



# **Annual Meeting of Shareholders**

## **May 18, 2016**

# Welcoming Remarks

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**Gary W. Winger**  
**Chairman of the Board**

# Agenda

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

# Business of Annual Shareholders Meeting

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- Election of Three Directors: Tracy S. Bennett  
Sharon E. Brautigam  
Kevin M. Sanvidge
- 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 2016

# **Executive Management Presentation**

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**Daniel P. Reininga**  
**President and Chief Executive Officer**

# Safe Harbor Statement

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*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

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### Market Data (as of May 11, 2016) – (Source - NASDAQ)

➤ Ticker Symbol	LSBK
➤ 52 – week Range	\$13.00 - \$15.85
➤ Current Price	\$13.60
➤ Market Capitalization	\$32.7 million - <b>minority shares only</b>
➤ Minority Shares Outst .	2.4 million shares
➤ 50 Day Avg. Trading Vol.	1,766 shares
➤ Annual Cash Dividend	\$0.28 per share
➤ Dividend Yield	2.059%

### ➤ **Ownership (as of 3/31/2016) – (Source – NASDAQ, SEC, internal)**

❖ Mutual Holding Company (Lake Shore, MHC)	60.21%	(holds 3.6 million shares)
❖ Insiders (including directors, executives, and ESOP plan)	7.12%	
❖ Institutional	13.12%	
❖ Other	19.55%	

# Lake Shore Savings Fast Facts

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- Lake Shore Savings has been in business for over 125 years.
- As of March 31, 2016
  - Total Assets \$474.3 million
  - Total Deposits \$371.2 million
  - Total Loans Receivable, net \$301.7 million
- 11 branch locations throughout Chautauqua and Erie Counties.

# Loan Originations

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<b>New Loans</b>	<b>2015</b>	<b>2014</b>
(\$'s in millions)		
Residential Mortgage - New & Modified	\$ 21.37	\$15.98
Commercial Mortgage - New & Modified	27.55	19.13
Commercial Loans	11.69	7.64
Home Equity Loans	6.40	6.08
Consumer Loans	0.33	0.38
<b>Total New Loans</b>	<b>\$ 67.34</b>	<b>\$49.21</b>

**36.8% YOY Increase**

# Commercial Lending

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## ➤ Commercial Division Activities in 2015

- ✓ Growth of the Commercial Lending Portfolio
- ✓ \$39.24 Million in New Originations  
46.6% YOY Increase
- ✓ \$104.3 Million of Commercial Portfolio Outstanding  
at year-end, 27.6% YOY increase (includes construction loans)
- ✓ The Right Kind of Interest.

# 2015 Deposits

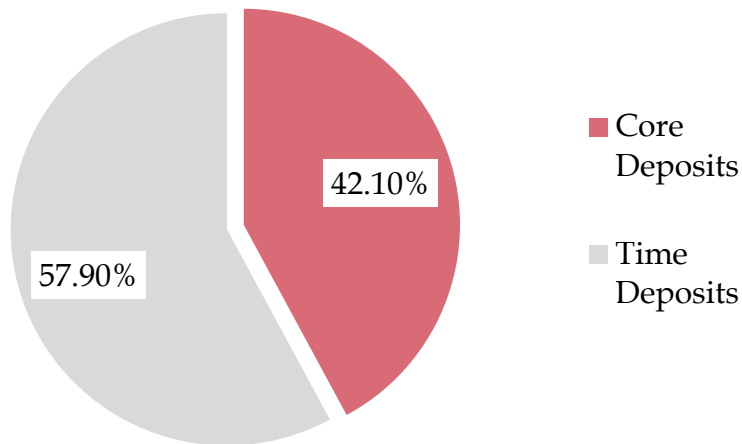
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- Year End 2015 Deposits: \$369.2 million
- 2.82% Growth in Core Deposits  
(includes all deposits except time deposits)
- 12.9% Decrease in Time Deposits
- Lower Average Rate Paid on Deposits – 15 basis points decrease
  - For the year ended 2015 – 0.68%
  - For the year ended 2014 – 0.83%

