

# Annual Shareholders Meeting

**May 15, 2019**

 **Lake Shore Bancorp, Inc.**



# Agenda

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



## Board of Directors

		Director Since
Susan C. Ballard		2012
Tracy S. Bennett		2010
Sharon E. Brautigam	Nominating and Corporate Governance Committee Chairperson	2004
David C. Mancuso	Asset Liability Committee Chairman	1998
Jack L. Mehltreter		2016
Daniel P. Reininga	President and Chief Executive Officer and Loan Committee Chairman	1994
Kevin M. Sanvidge	Vice Chairman of the Board and Compensation Committee Chairman	2012
Gary W. Winger	Chairman of the Board	1997
Nancy L. Yocum	Audit/Risk Committee Chairperson	1995



## Business of Annual Shareholders Meeting

- Election of Three Directors: Tracy S. Bennett  
Sharon E. Brautigam  
Kevin M. Sanvidge
- An advisory vote on executive compensation (“Say-on-Pay”)
- A vote on the frequency of the “say on pay” advisory vote.
- Ratification of the appointment of Baker Tilly Virchow Krause, LLP as independent registered public accounting firm for the year ending December 31, 2019



# Executive Management Presentation



**Daniel P. Reininga**

**President and  
Chief Executive Officer**



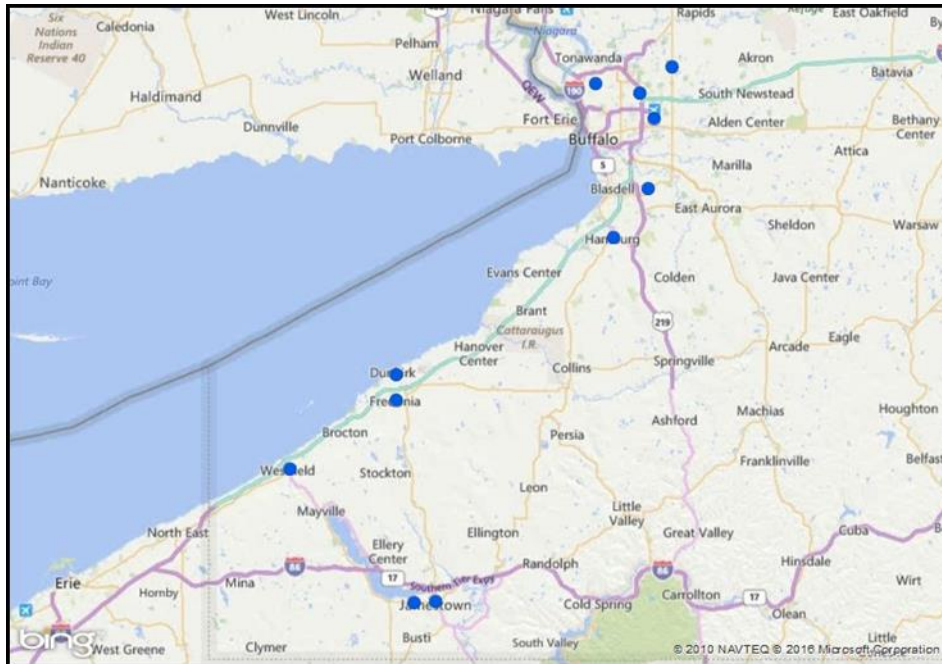
## Safe Harbor Statement

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

*Such forward-looking statements include, but are not limited to, statements concerning future business, revenue and earnings. They often include words such as “believe,” “expect,” “anticipate,” “estimate,” and “intend” or future or conditional verbs, such as “will,” “would,” “should,” “could,” or “may”. These statements are not historical facts or guarantees of future performance, events or results. There are risks, uncertainties and other factors that could cause the actual results of the Company to differ materially from the results expressed or implied by such forward-looking statements. Information on factors that could affect the Company’s business and results is discussed in the Company’s periodic reports filed with the Securities and Exchange Commission. Forward looking statements speak only as of the date they are made. The Company undertakes no obligation to publicly update or revise forward looking information, whether as a result of new, updated information, future events or otherwise.*



# An Overview of Lake Shore



- ▶ Lake Shore Savings Bank is a federally chartered, community-oriented financial institution headquartered in Dunkirk, New York, with a longstanding history of community banking since 1891
- ▶ Current focus on organic growth of loan portfolio primarily through commercial real estate and commercial business loans
  - ▶ Since going public, net loans have increased from \$205.3 million on June 30, 2006 to \$401.0 million as of March 31, 2019, a CAGR of 5.4%
- ▶ Operates 11 full-service branch locations in two counties within Western New York
- ▶ Lake Shore ranks 5<sup>th</sup> in deposit market share in Chautauqua County with 5 branches; ranks 9<sup>th</sup> in Erie County with 6 branches
- ▶ Converted to MHC structure on April 4, 2006, raising \$29.8 million in gross proceeds and trades on NASDAQ under the symbol LSBK

County	Rank	Branches	Company Deposits in Market (\$000)	Deposit Market Share (%)	Population Change 2019-2024 (%)	Median HH Income 2019 (\$)	Projected HH Income Change 2019-2024 (%)
Chautauqua	5	5	237,320	14.69	(1.69)	46,191	5.44
Erie	9	6	200,607	0.50	1.00	59,503	9.57

<b>Total</b>	<b>11</b>	<b>437,927</b>					
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New York Franchise	(0.46)	52,289	7.33
State of New York	1.47	68,659	8.65
National	3.56	63,174	8.82

Source: S&P Global Market Intelligence. Deposit information as of June 30, 2018, updated for any pending acquisitions. New York Franchise demographic information weighted by deposits by county.



## An Overview of Lake Shore (cont'd)

Stockholder Information (NASDAQ: LSBK)			
Dividends		Market Information	
Dividend Yield	3.18%	Total Market Cap (mm)	\$90.6
Ownership		Minority Market Cap (mm)	\$35.7
Mutual Holding Company	60.59%	Book Value Per Share	\$13.50
Institutional	12.34%	Price / Book	112%
Insider*	8.06%	Price / MRQ EPS	25.2x

Ownership information based on Proxy Statement and S&P Global Market Intelligence as of 3/31/2019. Market information and Dividends as of 5/3/2019.

\*Includes 3.31% of the shares of common stock outstanding owned by the ESOP.





