



Annual Meeting of Shareholders

May 20, 2015

Welcoming Remarks

Gary W. Winger
Chairman of the Board

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, Governance Committee Chairperson	2004
Reginald S. Corsi	2008
David C. Mancuso, Asset/Liability Committee Chairperson	1998
Daniel P. Reininga, President and Chief Executive Officer	1994
Kevin M. Sanvidge, Compensation Committee Chairperson	2012
Gary W. Winger, Chairman of the Board	1997
Nancy L. Yocum, Vice Chairman of the Board and Audit Committee Chairperson	1995

Business of Annual Shareholders Meeting

- Election of Three Directors: David C. Mancuso
Gary W. Winger
Nancy L. Yocum
- An advisory vote on executive compensation (“Say-on-Pay”)
- Ratification of the appointment of Baker Tilly Virchow Krause, LLP as independent registered public accounting firm for 2015

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.

Lake Shore Bancorp Inc.

Stock Profile

Market Data (as of May 15, 2015) – (Source - NASDAQ)

➤ Ticker Symbol	LSBK
➤ 52 – week Range	\$11.95 - \$14.00
➤ Current Price	\$13.63
➤ Market Capitalization	\$32.1 million - minority shares only
➤ Minority Shares Outst .	2.4 million shares
➤ 50 Day Avg. Trading Vol.	550 shares
➤ Annual Cash Dividend	\$0.28 per share
➤ Dividend Yield	2.05%
➤ Ownership (as of 3/31/2015)	
❖ Mutual Holding Company (Lake Shore, MHC)	60.7% (holds 3.6 million shares)
❖ Insiders (including directors, executives, and ESOP plan)	7.4%
❖ Institutional	14.8%
❖ Other	17.1%

Lake Shore Savings Fast Facts

- Lake Shore Savings has been in business for over 124 years.
- As of March 31, 2015
 - Total Assets \$482.9 million
 - Total Deposits \$382.7 million
 - Total Loans Receivable, net \$286.6 million
- 11 branch locations throughout Chautauqua and Erie Counties.

Lake Shore Balance Sheet Strategy

Manage Interest Rate Risk

- Extended low interest rate environment

Reduce Interest Rate Risk exposure:

- Change Balance Sheet Mix
 - Sold \$10.3 million of long-term, fixed-rate securities in 2014
 - Increase Commercial Loan origination volume, shorter duration and higher interest rates
 - Sell long-term, fixed rate residential mortgage loans on secondary market at time of origination, with servicing retained
 - Increase low-rate core deposits

Lake Shore Balance Sheet Strategy

Strategic Impact of Managing Interest Rate Risk

- Positioning of Balance Sheet for rising interest rate environment
- Effectively manage Net Interest Margin
- Short term decrease in Net Income, offset by strong capital position

Loan Originations 2014

New Loans	2014	2013
(\$'s in millions)		
Residential Mortgage - New & Modified	\$ 15.98	\$41.32
Commercial Mortgage - New & Modified	19.13	16.73
Commercial Loans	7.64	3.03
Home Equity Loans	6.08	6.63
Consumer Loans	0.38	0.44
Total New Loans	\$ 49.21	\$68.15

**35.5% Increase in Total Commercial Mortgage
& Commercial Loan Originations**

2014 Deposits and Earnings

➤ Year End 2014 Deposits of \$386.9 million, a \$1.3 million decrease since 2013

4.7% Growth in Core Deposits
(includes all deposits except time deposits)

Core Deposits	2014	\$ 204.8 million
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Core Deposits	2013	\$ 195.7 million
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➤ Earnings of \$3.2 million

Operational and Strategic Review

- **Regulatory Update**
- **Fundamental Banking Practices**
- **2014 Operational Highlights**
- **Banking for the Future**

Regulatory Oversight

- **OCC is the Primary Regulator of Lake Shore Savings Bank.**
- **Federal Reserve is the Primary Regulator of:
Lake Shore Bancorp, Inc.
Lake Shore, MHC**

Regulatory Environment

➤ Ever Changing Regulatory Environment

OCC, FDIC, CFPB, The Federal Reserve, The State of New York

➤ Implementation of the Qualified Mortgage Rules as created by the Consumer Financial Protection Bureau.

Lake Shore Best Practices

➤ 2014 Community Reinvestment Act Exam

Fundamental Banking Practices

- **Corporate Mission**
- **Board of Directors and Management are Proactive**
- **Comprehensive Strategic Planning**
- **Sound Policies and Procedures**
- **Effective Risk Management Systems**
- **Continue to Accumulate Capital**

2014 Operating Highlights

➤ Continued Focus on Digital Banking Efficiencies

➤ Implemented in 2014:

- ✓ **Mobile Banking App for cell phones and tablets**
- ✓ **Upgraded Retail Online Banking**
 - New Bill Pay features
 - e-Alerts
- ✓ **Introduced Business Online Banking**
 - ACH processing
 - Remote deposit capture
 - Wire transfer processing

2014 Operating Highlights (cont.)

- **Converted to new Item Processing vendor**
 - New statement format
 - Upgraded e-statements and e-notices
- **Constructed Data Center Back-up Hot Site**
- **Focused on Commercial Loan Portfolio Growth**
- **Implemented Strategy to Reduce Interest Rate Risk**

2014 Operating Highlights (cont.)

- **Continued focus on Enterprise Risk Management**
- **Dividend Waiver**
- **Protecting the Shareholder's Investment in LSBK**

Commercial Lending

➤ Commercial Division Activities in 2014

- ✓ Executive Vice President, Commercial Division
- ✓ Growth of the Commercial Lending Portfolio
- ✓ New Originations Totaled \$25.55 Million
- ✓ Portfolio Outstandings Grew to \$81.7 Million, a 14.4 percent YOY increase
- ✓ The Right Kind of Interest.

2015 Operating Highlights

- **Implemented in 1st Quarter of 2015**
 - **Mobile Deposit Capture**
 - **Converted to new vendor for Record Management and Document Imaging**
 - **Regulatory Changes**
 - **Basel III Capital Standards Implemented**

Future Strategy

- ✓ **Operational Focus on Managing Interest Rate Risk**
- ✓ **Commitment to an efficient Operating Profile**
- ✓ **Solid Community Banking core business**
- ✓ **Focusing on increasing market share in Western New York.**
- ✓ **Developing Brand Awareness**
- ✓ **Maximize customer's use of our digital capabilities**
- ✓ **Solid asset quality metrics**
- ✓ **High Capital levels**
- ✓ **Experienced Management Team**
- ✓ **Protecting Shareholders Investment in LSBK!**

Summary

Putting People First is not simply our Bank's Mission Statement, it is a fundamental belief shared by all of Lake Shore Savings Bank Associates!