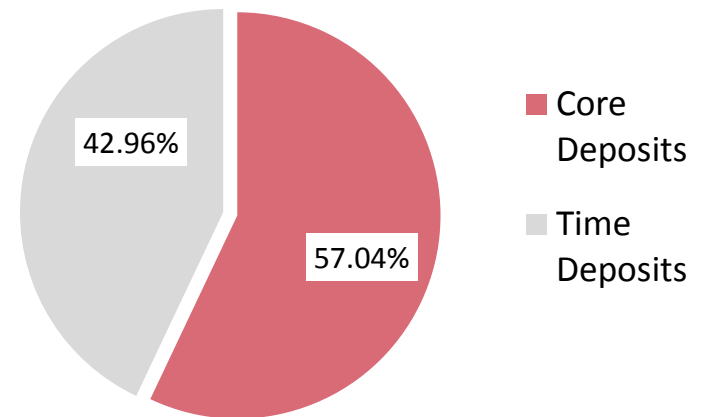
# Deposit Mix (as of December 31st)

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2011 Deposit Mix



2015 Deposit Mix



# **Operational and Strategic Review**

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**Solid and Sustainable Value Proposition**

**- The CornerStone of our Community**

# Balance Sheet Growth and Risk Management

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- Accomplished, experienced management team with extensive banking knowledge and a great understanding of our service areas
- Long range strategic effort to diversify our loan portfolio in a way that increases earnings and effectively manages interest rate risk
- Commercial loan portfolio growth
- Focus on core deposit growth
- Solid and sustainable Asset Quality Metrics compared to industry peers

# Creating Shareholder Value

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- High Capital Ratios enable organic growth without diluting shareholder value
- Consistent dividend payment history
- Stock buyback program in place
- Meeting expectations of our shareholders

# Operating Profile

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- Corporate Wide Commitment to an Efficient Operating Profile
- Efficiently managing operating expenses while growing bank income
- Continually outperform our peer group in many categories
- Commitment to effective management of Interest Rate Risk

# Community Banking Strategy

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- Effectively and efficiently meeting the needs of our customers
- Strong Customer Value Proposition differentiating Lake Shore Savings from its toughest competitors
- Personalized Friendly Service
- Building Individual Customer Relationships backed by high tech desktop and mobile banking platforms

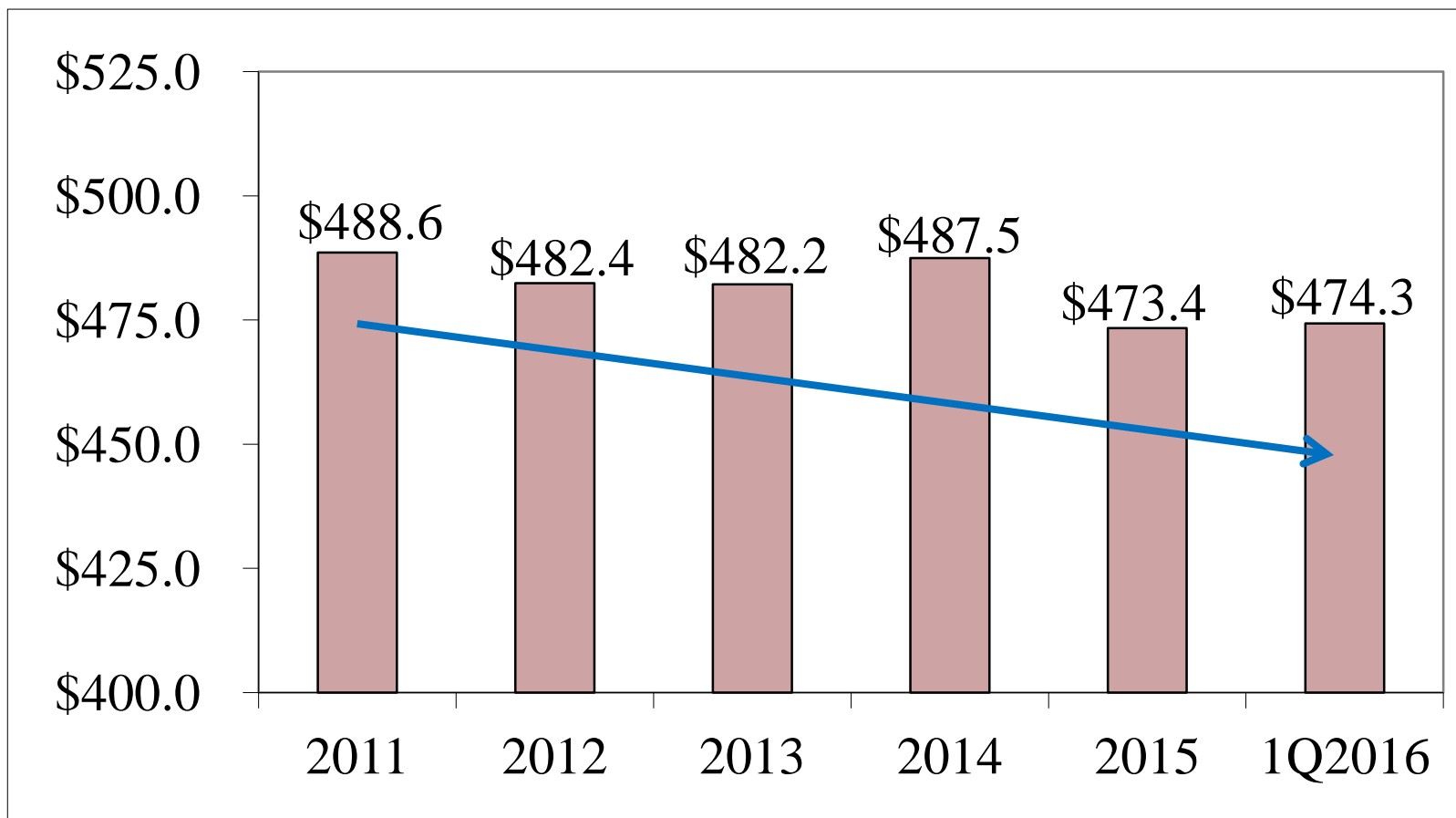
# **Lake Shore Bancorp, Inc. Financial Presentation**