## 2018 Financial Highlights

Improvement noted in following:

- Earnings per Share - 20.0% increase
- Total Assets - 5.2% increase to \$545.7 million
- Loans Receivable, net - 7.5% increase
- Core deposits - 8.1% increase
- Asset Quality - non-performing loans as a percentage of total net loans - 23 basis points decrease



We have had the *honor* of serving multiple generations of Western New Yorkers for over **128 Years**.





## Corporate Strategy

- Prudent and conservative approach to growth and risk management.
- Experienced management with thorough knowledge of market area.
- Commitment to an efficient operating profile.
- Solid community banking model as our core business.
- Continued investments in enhanced digital capabilities to meet customers' evolving technology needs.
- Commercial lending growth efforts focused on gaining market share in Western New York



## Commercial Lending Team

- Commercial lending team shifted Loan Portfolio Mix
  - % of Commercial Real Estate Loans & Commercial Business Loans in Total Loan Portfolio
    - 9/30/2014 – 25.7%
    - 3/31/19 – 50.6%
  - 2018 YOY Growth – 7.4% and 24.2% CAGR since January 2015

### 2018/Q1 2019 New Hires as a result of attrition:

- **Jared Sedor**
  - 12+ years of commercial banking and credit experience
  - Canisius College, MBA
  - University at Buffalo, BS in Business Management
- **Michael Noville**
  - 30+ years of commercial banking experience
  - University at Buffalo, BS in Business Management



## 2018 Millennial Advisory Board Activities

- Reviewed competitor bank websites and provided commentary with respect to best practices to incorporate into the redesign of the Lake Shore Savings Bank website.
- Conducted a Secret Shopper program and reviewed results with Bank management to assist in improving customer service.
- Reviewed the Bank's newly designed website and provided feedback for additional enhancements.

### **Board Members:**

- Brandon Ihrig, Math Teacher, Amherst High School
- Kale Mann, President, Soar Into Your Destiny, Inc.
- Dr. Sue McNamara, Associate Professor and Internship Coordinator, SUNY Fredonia School of Business
- Chrissy Ortolano, Administrative Coordinator, DENT Neurologic Institute
- Chris Phillips, VP of Sales and Operations, Accessium Group, Inc.
- Steven Przybyla, President, Jushi Medical, Jushi, Inc.
- Molly White, Staff Attorney, Center for Elder Law and Justice



## Digital Platform and Technology Initiatives

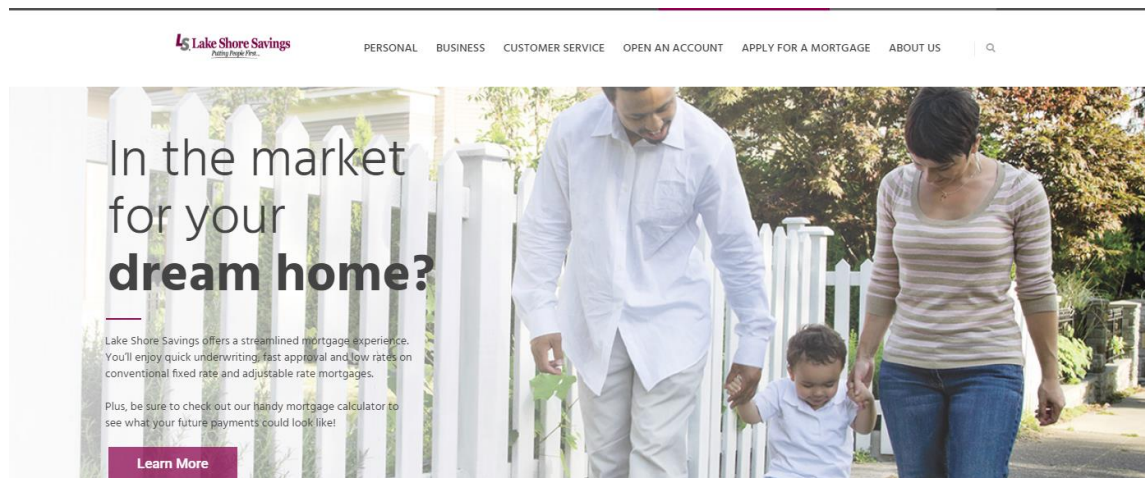
- **Enhanced Online Business Banking** (February 2019)
  - Customer customization
  - Improved functionality
  - Faster payment processing (via ACH)
  - Enhanced Fraud Protection
  
- **Upgraded Retail Loan Origination System**
  - Improved processing and efficiency
  - Important to keep customer facing technology as “state of the art” as possible
  - User Friendly interface
  - Better overall online application
  - Customer can start an application electronically and finish application in person, or vice versa



## Digital Platform and Technology Initiatives (cont'd)

### ➤ Enhanced Company Website

- Modern layout
- Informative
- Responsible Design
- Actionable
- Mobile Optimized
- Banking Service videos – for online banking and mobile banking as well as videos related to Bill Pay, Remote Deposit Capture and CardValet





Personal Service is the hallmark of our banking model.

It's all about what we do best.

- Human Connection and Accessibility
- Processing of residential mortgages in each branch, customers are not going to be transferred to someone out of the market area
- We service all residential mortgages that we originate
- Relationship management is paramount
- Knowledgeable support team with the correct strategic guidance for our customer base.
- *We will always do what is right for the customer*



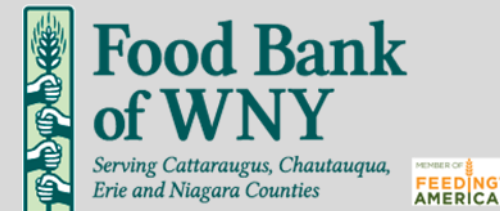


## Governance and Diversity in Banking

- Diverse board with 30% female representation
  - First female director appointed 23 years ago in 1995
- Board member backgrounds are diverse – have directors with Information Security, Legal, Banking, Real Estate, Business and Accounting expertise
- Active Millennial Advisory Board
- Women make up 60% of Senior Management Team and nearly 75% of our employee population

# LS Lake Shore Bancorp, Inc.

## Community Contributions



Buffalo Hearing & Speech Center  
LISTEN, LEARN, COMMUNICATE





## Summary

We are well positioned to achieve continued success and are dedicated to serving the financial needs of consumers and businesses in Western New York.

