federal funds sold.

Interest Expense. Interest expense increased $3.1 million, or 79.4%, to $7.0 million for the six months ended June 30, 2024, compared to $3.9 million for the six months ended June 30, 2023, primarily due to an increase in interest paid on deposits. Interest accrued on deposits increased by $3.4 million, or 104.9%, to $6.6 million for the six months ended June 30, 2024, when compared to the six months ended June 30, 2023. The increase in interest expense on deposits was primarily due to a 135 basis points increase in the average interest rate paid on deposit accounts as the deposit mix shifted towards higher-cost time deposits and money market accounts. The average balance of deposits increased by $6.7 million, or 1.4%, from $488.8 million for the six months ended June 30, 2023, to $495.4 million for the six months ended June 30, 2024 primarily due to an increase in the average balance of time deposits and money market accounts. Interest expense on borrowed funds and other interest-bearing liabilities decreased by $279,000, or 40.6%, to $409,000 for the six months ended June 30, 2024 when compared to the six months ended June 30, 2023, primarily due to a $13.3 million decrease in the average balance of borrowed funds and other interest-bearing liabilities, and a 40 basis points decrease in the average rate paid on borrowings. The decrease in borrowings was a result of management's strategy to reduce reliance on wholesale funding and focus on organic growth of deposits among its retail and commercial customers.

(Credit) Provision for Credit Losses. The provision for credit losses represents a charge or credit made to earnings to maintain a sufficient allowance for credit losses. The allowance for credit losses is management's estimate of expected lifetime losses in the loan portfolio as of the balance sheet date and is measured using the vintage method. The allowance for credit losses also applies to off-balance sheet credit exposures, including loan commitments and standby letters of credit, as well as available-for-sale debt securities. Management considers past events, current conditions, and reasonable and supportable forecasts as the basis for the estimation of excepted credit losses.

The Company recorded a $637,000 credit to the provision for credit losses on loans and unfunded commitments during the six months ended June 30, 2024, as compared to a credit of $812,000 to the provision for credit losses during the six months ended June 30, 2023. The current period (credit) provision for credit losses was primarily due to a decrease in the quantitative loss factors derived from historical loss rates calculated in the vintage model as well as a decrease in the qualitative loss factor derived from the forecasting factor.

Non-Interest Income. Non-interest income increased by $338,000, or 30.5%, to $1.4 million for the six months ended June 30, 2024, as compared to $1.1 million for the six months ended June 30, 2023. The increase was primarily due to a $221,000 increase in earnings on bank-owned life insurance in connection with the restructuring of bank-owned life insurance during the fourth quarter of 2023, a favorable variance of $58,000 related to interest rate swaps during the first half of 2024 as a result of unwinding the swaps during 2023, and a $49,000 increase related to the loss on the sale of securities available for sale that occurred during the second quarter of 2023 as part of a balance sheet restructuring.

Non-Interest Expense. Non-interest expense was $9.9 million for the six months ended June 30, 2024, a decrease of $1.5 million, or 13.4%, as compared to $11.4 million for the six months ended June 30, 2023. The decrease related primarily to a decline in professional services expense of $974,000, or 57.4%, as a result of a decrease in the use of external consultants. Additionally, advertising costs decreased by $290,000, or 81.2%, due to a decrease in marketing spending. As a result of management's efforts to rationalize staffing and optimize operating expenses, salaries and employee benefits decreased by $177,000, or 3.2% and occupancy and equipment expenses decreased by $113,000, or 7.5%. These decreases were partially offset by an increase in data processing costs of $47,000, or 5.5%, primarily due to an increase in costs related to core system maintenance and enhancements to existing IT security protocols and an increase in FDIC insurance expense of $32,000, or 6.0%, when compared to the prior year period due to an increase in premium assessments related to regulatory matters.

Income Taxes Expense. Income tax expense was $399,000 for the six months ended June 30, 2024, a decrease of $107,000, or 21.1%, as compared to $506,000 for the six months ended June 30, 2023. The decrease in income tax expense was primarily due to a decrease in the effective tax rate related to the restructuring of bank-owned life insurance along with a decrease in income before income taxes. The effective tax rate was 15.8% and 16.8% for the six months ended June 30, 2024 and 2023, respectively.

Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise during the ordinary course of business. Liquidity is primarily needed to fund loan commitments, to pay the deposit withdrawal requirements of our customers as well as to fund current and planned expenditures. Our primary sources of funds consist of deposits, scheduled amortization and prepayments of loans and securities, maturities and sales of investments and loans, excess cash, interest earning deposits at other financial institutions, and funds provided from operations. We have written agreements with the FHLBNY, which allows us to borrow the maximum lending values designated by the type of collateral pledged. As of June 30, 2024, the maximum amount that we can borrow from the FHLBNY, based on the market value of certain fixed-rate residential, one- to four-family loans pledged to FHLBNY, was $34.9 million, which was collateralized by certain fixed-rate residential, one- to four-family loans in delivery. We can increase our maximum borrowing capacity by providing additional collateral in delivery. At June 30, 2024, we had outstanding advances under this agreement of $23.3 million. We have a written agreement with the Federal Reserve Bank discount window for overnight borrowings which is collateralized by a pledge of our securities and allows us to borrow up to the value of the securities pledged. As of June 30, 2024, we had no securities pledged to the Federal Reserve Bank and we had no balances outstanding. We have also established an unsecured line of credit with a correspondent bank for $20.0 million. There were no borrowings on this line as of June 30, 2024.

As a result of the Order previously disclosed herein, the Company's ability to access available sources of funds from the FHLB has been curtailed to short-term advances (i.e., 30 days or less) and the residential loans pledged as collateral for these borrowings are subject to reductions in value. The availability of lines of credit with one other correspondent bank was terminated, while the availability of lines of credit with other correspondent banks may also be reduced or eliminated. Lastly, the unsecured line of credit for our Master Account at the Federal Reserve has been withdrawn at this time.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows, calls of investment securities, and prepayments of loans and mortgage-backed securities are strongly influenced by interest rates, general and local economic conditions, and competition in the marketplace. These factors reduce the predictability of the timing of these sources of funds.

Our primary investing activities include the origination of loans and the purchase of investment securities. For the six months ended June 30, 2024, we originated loans of approximately $24.7 million as compared to approximately $39.0 million of loans originated during the six months ended June 30, 2023. Loan principal repayments and other reductions exceeded originations during the six months ended June 30, 2024 by $11.9 million. The Company did not make any purchases of investment securities during the six months ended June 30, 2024 or the six months ended June 30, 2023. The Company did not sell any investment securities during the six months ended June 30, 2024 and sold investment securities amounting to $6.0 million during the six months ended June 30, 2023.

As described elsewhere in this report, the Company has loan commitments to borrowers and borrowers have unused overdraft lines of protection, unused home equity lines of credit and unused commercial lines of credit that may require funding at a future date. The Company believes it has sufficient funds to fulfill these commitments, including sources of funds available through the use of FHLBNY advances or other liquidity sources. Total deposits were $589.4 million at June 30, 2024, as compared to $590.9 million at December 31, 2023. Approximately $196.2 million of time deposit accounts are scheduled to mature within one year as of June 30, 2024. Based on our deposit retention experience, and current pricing strategy, we anticipate that a significant portion of these time deposits will remain with us following their maturity.

We are committed to maintaining a strong liquidity position; therefore, we monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. The marginal cost of new funding, however, whether from deposits or borrowings from the FHLBNY, will be carefully considered as we monitor our liquidity needs. Therefore, in order to manage our cost of funds, we may consider additional borrowings from the FHLBNY in the future.

We do not anticipate any material capital expenditures in 2024. We do not have any balloon or other payments due on any long-term obligations, other than the borrowing agreements noted above.

Regulatory Capital

Federal regulations require a federal savings bank to meet certain capital standards, as discussed in the "Supervision and Regulation" section included in our Annual Report on Form 10-K for the year ended December 31, 2023.