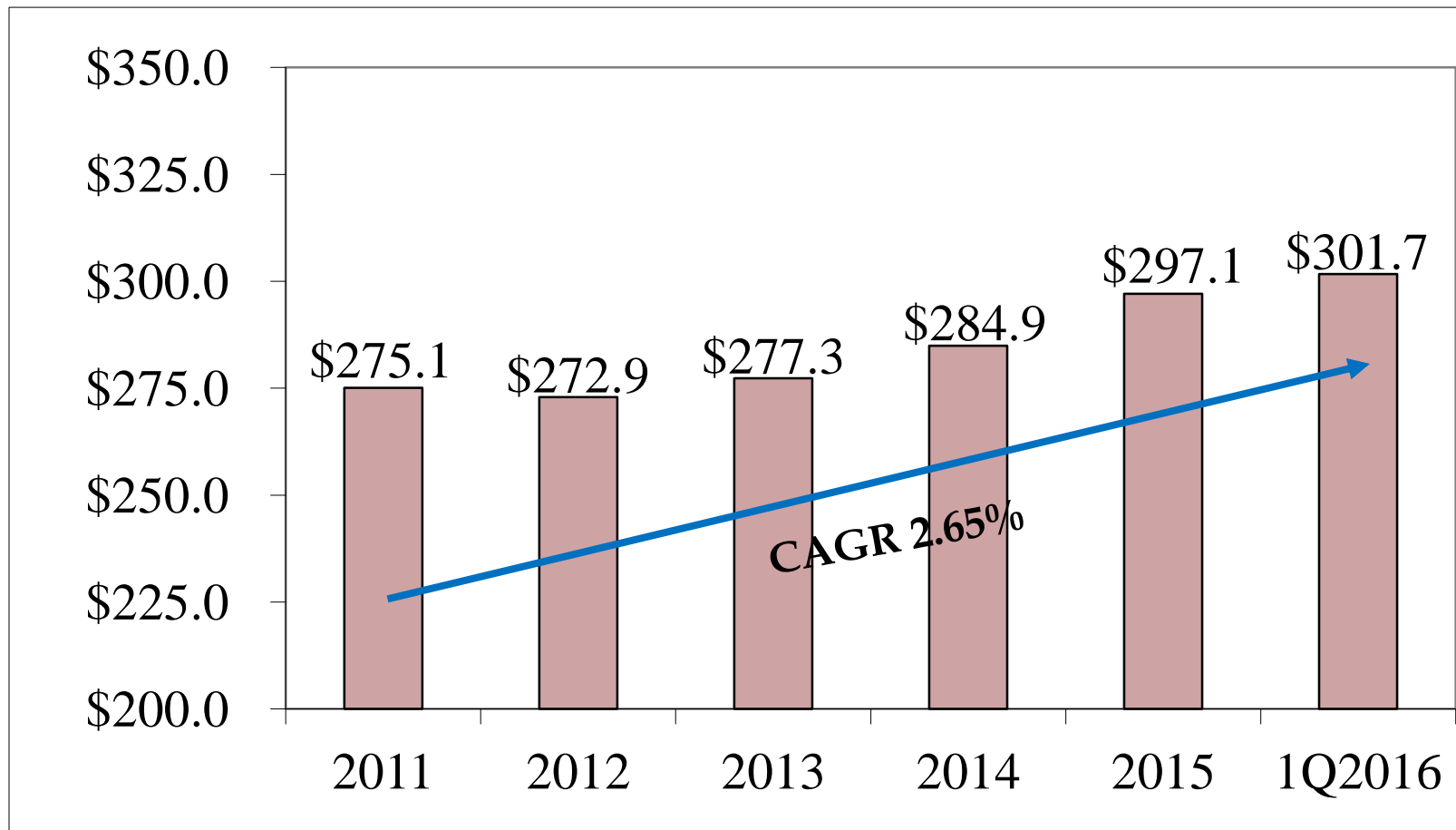
**Rachel Foley  
Chief Financial Officer**