- Ample Business Opportunities in Western New York
- Strong loan pipelines
- Talented, service-oriented team



# Financial Highlights



**Rachel A. Foley**

**Chief Financial Officer  
and Treasurer**



# Financial Highlights

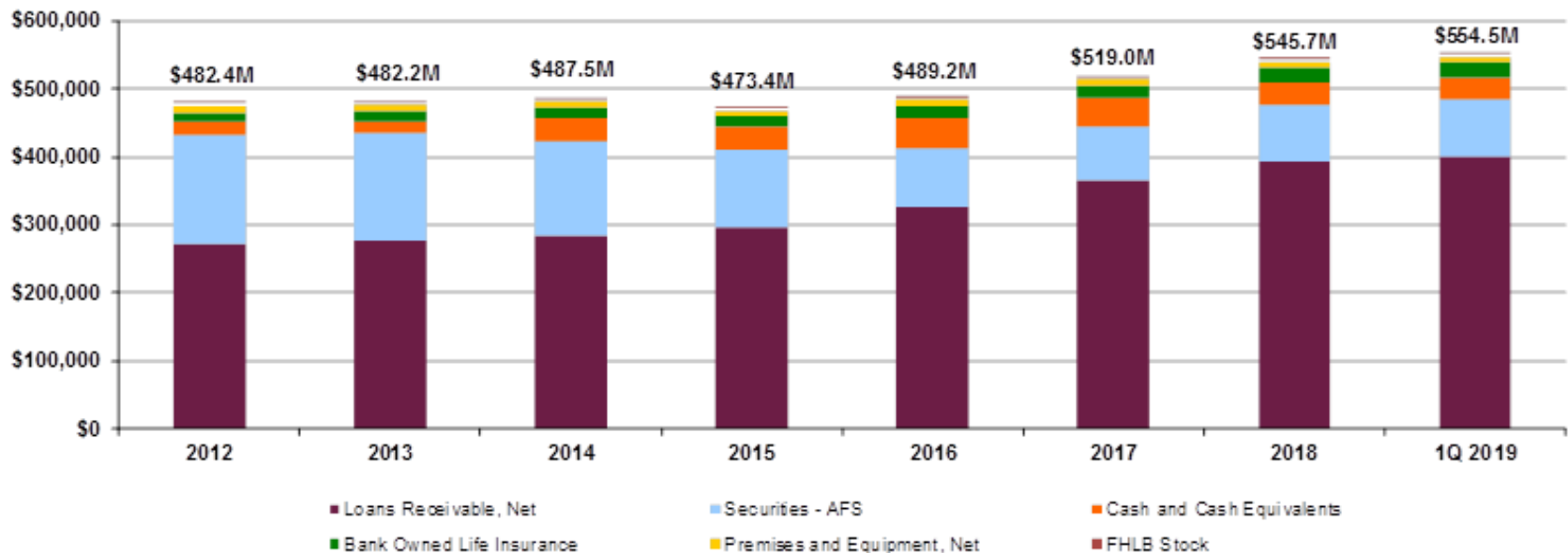
<i>Dollars in Thousands (except per share amounts)</i>	FY 2018	FY 2017	YoY Change
Assets	\$545,708	\$518,977	5.2%
Net Loans	\$392,471	\$365,063	7.5%
Deposits	\$432,458	\$405,153	6.7%
Net Income	\$4,000	\$3,378	18.4%
Basic Earnings Per Share	\$0.66	\$0.55	20.0%
Book Value Per Share	\$13.29	\$12.85	3.4%
Dividend Yield	2.66%	1.87%	42.2%
ROAA	0.75%	0.67%	11.9%
Efficiency Ratio	75.62%	73.89%	2.3%
Non-Performing Assets	\$3,896	\$4,268	(8.7%)

<i>Dollars in Thousands (except per share amounts)</i>	2019 FQ1	2018 FQ1	QoQ Change
Assets	\$554,497	\$530,084	4.6%
Net Loans	\$401,047	\$371,166	8.1%
Deposits	\$440,540	\$417,752	5.5%
Net Income	\$898	\$936	(4.1%)
Basic Earnings Per Share	\$0.15	\$0.15	0.0%
Book Value Per Share	\$13.50	\$12.87	4.9%
Dividend Yield	3.04%	2.38%	27.6%
ROAA	0.66%	0.72%	(8.3%)
Efficiency Ratio	78.08%	76.36%	2.3%
Non-Performing Assets	\$4,116	\$5,021	(18.0%)



# Total Assets

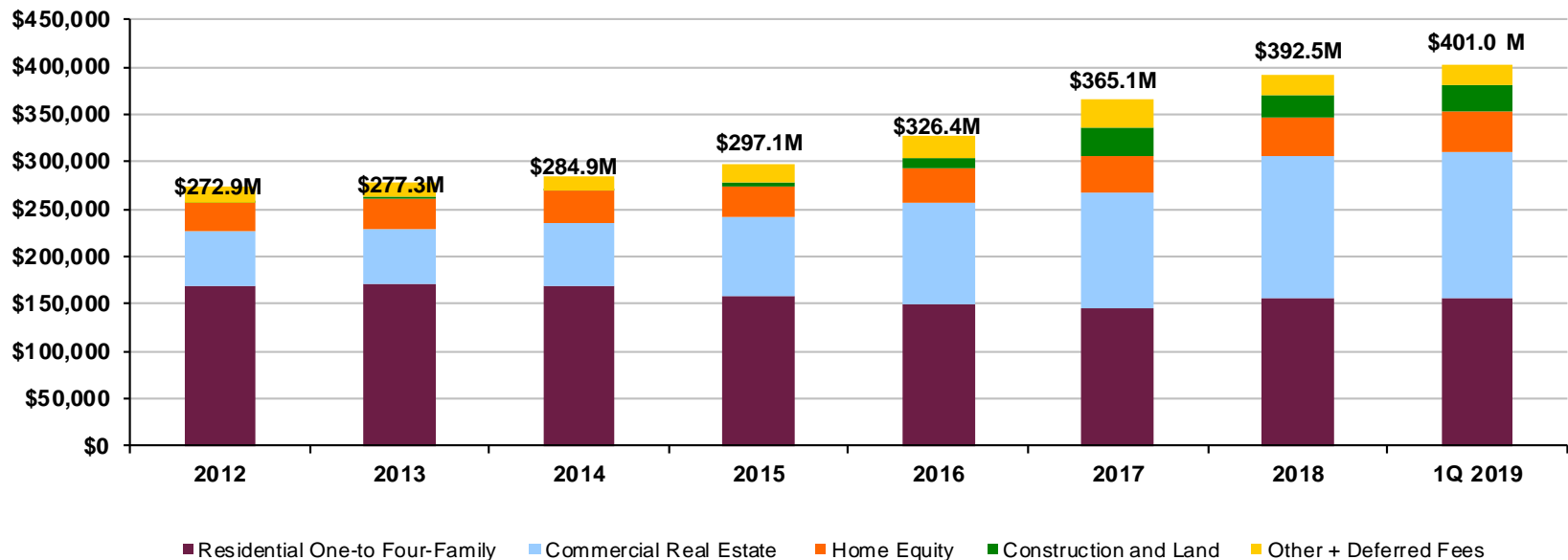
- Focused on asset diversification to improve margins.