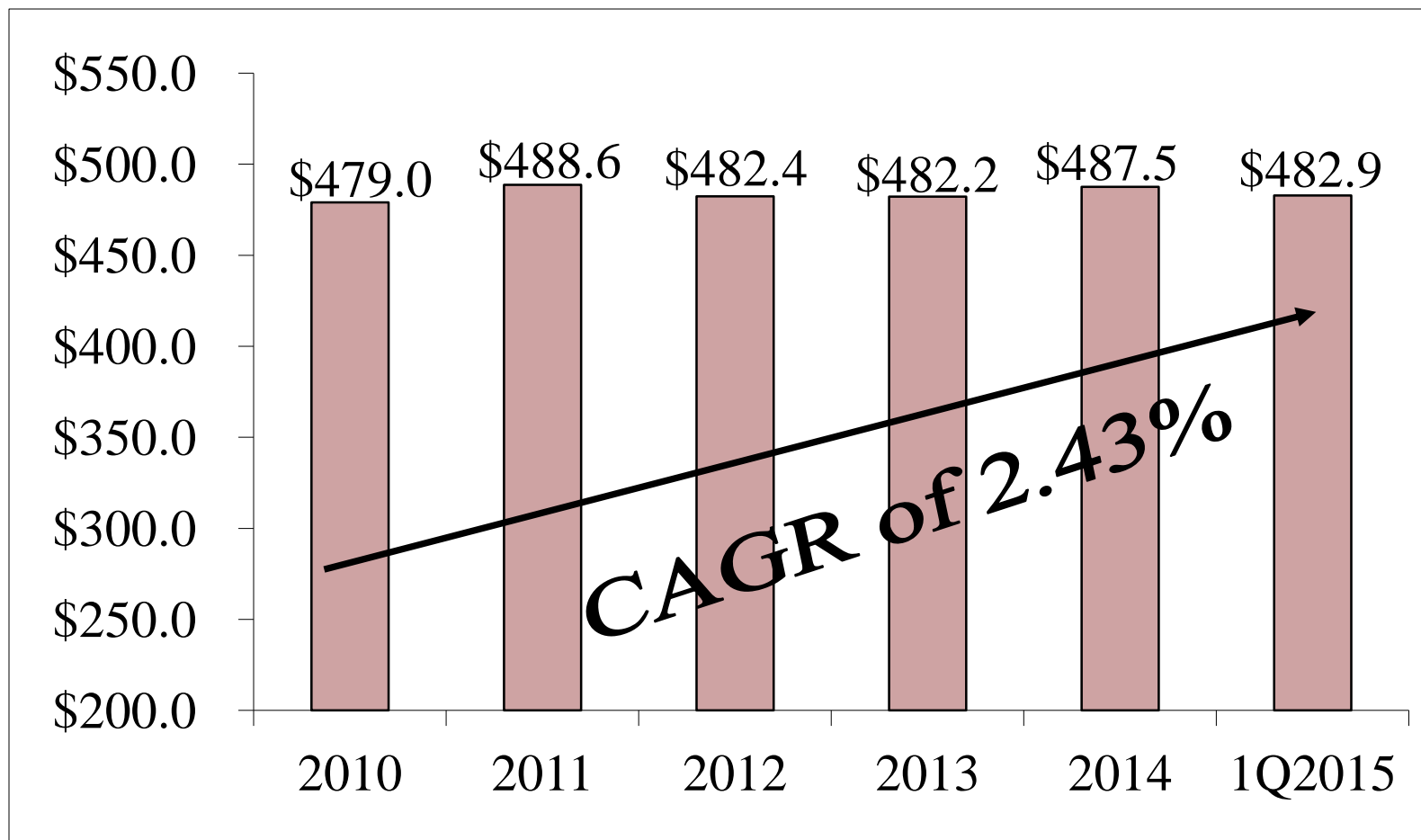
Lake Shore Bancorp, Inc. Financial Presentation



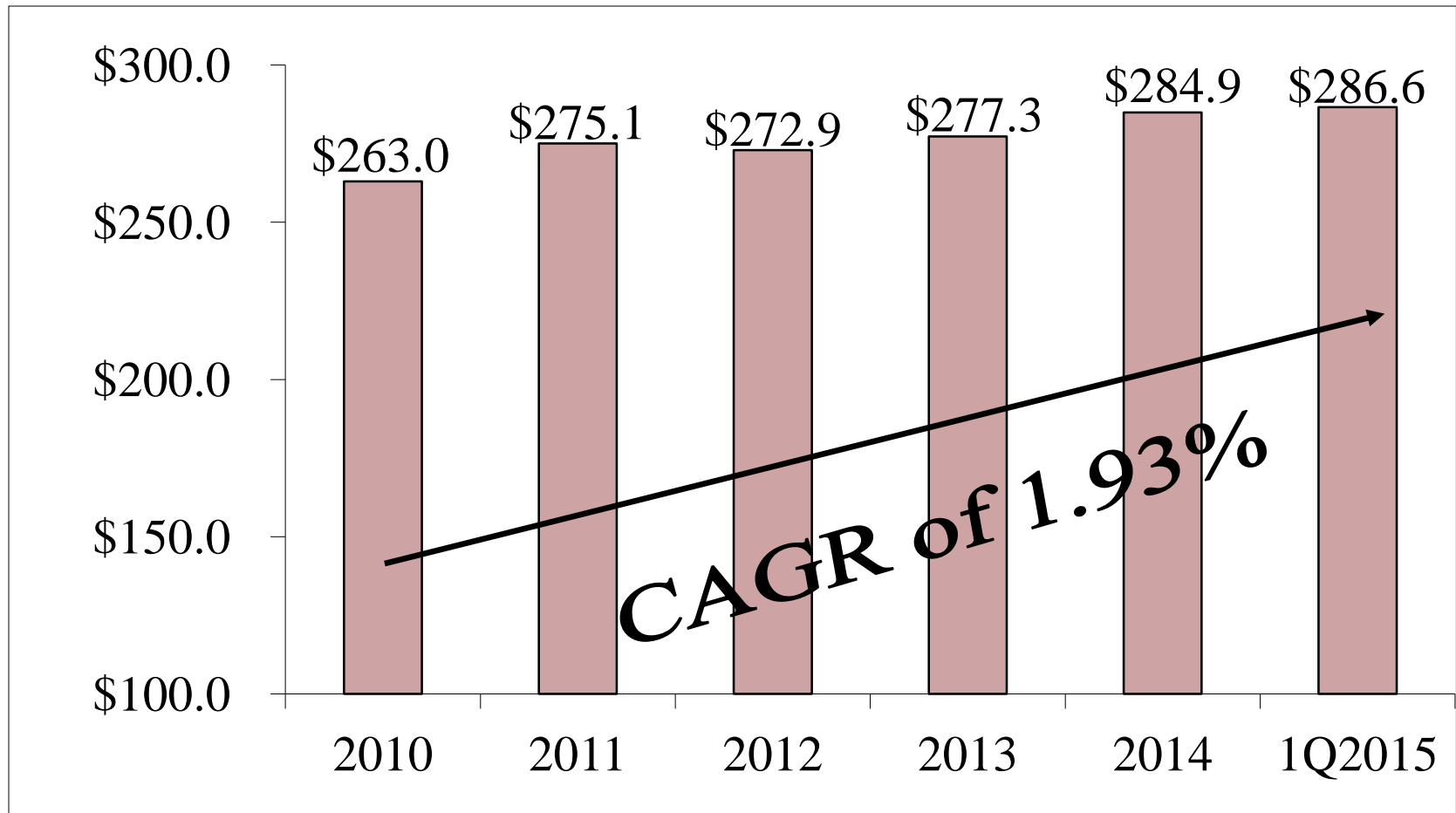
**Rachel Foley
Chief Financial Officer**