# Total Assets

## (\$ in millions)



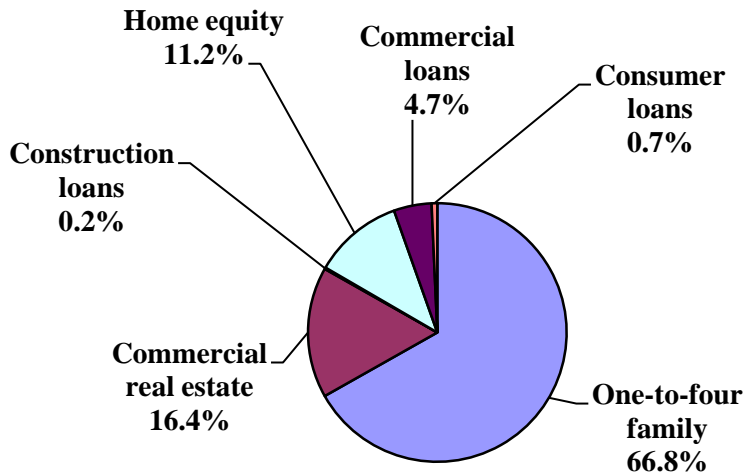
# Loans, net (\$ in millions)



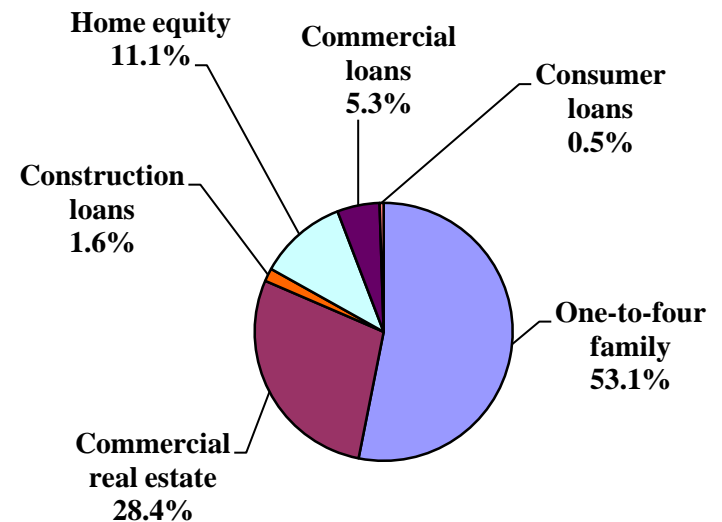
# Loan Composition

(as of December 31st)