# Loan Growth

- Lake Shore continues to execute its strategic plan of organic growth primarily through loan originations.
- From December 31, 2016 through March 31, 2019, net loans increased 22.9% primarily due to net organic commercial loan growth of 45.5%.





## Loan Originations

New Loans	2014	2015	2016	2017	2018	3/31/2019
Residential Mortgage - New & Modified	\$15.98	\$21.37	\$16.48	\$18.65	\$28.58	\$4.41
Commercial Mortgage - New & Modified	19.13	27.55	39.06	49.64	60.68	7.91
Commercial Loans	7.64	11.69	7.28	14.63	8.37	1.20
Home Equity Loans	6.08	6.40	11.45	15.54	16.25	2.89
Consumer Loans	0.38	0.33	0.36	0.45	0.68	0.17
<b>Total New Loans</b>	<b>\$49.21</b>	<b>\$67.34</b>	<b>\$74.63</b>	<b>\$98.91</b>	<b>\$114.56</b>	<b>\$16.58</b>

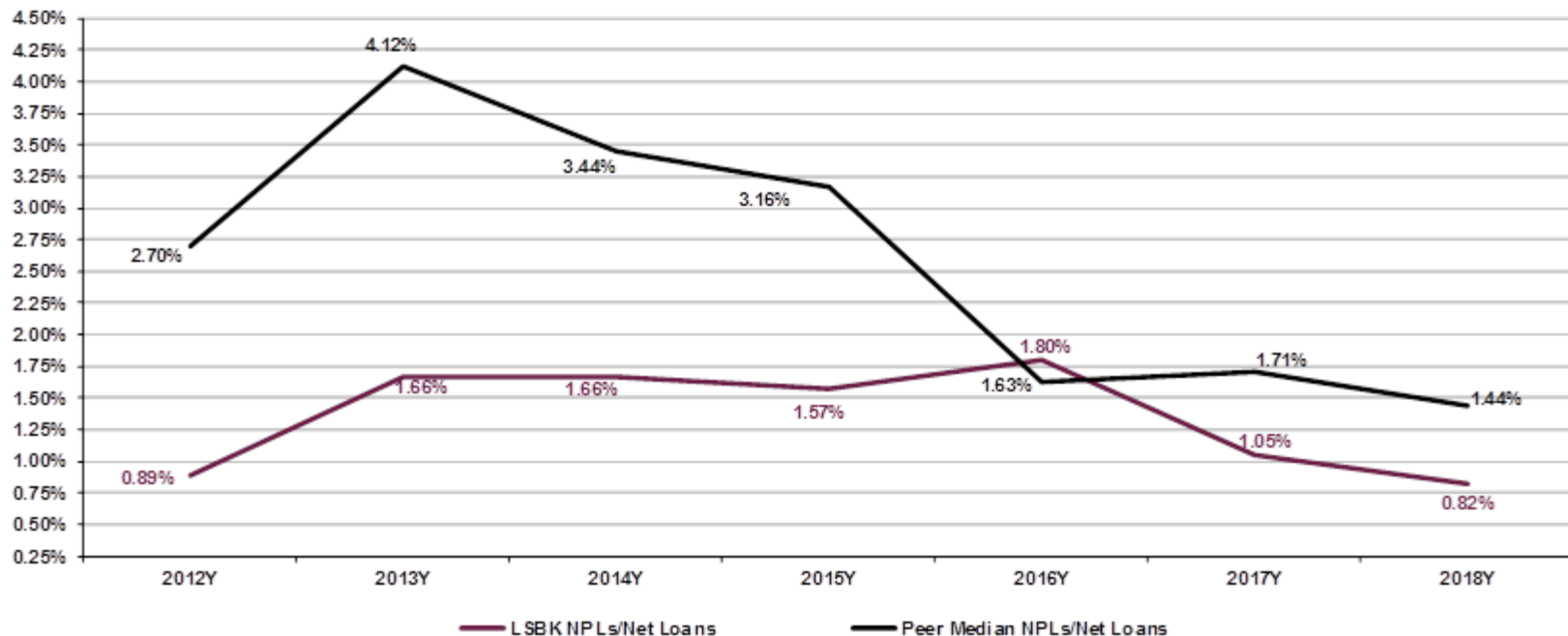
**15.8% YOY Increase as of December 31, 2018**