Total Assets

(\$ in millions)



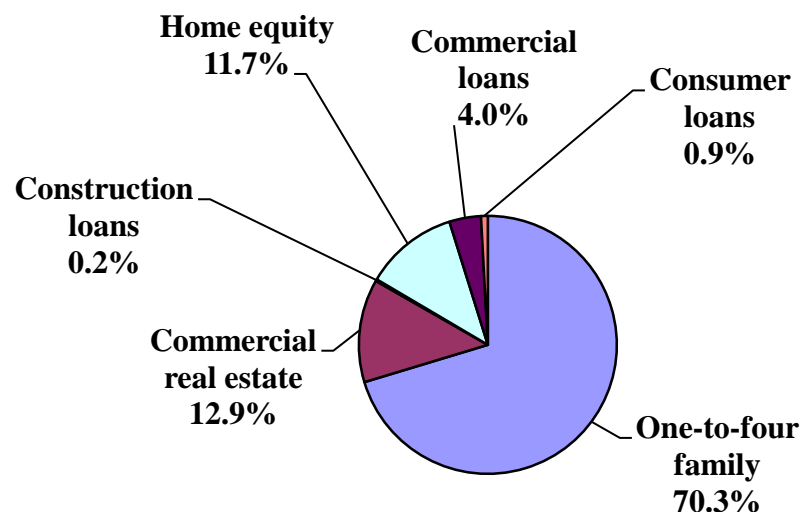
Loans, net (\$ in millions)



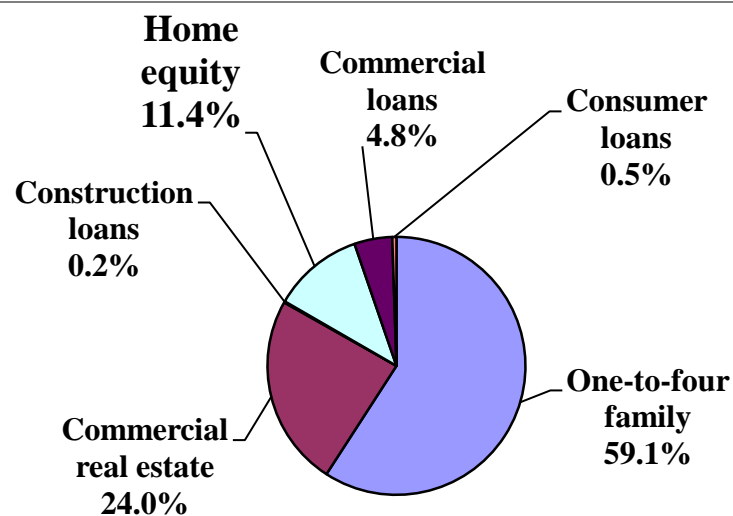
Loan Composition

(as of December 31st)