2011

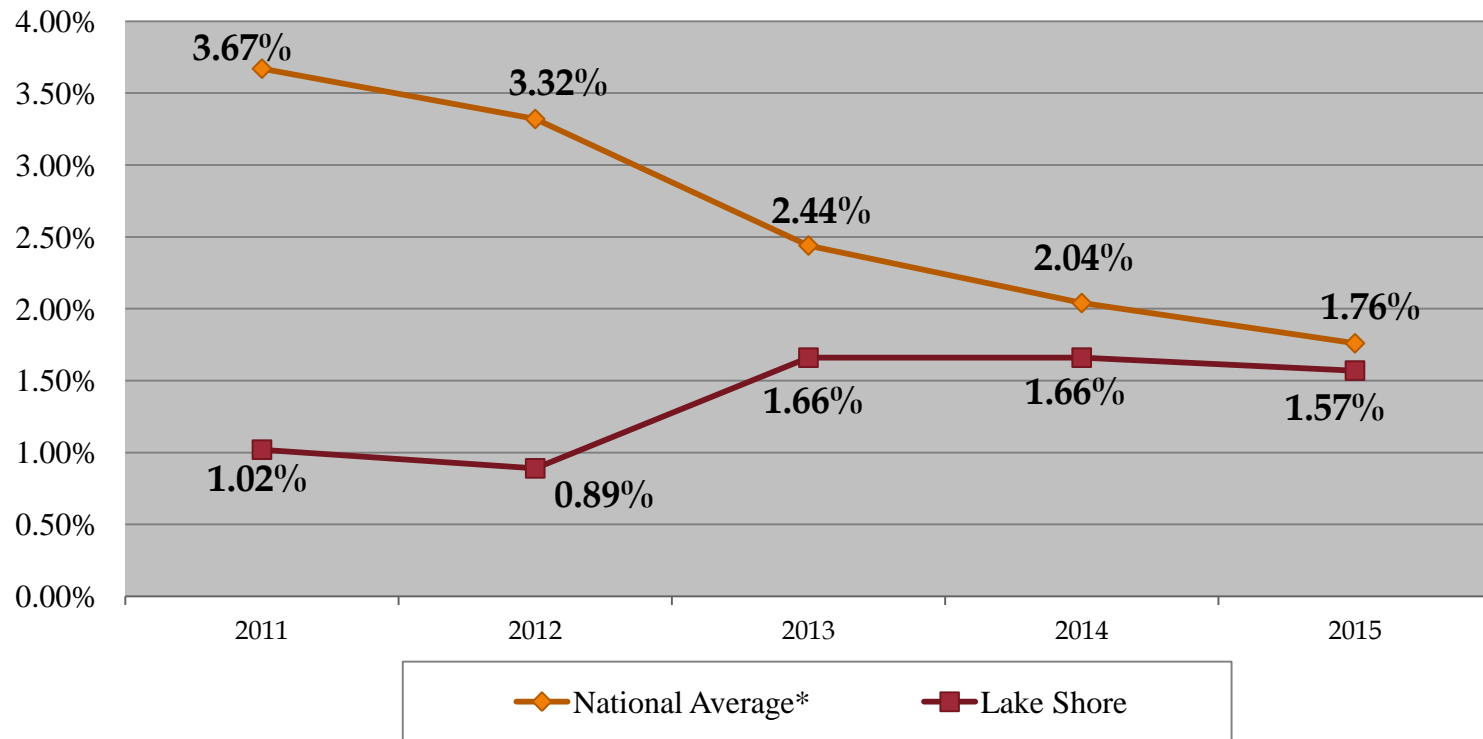


2015



**Commercial real estate and commercial loans have increased by 72.8% since 2011, while one-to four-family loans have decreased by 14.0%.**