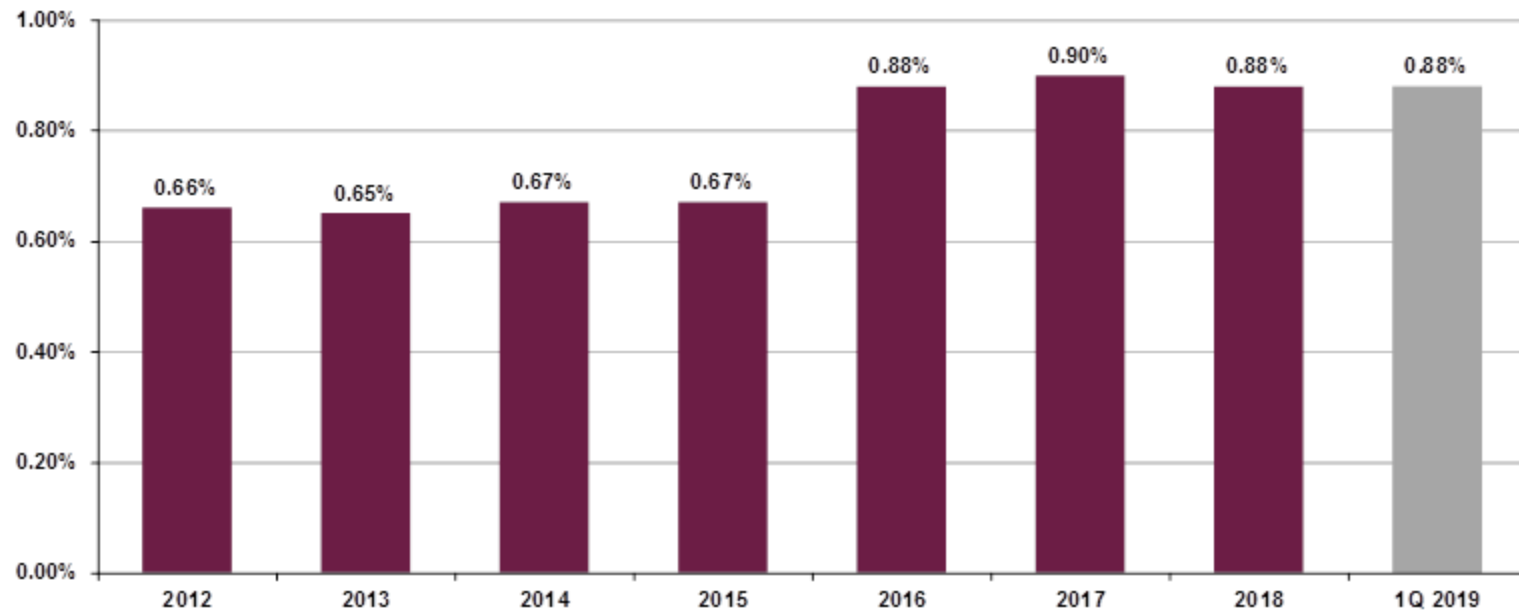
## NPLs/Total Net Loans

Lake Shore's nonaccrual loans have consistently remained at lower levels compared to its peers





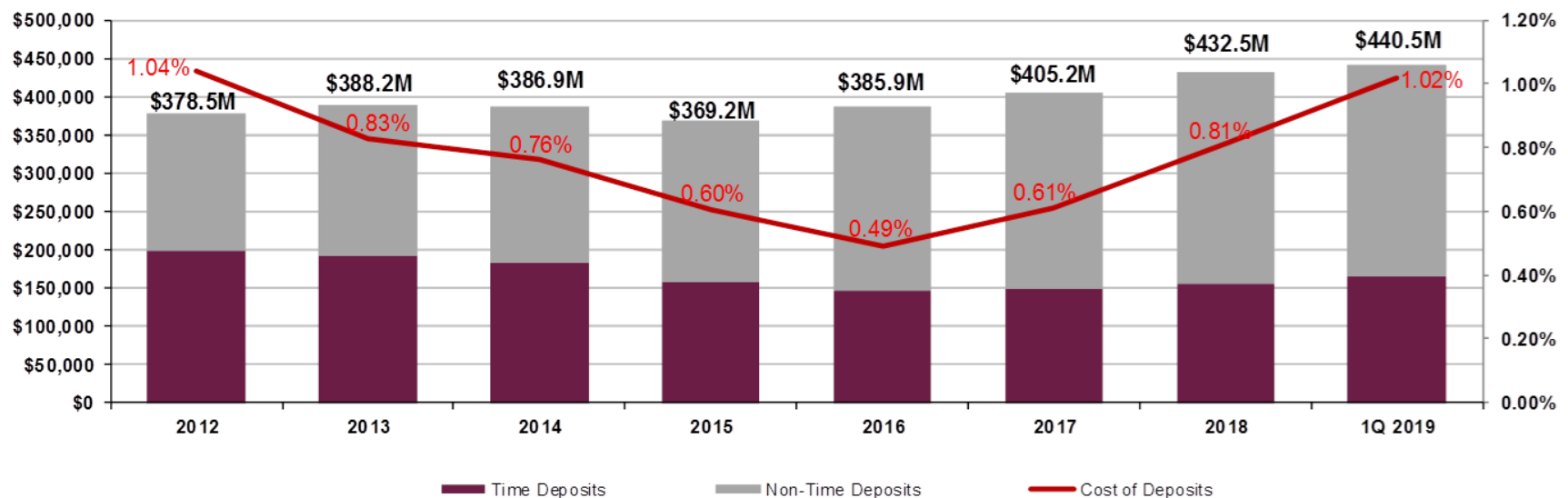
## Loan Loss Reserves/Total Net Loans





## Continued Focus on Deposit Growth

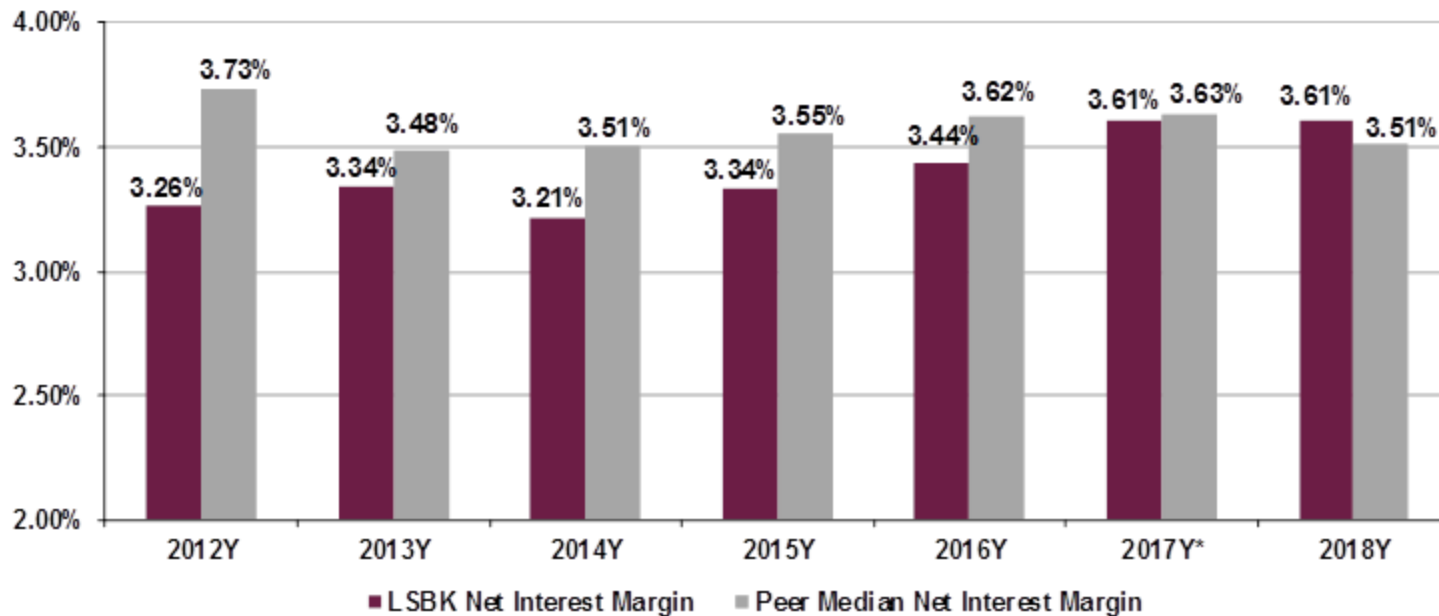
- Our focus has been on reducing our cost of funds by concentrating our efforts on growing core deposits (i.e., non-time accounts which include savings, checking, and money market accounts).
- Core deposits as of March 31, 2019 are 62.8% of total deposits, an increase of 32% since December 31, 2012.
- Change in interest rate environment has increased Company's cost of funds.