2010

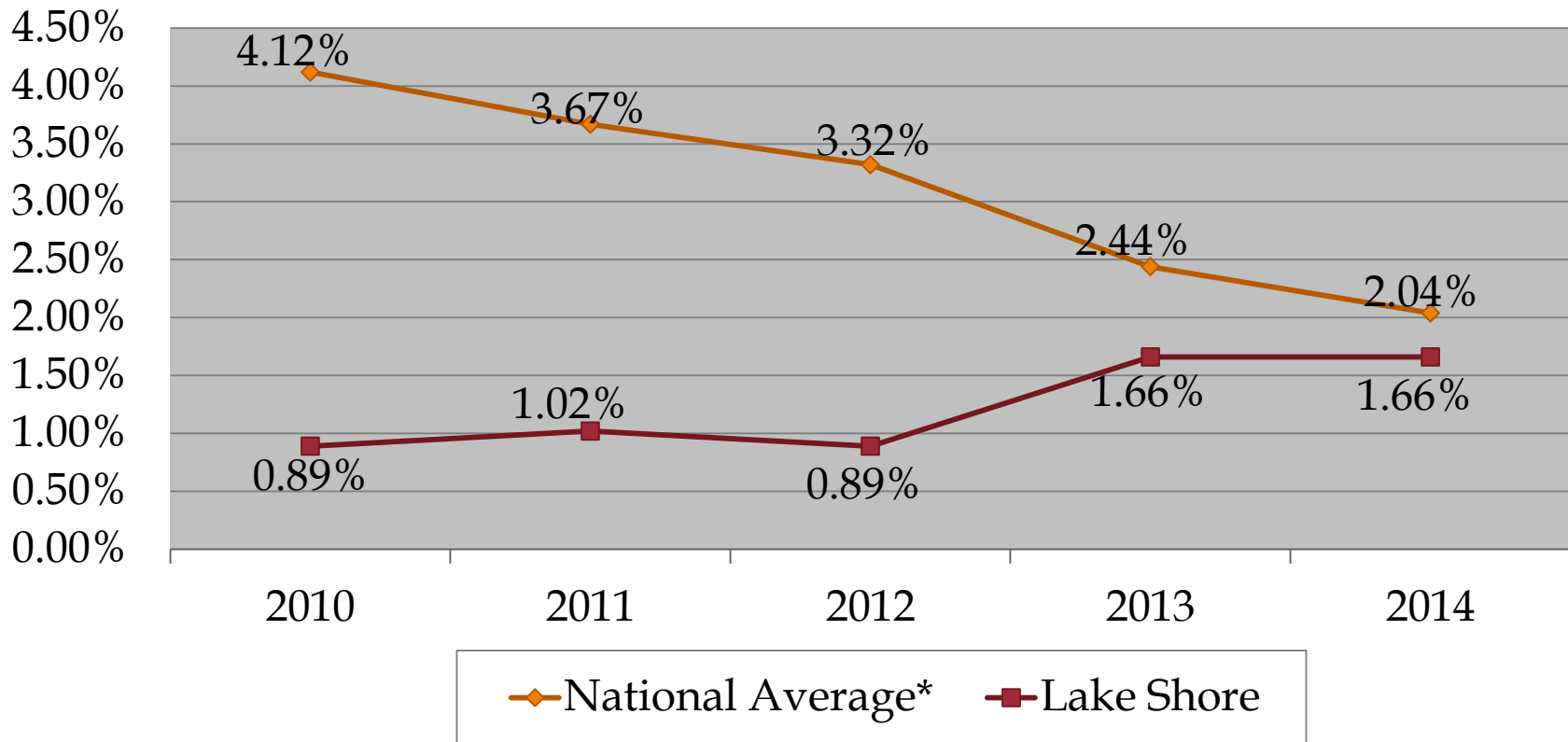


2014



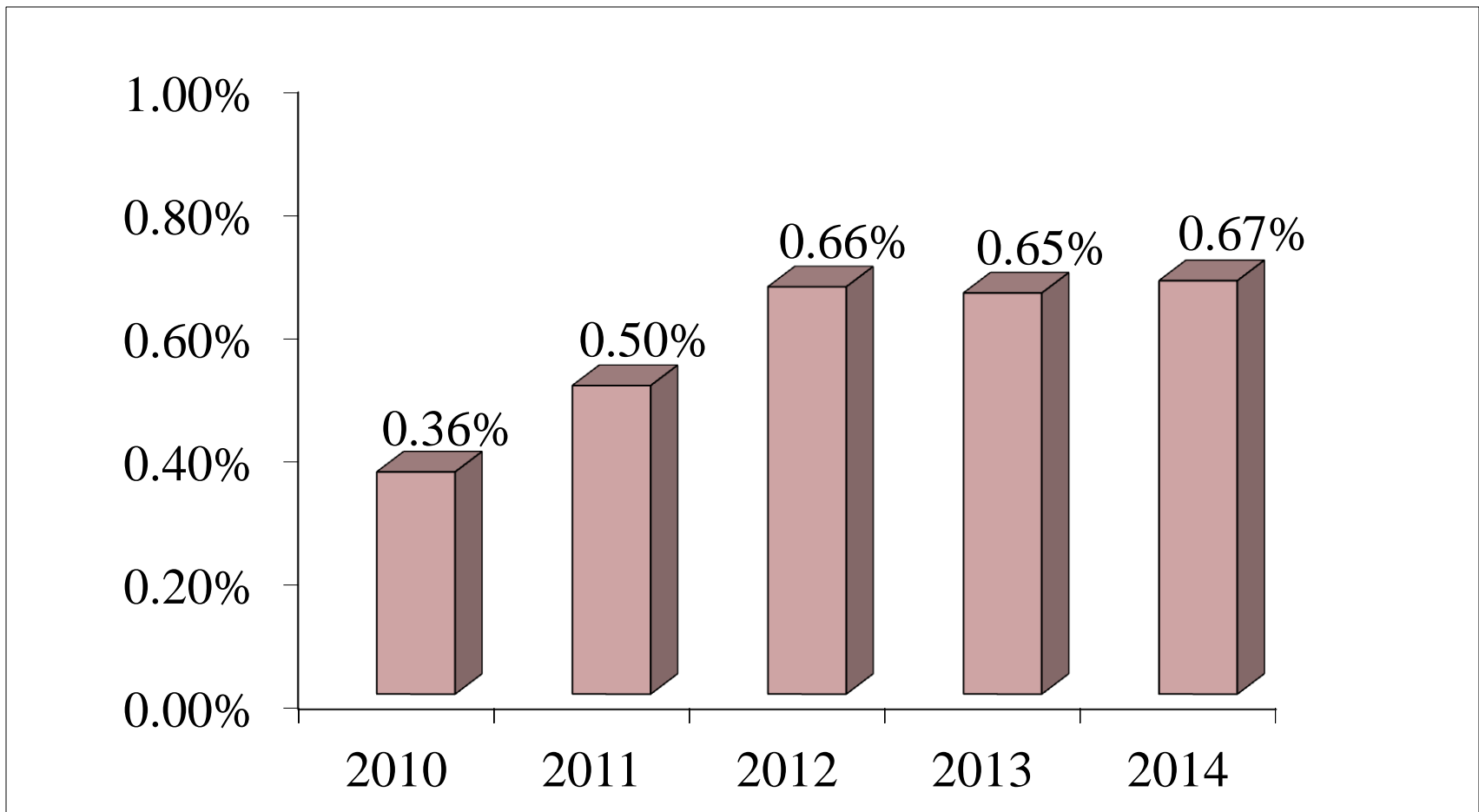
Commercial real estate and commercial loans have increased by 85.1% since 2010, while one-to four-family loans have decreased by 8.7%.

Non-performing Loans as a Percentage of Loans (as of December 31st)