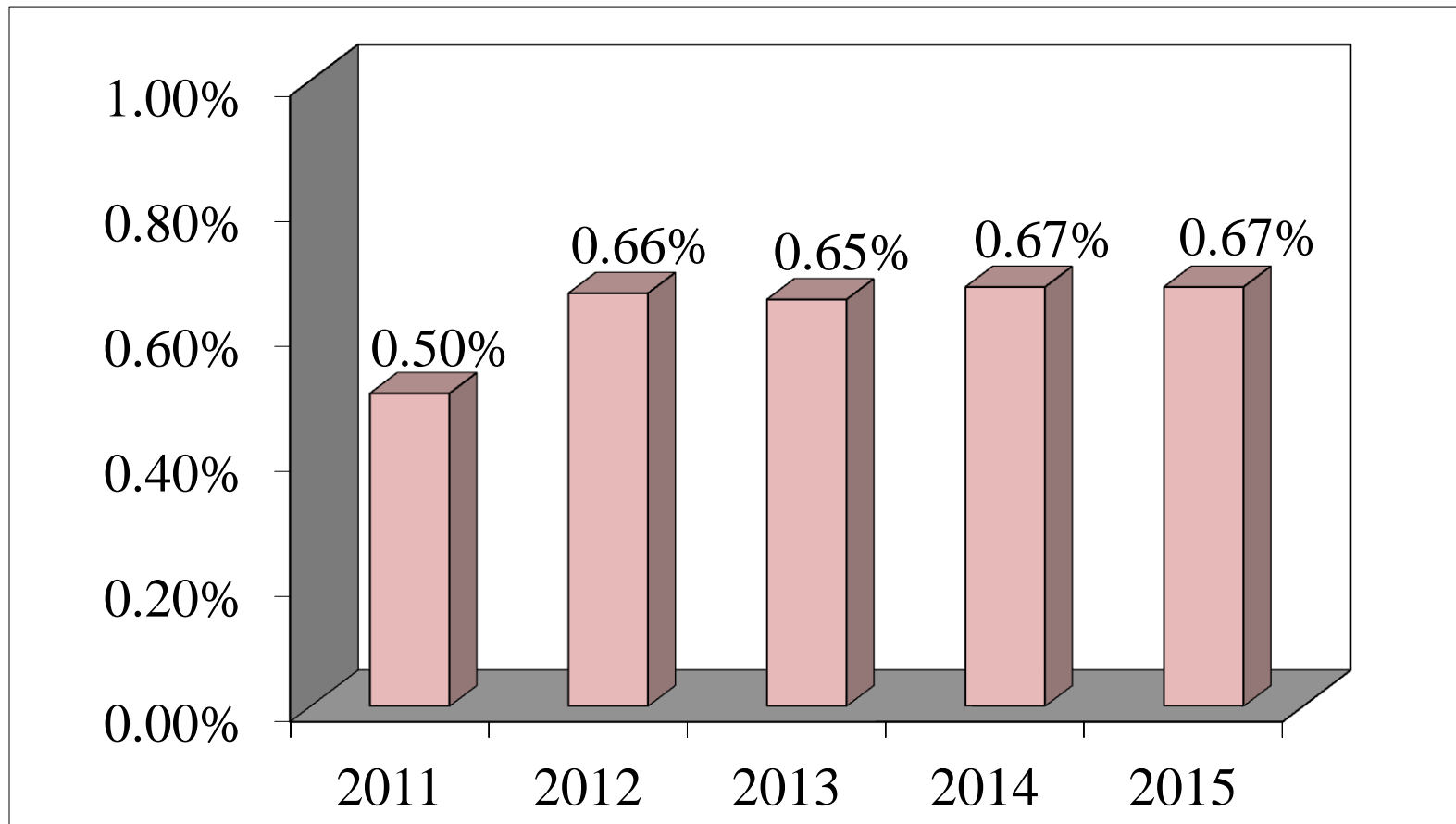
# Non-performing Loans as a Percentage of Loans (as of December 31<sup>st</sup>)