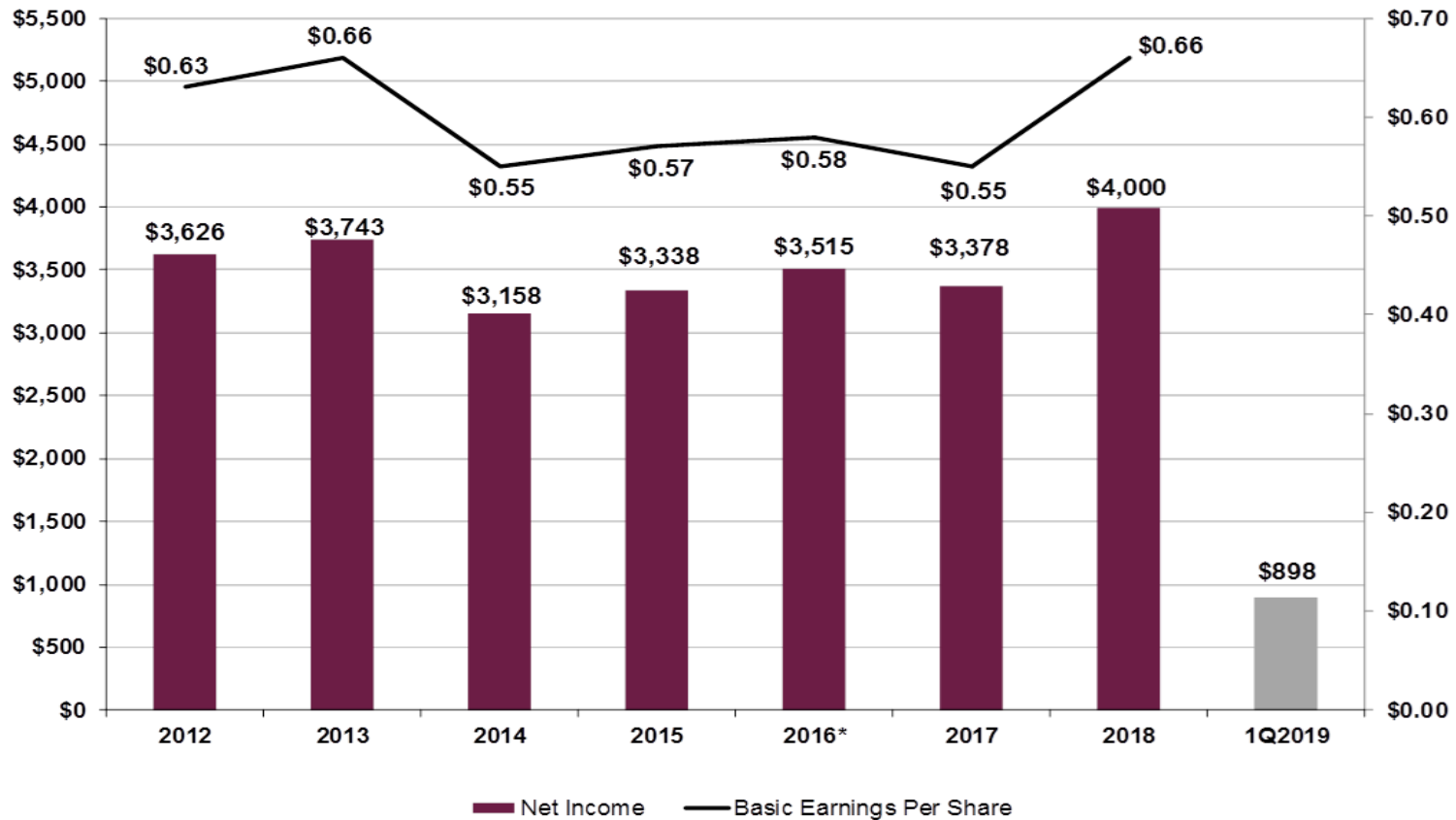
## Strong Net Interest Margin

- Despite operating in an environment that places significant pressure on spread and margin, Lake Shore's margin has been staying constant due to change to loan/deposit mix.