The federal banking agencies have developed a "Community Bank Leverage Ratio" (bank's tier 1 capital to average total consolidated assets) for financial institutions with assets of less than $10 billion and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A "qualifying community bank" may elect to utilize the Community Bank Leverage Ratio in lieu of the general applicable risk-based capital requirements under Basel III. If the community bank exceeds this ratio it will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Basel III. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies set the minimum capital for the Community Bank Leverage Ratio at 9.0%. The Bank elected to be subject to this new definition when it became effective on January 1, 2020, and has continued to use the Community Bank Leverage Ratio since that time. As of June 30, 2024 and December 31, 2023, the Bank's Community Bank Leverage Ratio was 13.02% and 12.68%, respectively.

Pursuant to an Individual Minimum Capital Requirement, the Bank has been directed by the OCC to maintain a Tier 1 Leverage capital ratio of 10% and a Total Risk-Based capital ratio of 13%. In order to be considered "well-capitalized" by the OCC, a savings bank must maintain a Tier 1 Leverage capital ratio of 5% and a Total Risk-Based capital ratio of 10%. At June 30, 2024 and December 31, 2023, the Bank's Tier 1 Leverage capital ratio was 13.02% and 12.68%, respectively and its Total Risk-Based capital ratio was 18.64% and 17.77%, respectively, and accordingly the Bank was in compliance with its Individual Minimum Capital Requirement and was considered well-capitalized.

Off-Balance Sheet Arrangements

Other than loan commitments, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors. Refer to Note 6 in the Notes to our unaudited consolidated financial statements for a summary of loan commitments outstanding as of June 30, 2024.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Disclosure is not required as the Company is a smaller reporting company.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the quarter ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II

Item 1A. Risk Factors.

Refer to Part I, Item 1A, Risk Factors, of our Form 10-K for the year ended December 31, 2023 and Forward-Looking Statements from Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q for a discussion of certain risks affecting us. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations.

There have been no material changes to the risk factors since the filing of the Annual Report on Form 10-K for the year ended December 31, 2023.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

The following table reports information regarding repurchases by Lake Shore Bancorp of its common stock in each month of the quarter ended June 30, 2024. The Company has suspended its stock repurchase program.

COMPANY PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs [(1)]
April 1 through April 30, 2024	—	$ —	—	30,626
May 1 through May 31, 2024	—	—	—	30,626
June 1 through June 30, 2024	—	—	—	30,626
Total	—	$ —	—	30,626

(1) On August 13, 2021, our Board of Directors (the “Company”) adopted a new stock repurchase program. The stock repurchase program authorizes the Company to repurchase up to an aggregate of 106,327 shares, or approximately 5% of its outstanding shares, excluding the shares held by Lake Shore, MHC. The repurchase program permits shares to be repurchased in open market or private transactions, through block trades, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. The repurchase plan does not have an expiration date and superseded all of the prior stock repurchase programs.

Item 5. Other Information

During the second quarter of 2024, none of our directors or officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement," as that term is used in SEC regulations.

Item 6. Exhibits

31.1	Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes- Oxley Act of 2002*
32.1	Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	Inline XBRL Instance Document*
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	Inline XBRL Taxonomy Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document*
104	Cover Page Interactive Date File (formatted as inline XBRL and contained in Exhibit 101)*

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LAKE SHORE BANCORP, INC.
(Registrant)

August 13, 2024	By:	/s/ Kim C. Liddell
		Kim C. Liddell President and Chief Executive Officer (Principal Executive Officer)
August 13, 2024	By:	/s/ Taylor M. Gilden
		Taylor M. Gilden Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kim C. Liddell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lake Shore Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies or material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 13, 2024

/s/ Kim C. Liddell
Kim C. Liddell
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Taylor M. Gilden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lake Shore Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies or material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 13, 2024

/s/ Taylor M. Gilden
Taylor M. Gilden
Chief Financial Officer and Treasurer

Exhibit 32.1

CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lake Shore Bancorp, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kim C. Liddell, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

August 13, 2024

/s/ Kim C. Liddell
Kim C. Liddell
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lake Shore Bancorp, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Taylor M. Gilden, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

August 13, 2024

/s/ Taylor M. Gilden
Taylor M. Gilden
Chief Financial Officer and Treasurer