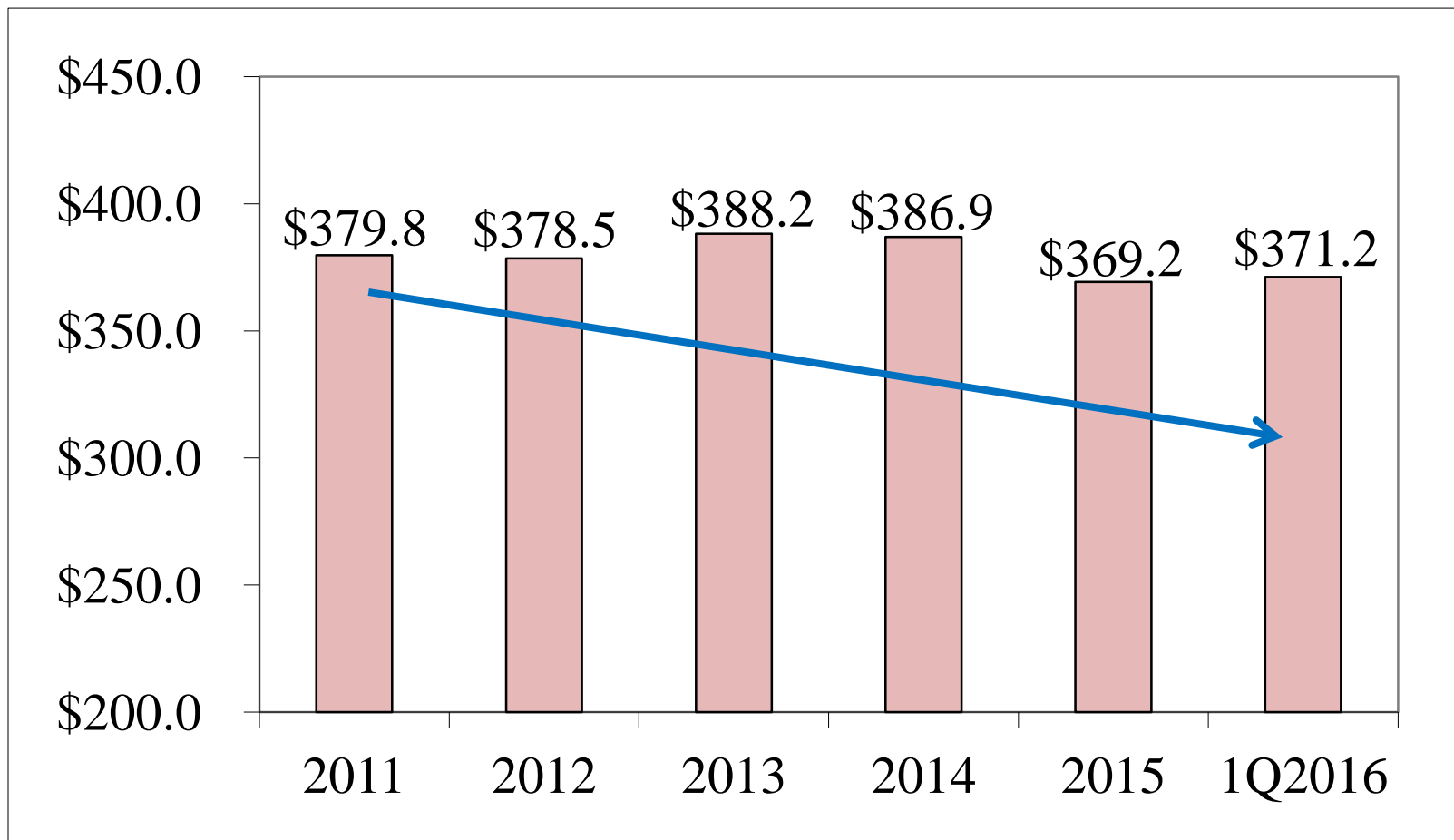
\*Average of all savings institutions national - Source: FDIC

# Loan Loss Reserves as a Percentage of Loans (as of December 31<sup>st</sup>)

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# Total Deposits (\$ in millions)