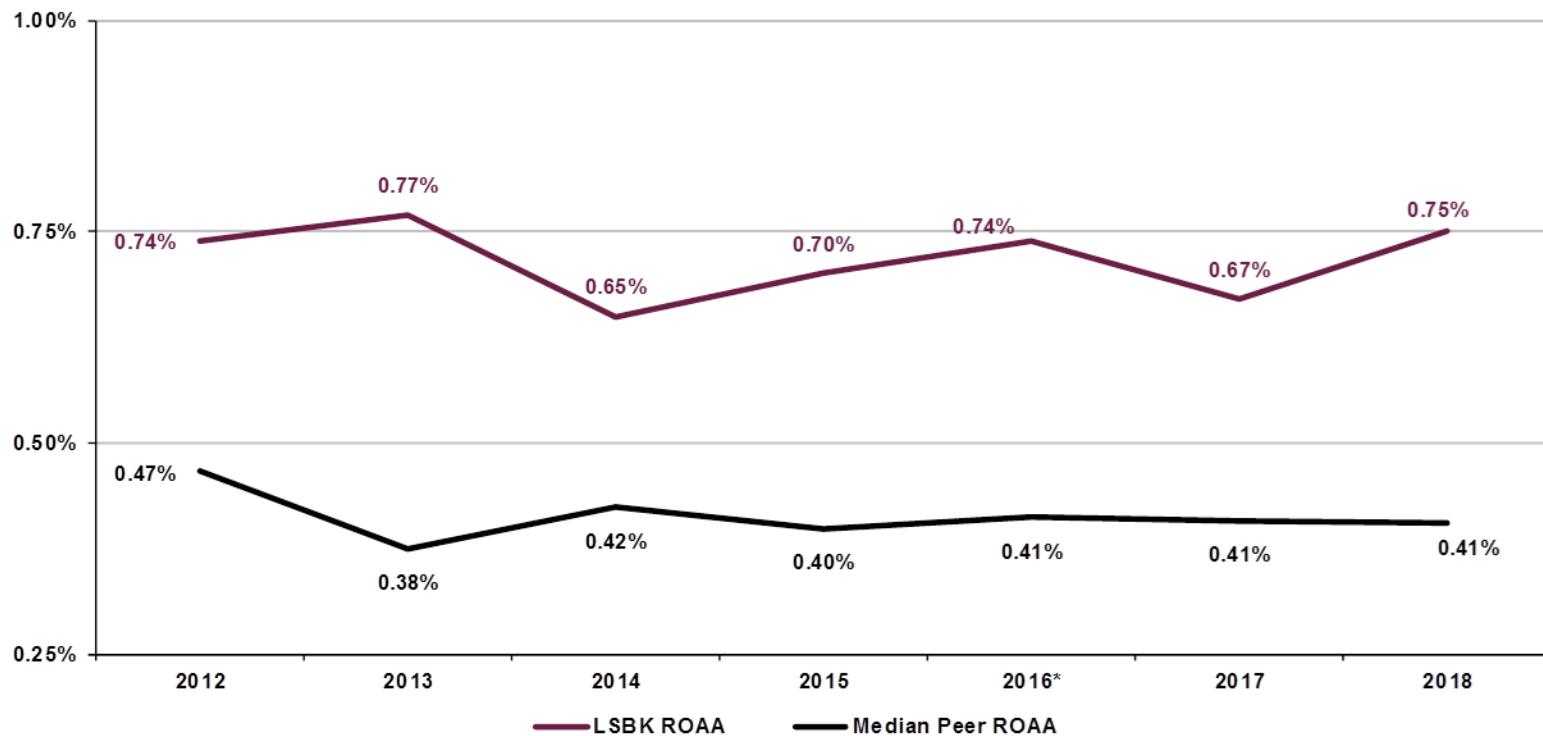
# Net Income Trends



Financial data is presented for Lake Shore's Fiscal Year Ended December 31 for each respective year and for the three months ended March 31, 2019. Dollars in thousands except per share amounts. \*In the first quarter of 2016, Lake Shore sold \$14.4 million of U.S. Treasury Bonds resulting in realized gains of \$1.6 million.