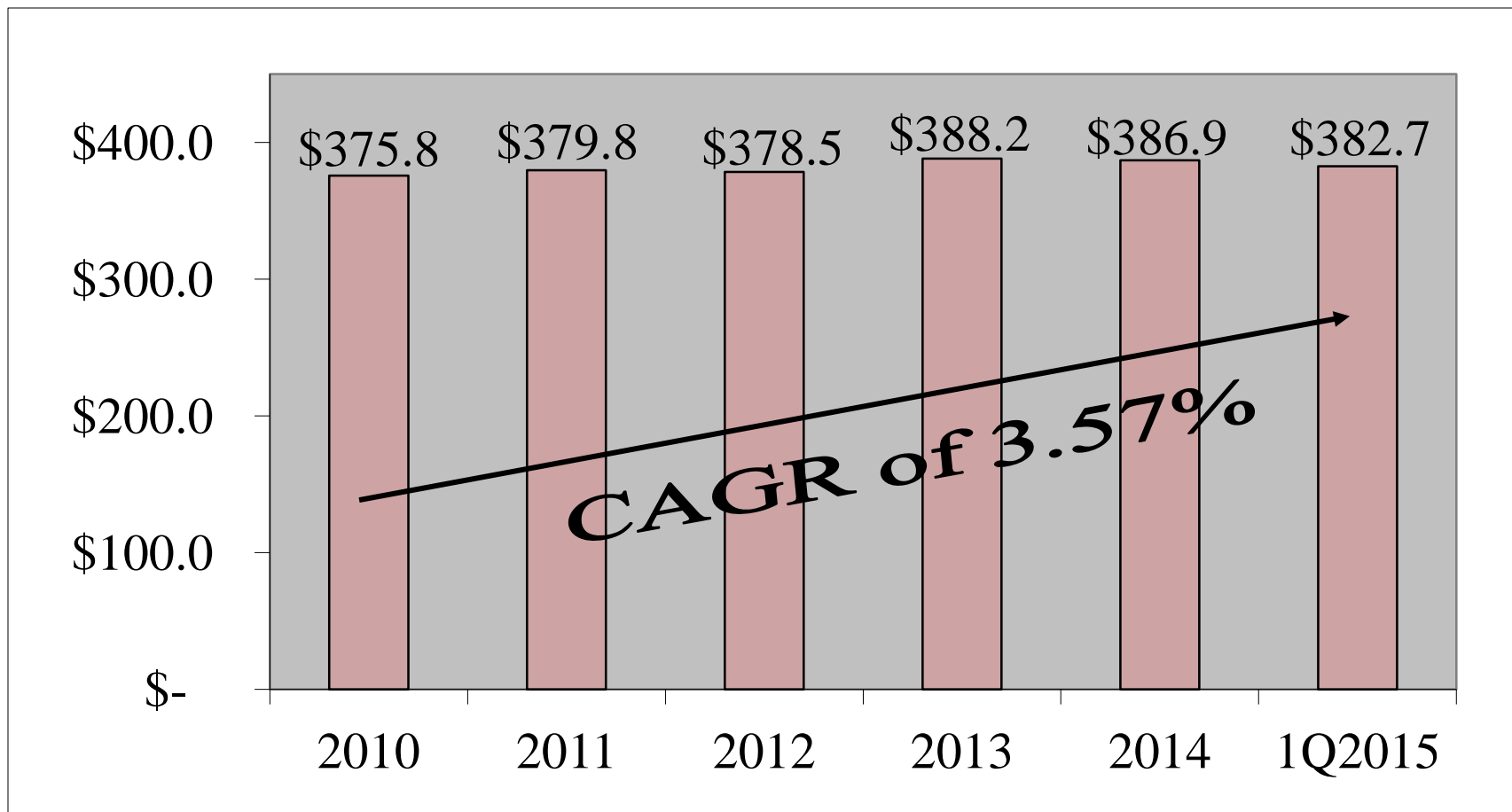


*Average of all savings institutions – National - Source: FDIC

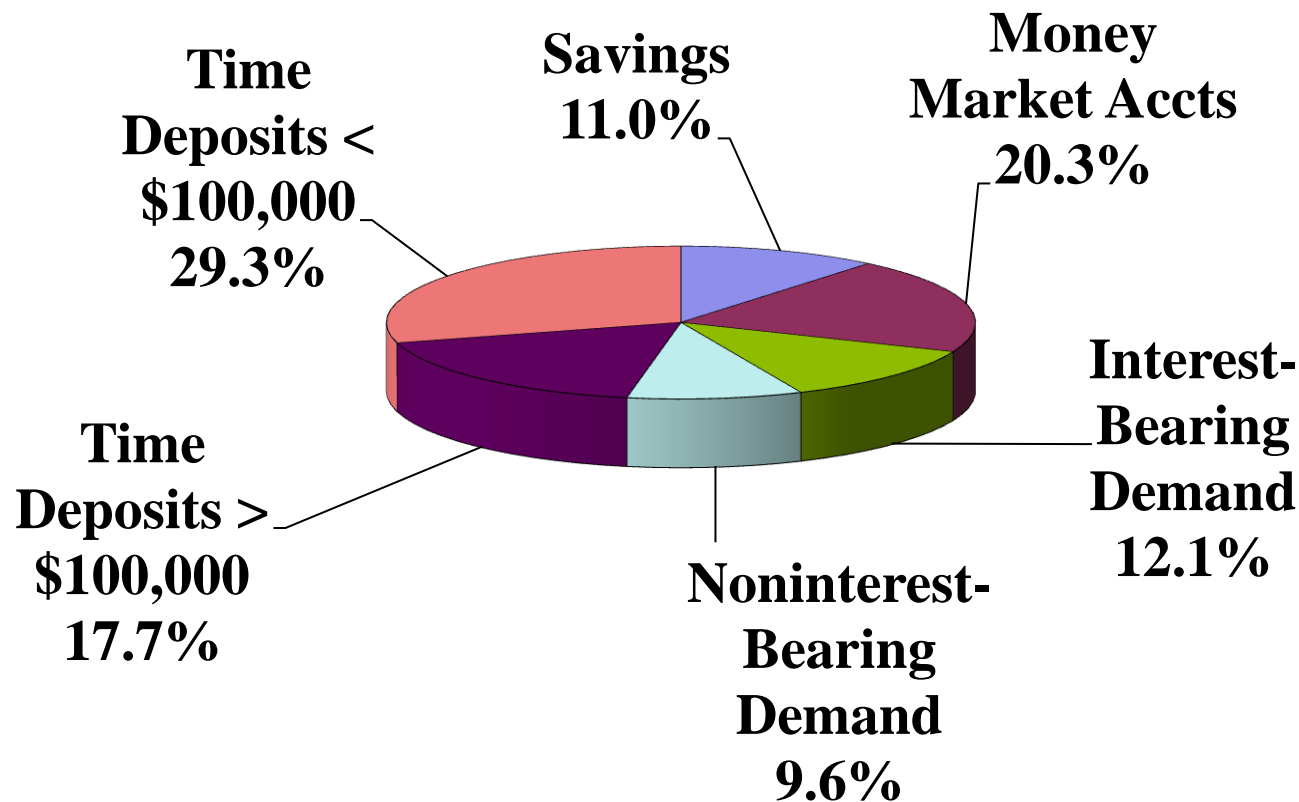
Loan Loss Reserves as a Percentage of Loans (as of December 31st)



Total Deposits (\$ in millions)

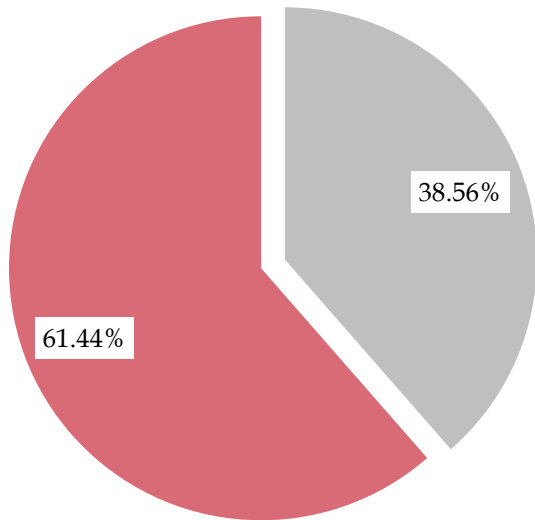


Deposit Composition (as of December 31, 2014)

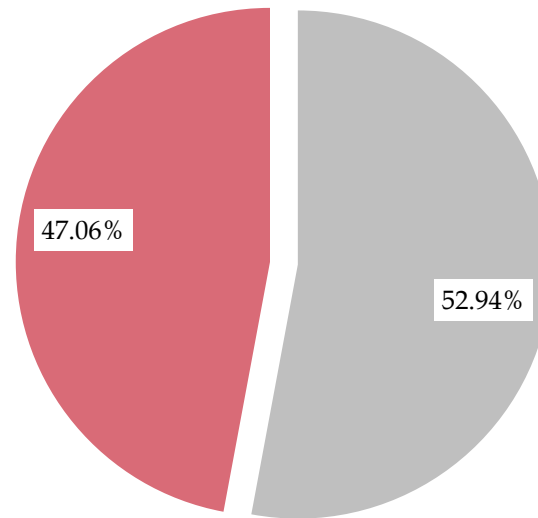


Deposit Mix (as of December 31st)

2010 Deposit Mix



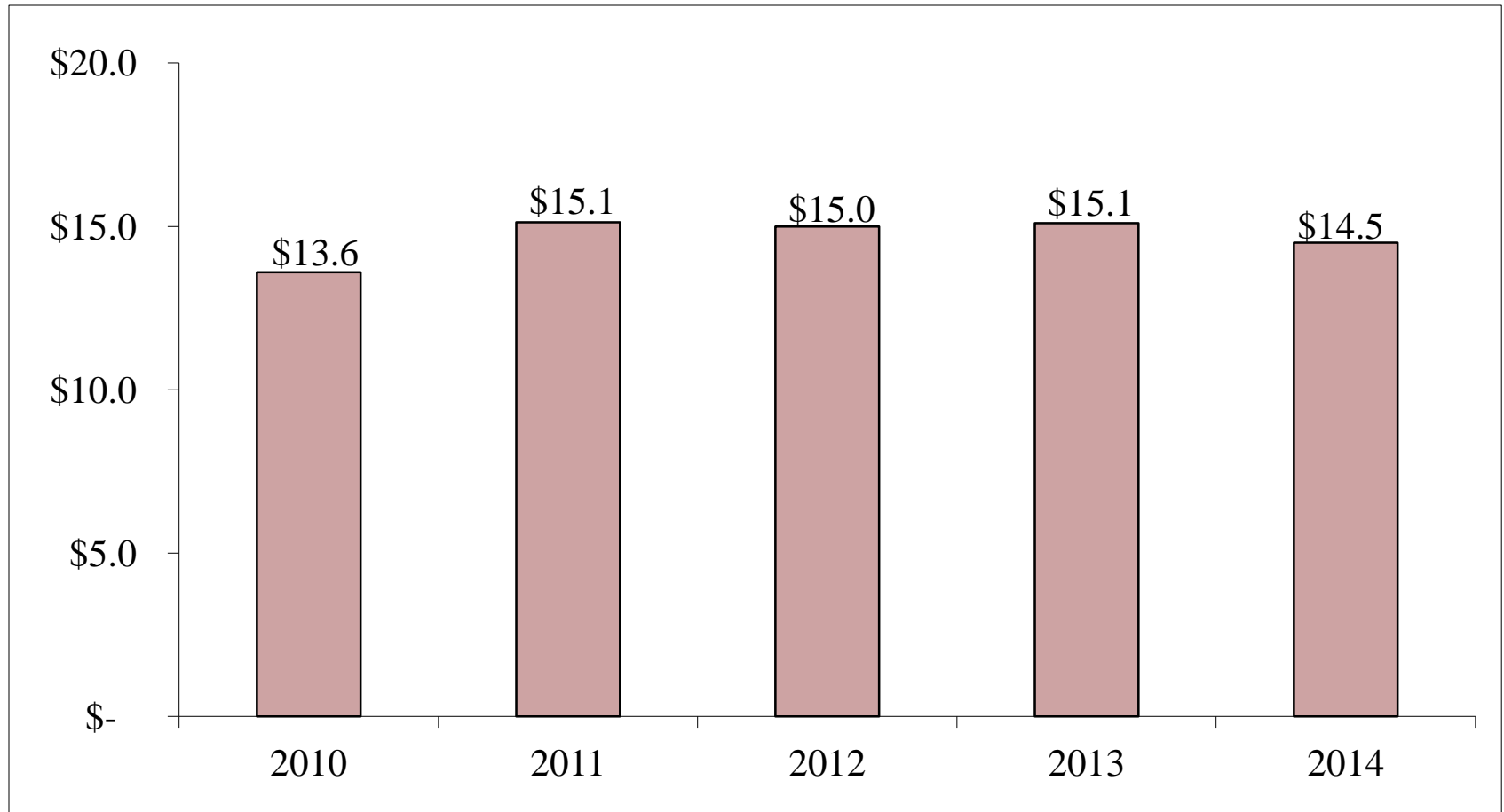
2014 Deposit Mix



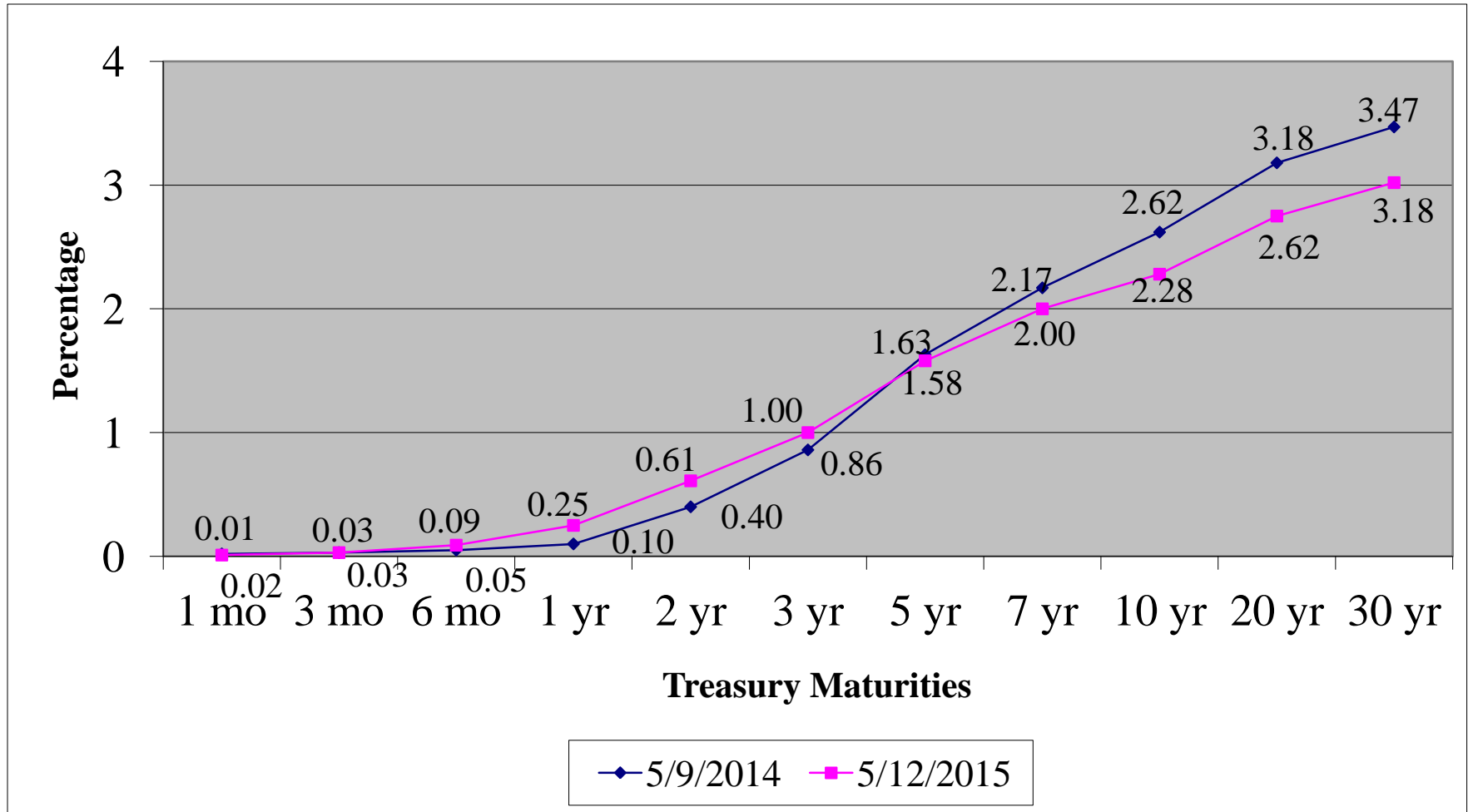
■ Core
Deposits
■ Time
Deposits

Net Interest Income

(\$ in millions, as of December 31st)