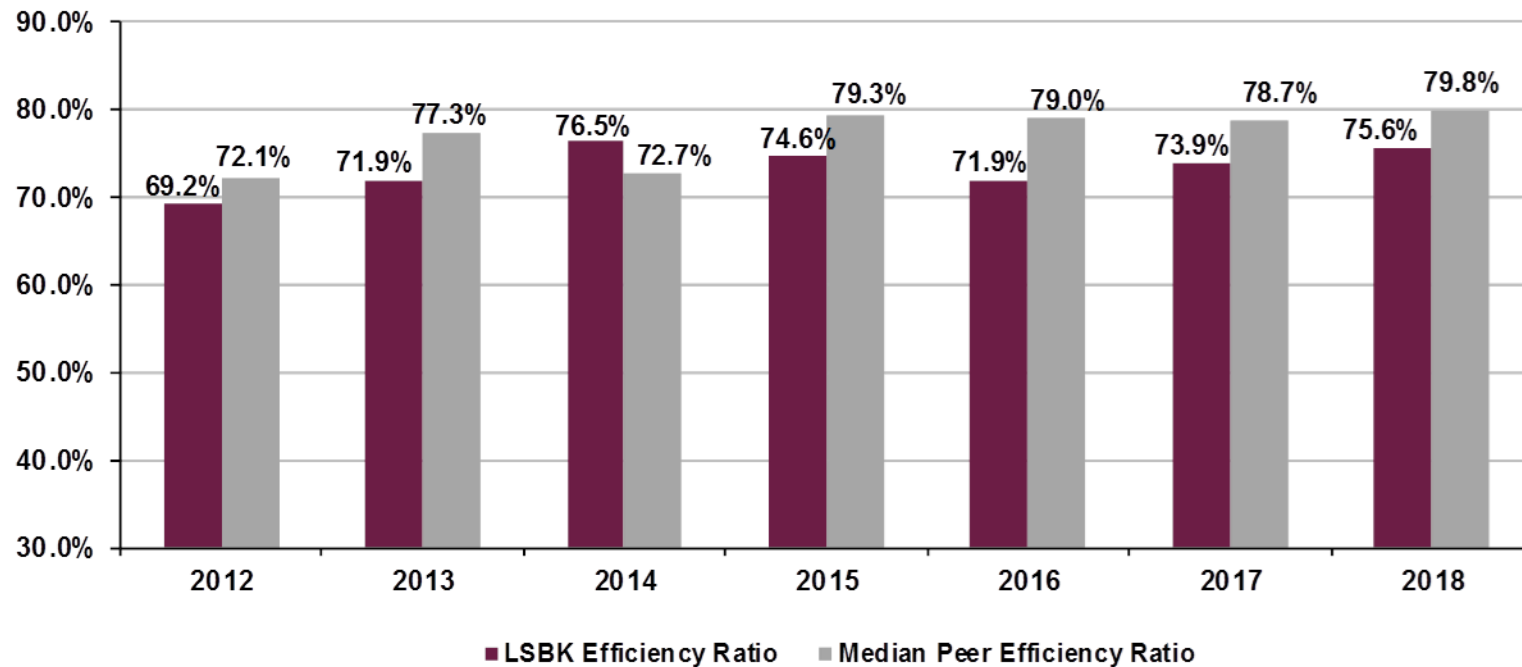
## Comparison of ROAA Results to Peers





## Continued Focus on Cost Control

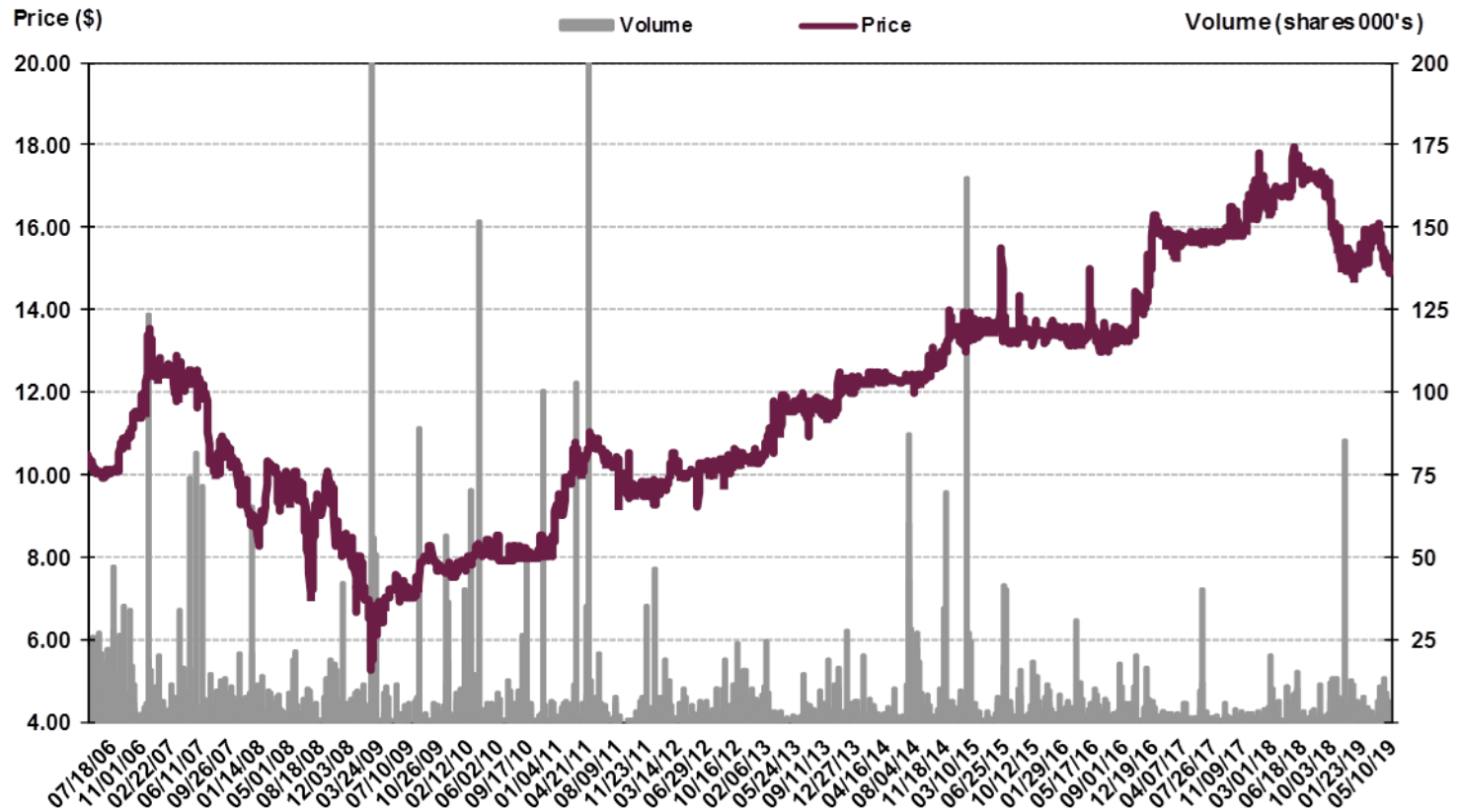
- Lake Shore's efficiency ratios are generally below the peer group.





# LSBK Price/Volume Chart since IPO

Price on 5/10/19 - \$15.09







## Creating Shareholder Value

- ▶ High capital ratios enable organic growth without diluting shareholder value
- ▶ Consistent dividend payment history
- ▶ Stock buyback program currently in place

	2012	2013	2014	2015	2016	2017	2018	3/31/2019
<b>Tier 1 Ratio</b>	23.0%	24.4%	25.0%	24.2%	22.2%	20.8%	19.7%	19.3%
<b>Total RBC Ratio</b>	23.8%	25.1%	25.7%	24.9%	23.2%	21.8%	20.6%	20.2%
<b>Leverage Ratio</b>	12.1%	12.8%	13.2%	14.3%	14.7%	14.4%	14.0%	14.2%
<b>Equity / Total Assets</b>	13.9%	13.5%	14.7%	15.6%	15.5%	15.1%	14.6%	14.6%
<b>Dividends Per Share*</b>	\$0.25	\$0.28	\$0.28	\$0.28	\$0.28	\$0.32	\$0.40	\$0.48
<b>Common Shares Outstanding</b>	5,919,132	5,915,835	5,990,042	6,003,416	6,088,674	6,098,323	6,004,664	6,002,550

Financial data is presented for Lake Shore's Fiscal Year Ended December 31 for each respective year and for the three months ended March 31, 2019.

\*Dividends per share of \$0.12 paid in the 1<sup>st</sup> quarter of 2019.



## Appendix: Lake Shore Peer Data

Institution Name	Ticker	City, State	Total Assets (\$mm)
Columbia Financial, Inc. (MHC)	CLBK	Fair Lawn, NJ	\$6,692
HarborOne Bancorp, Inc. (MHC)	HONE	Brockton, MA	\$3,656
Greene County Bancorp, Inc. (MHC)	GCBC	Catskill, NY	\$1,195
PDL Community Bancorp (MHC)	PDLB	Bronx, NY	\$1,060
Provident Bancorp, Inc. (MHC)	PVBC	Amesbury, MA	\$999
Rhinebeck Bancorp, Inc. (MHC)	RBKB	Poughkeepsie, NY	\$882
NorthEast Community Bancorp, Inc. (MHC)	NECB	White Plains, NY	\$870
Magyar Bancorp, Inc. (MHC)	MGYR	New Brunswick, NJ	\$644
William Penn Bancorp, Inc. (MHC)	WMPN	Levittown, PA	\$403
Lincoln Park Bancorp (MHC)	LPBC	Lincoln Park, NJ	\$340
Seneca-Cayuga Bancorp, Inc. (MHC)	SCAY	Seneca Falls, NY	\$318
Seneca Financial Corp. (MHC)	SNNF	Baldwinsville, NY	\$195
SSB Bancorp, Inc. (MHC)	SSBP	Pittsburgh, PA	\$189
BV Financial, Inc. (MHC)	BVFL	Baltimore, MD	\$160
Gouverneur Bancorp, Inc. (MHC)	GOVB	Gouverneur, NY	\$131
Auburn Bancorp, Inc. (MHC)	ABBB	Auburn, ME	\$78
<b>Average</b>			<b>\$1,113</b>
<b>Median</b>			<b>\$523</b>



Questions & Answers



## Lake Shore, MHC Annual Meeting of Members

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