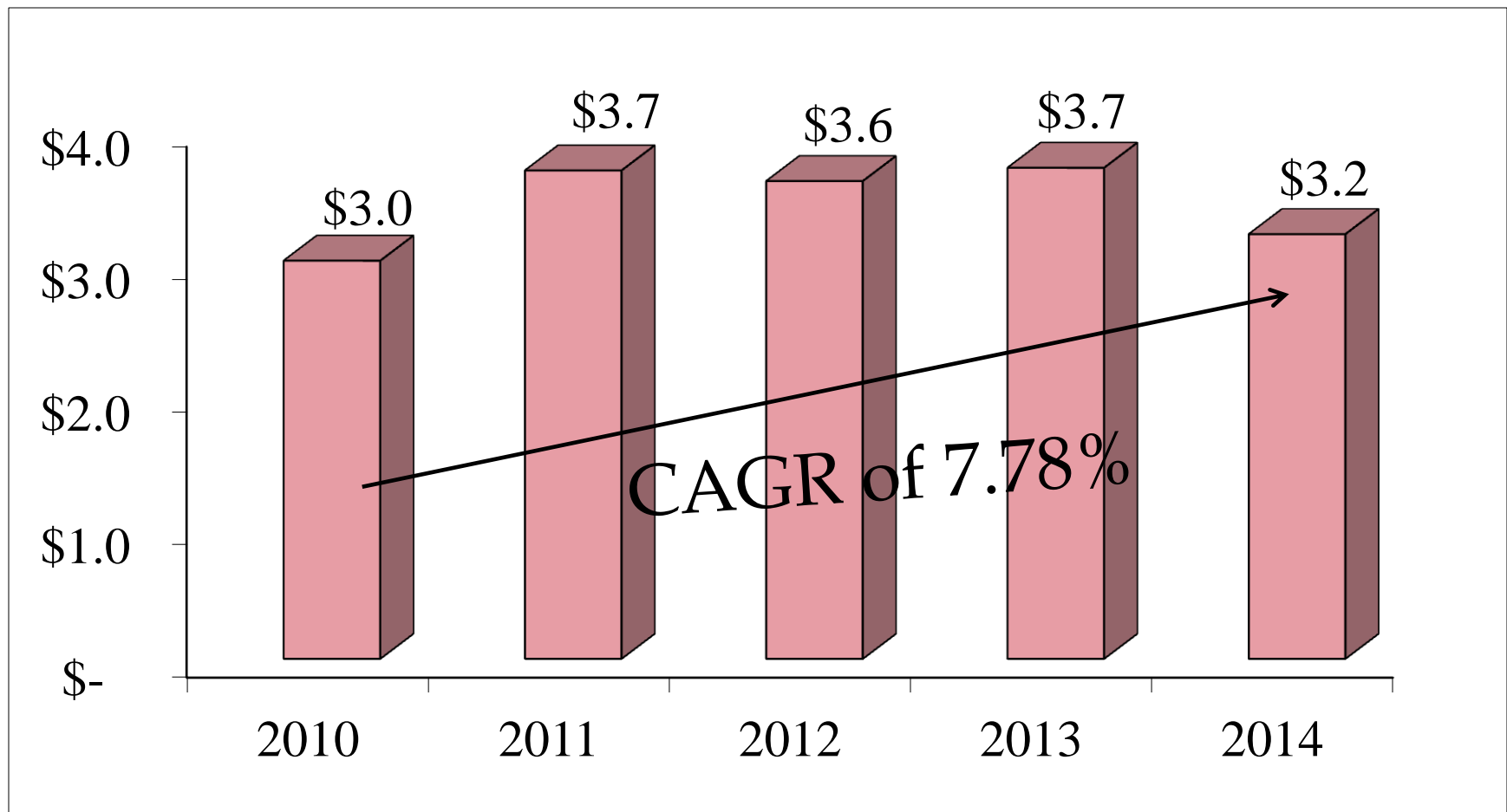


Treasury Yield

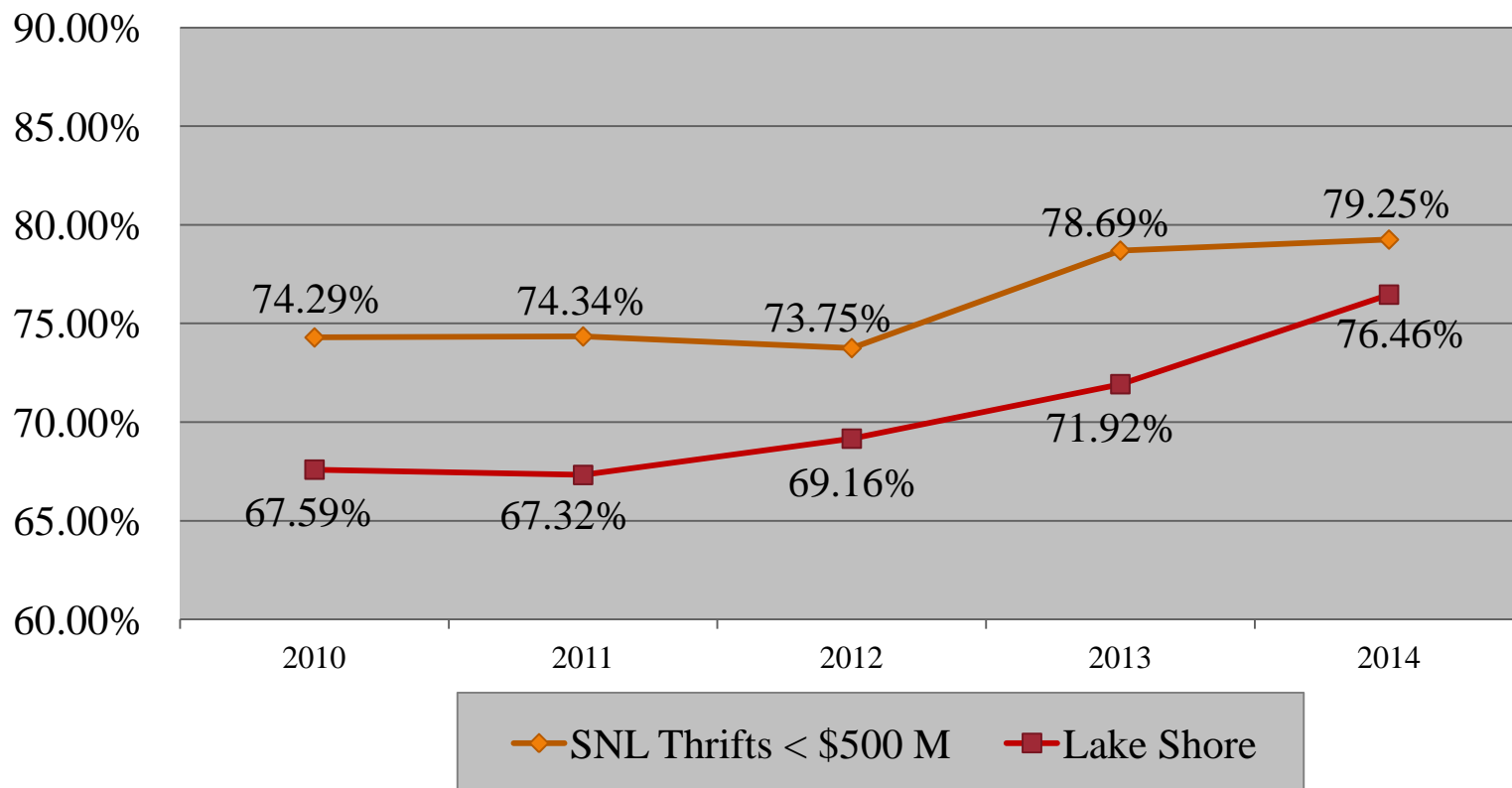


Net Income

(\$ in millions, as of December 31st)



Efficiency Ratio (as of December 31st)



*SNL U.S. Thrift < \$500M : Includes all Major Exchange (NYSE, NYSE MKT, NASDAQ) Thrifts in SNL's coverage universe with less than \$500M in Assets. Source: SNL.com

Capital Levels – Bank Only

(as of December 31st)

	2014	2013	Well-Capitalized (Regulatory Definition)
Total capital (to risk-weighted assets)	25.71%	25.08%	>10.00%
Tier 1 capital (to adjusted total assets)	13.16%	12.75%	>5.00%

1st Quarter 2015 Balances vs. 2014 Year End Balances

➤ **Total Assets of \$482.9 million**

➤ Cash & Cash Equivalents decreased \$2.9 million

➤ Investments decreased \$3.2 million

➤ Loans, net increased \$1.8 million

➤ Total Deposits decreased \$4.3 million

1st Quarter 2015 vs. 1st Quarter 2014 Results

➤ **2015 1st Quarter Net Income**

- \$569,000 - a 26.6% decrease
- Impacted by \$128,000 one-time tax expense

Decrease in 1st Q Net Income primarily due to:

- \$99,000 decrease in net interest income
- \$69,000 increase in non-interest expense
- \$67,000 increase in income tax expense

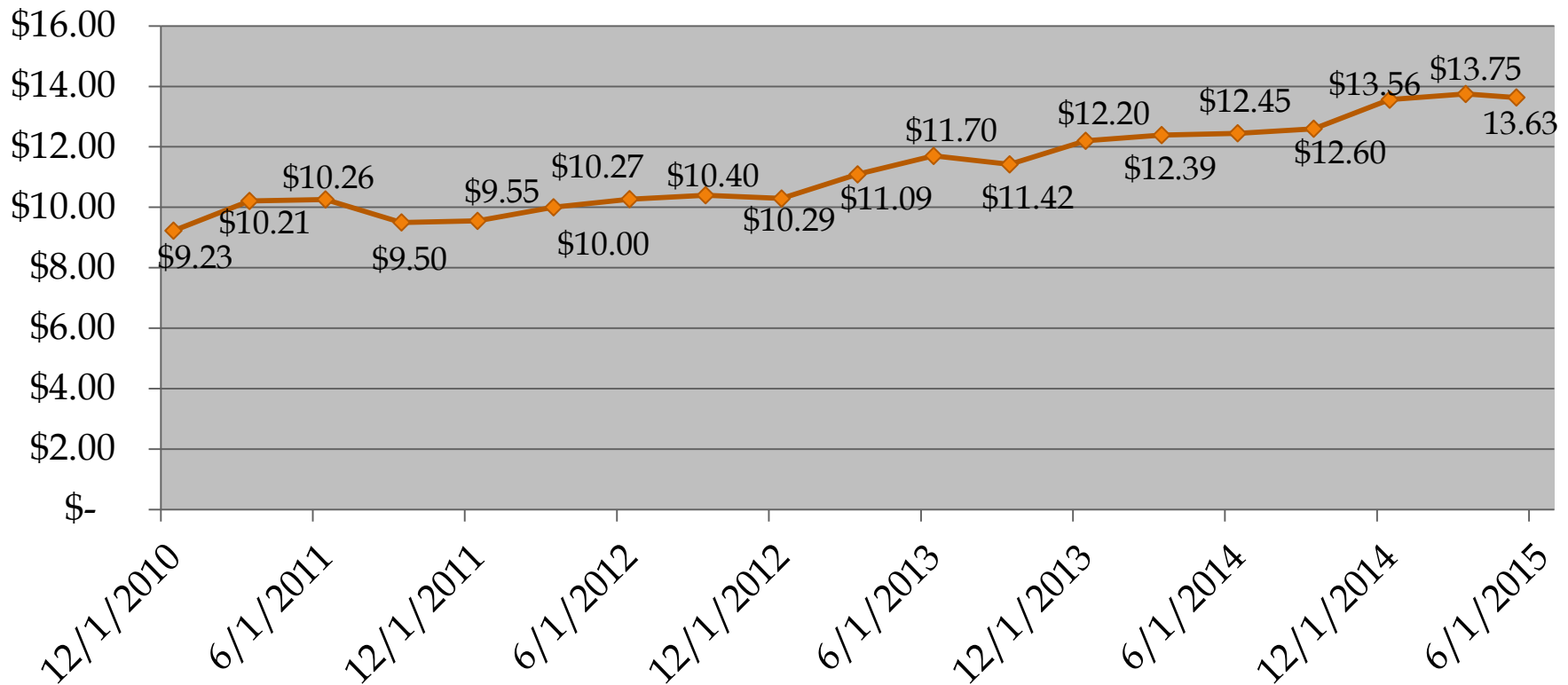
Offset by:

- \$54,000 increase in non-interest income

LSBK Closing Stock Price

December 31, 2010 thru May 15, 2015

Source: Nasdaq.com



Conclusion

Questions?

Thank you for your
continued confidence in
Lake Shore Bancorp, Inc.!

Lake Shore, MHC

Annual Meeting of Members

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