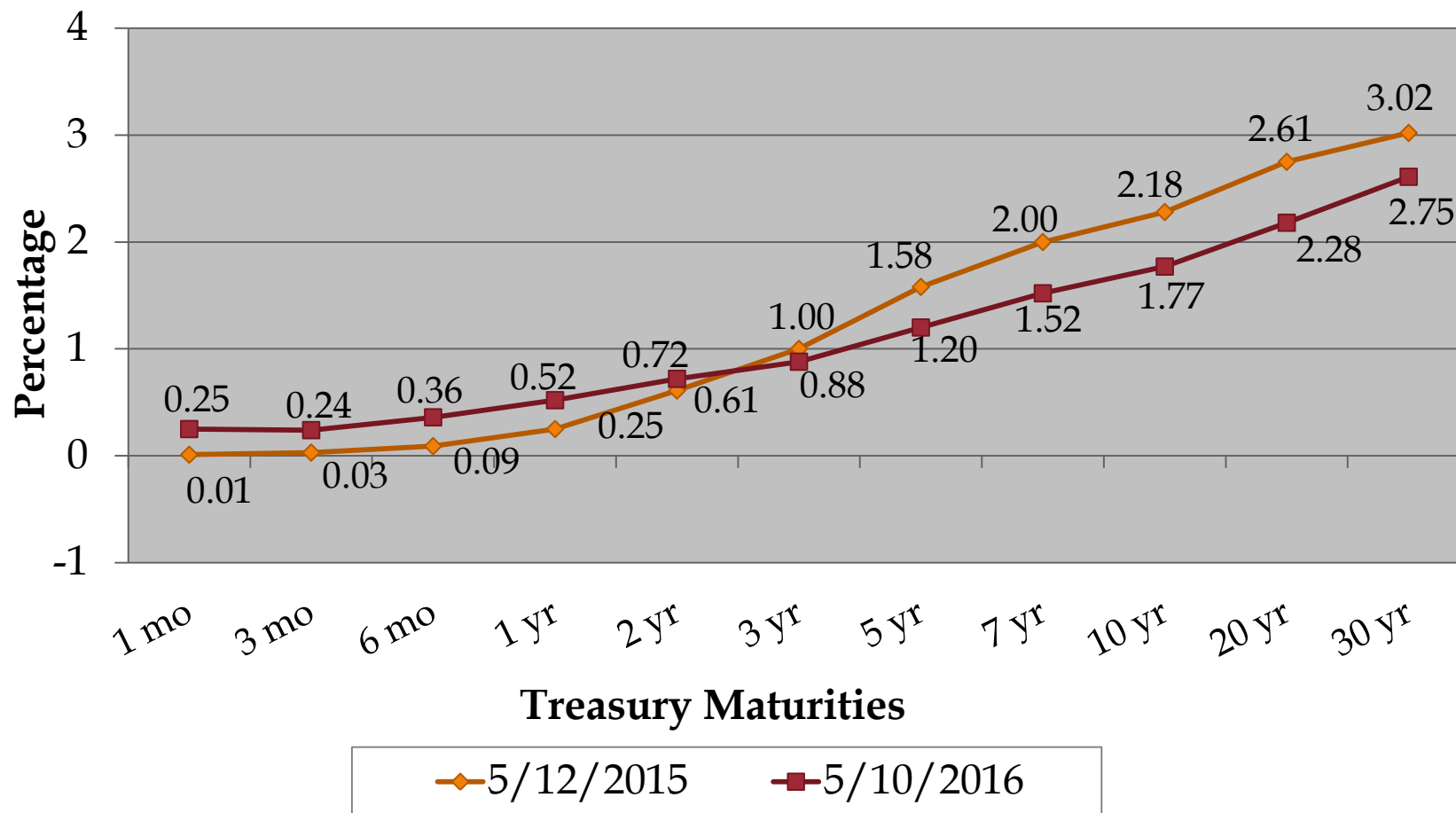
# Net Interest Income

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

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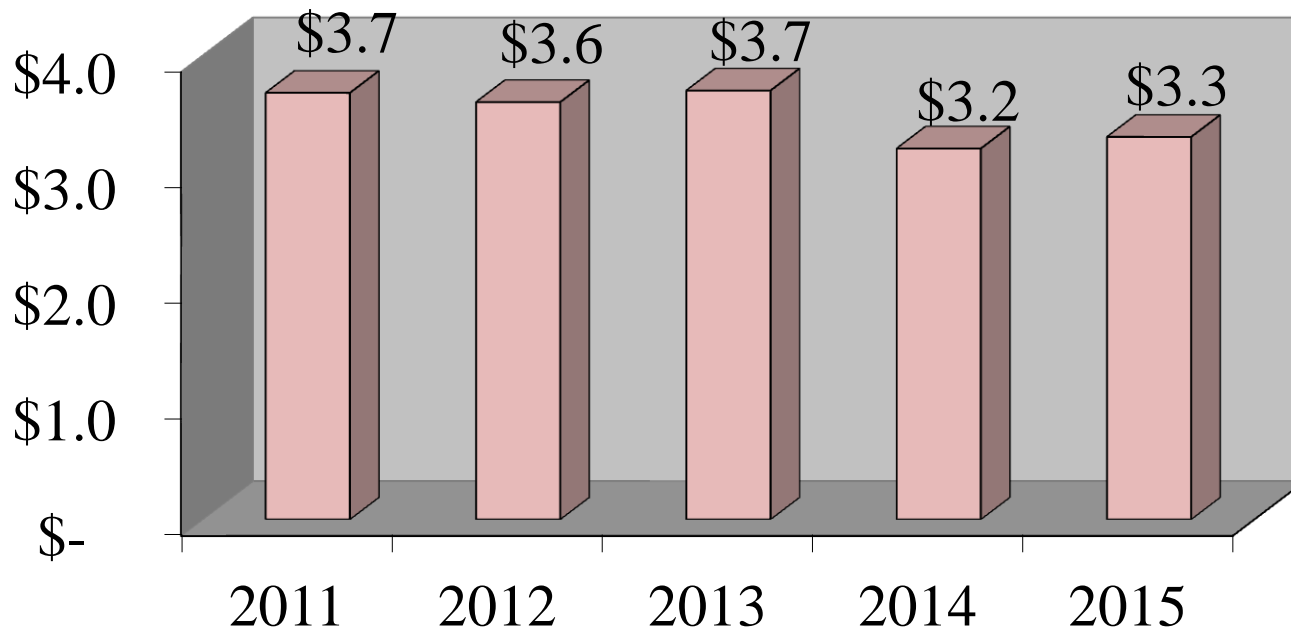
# Treasury Yield



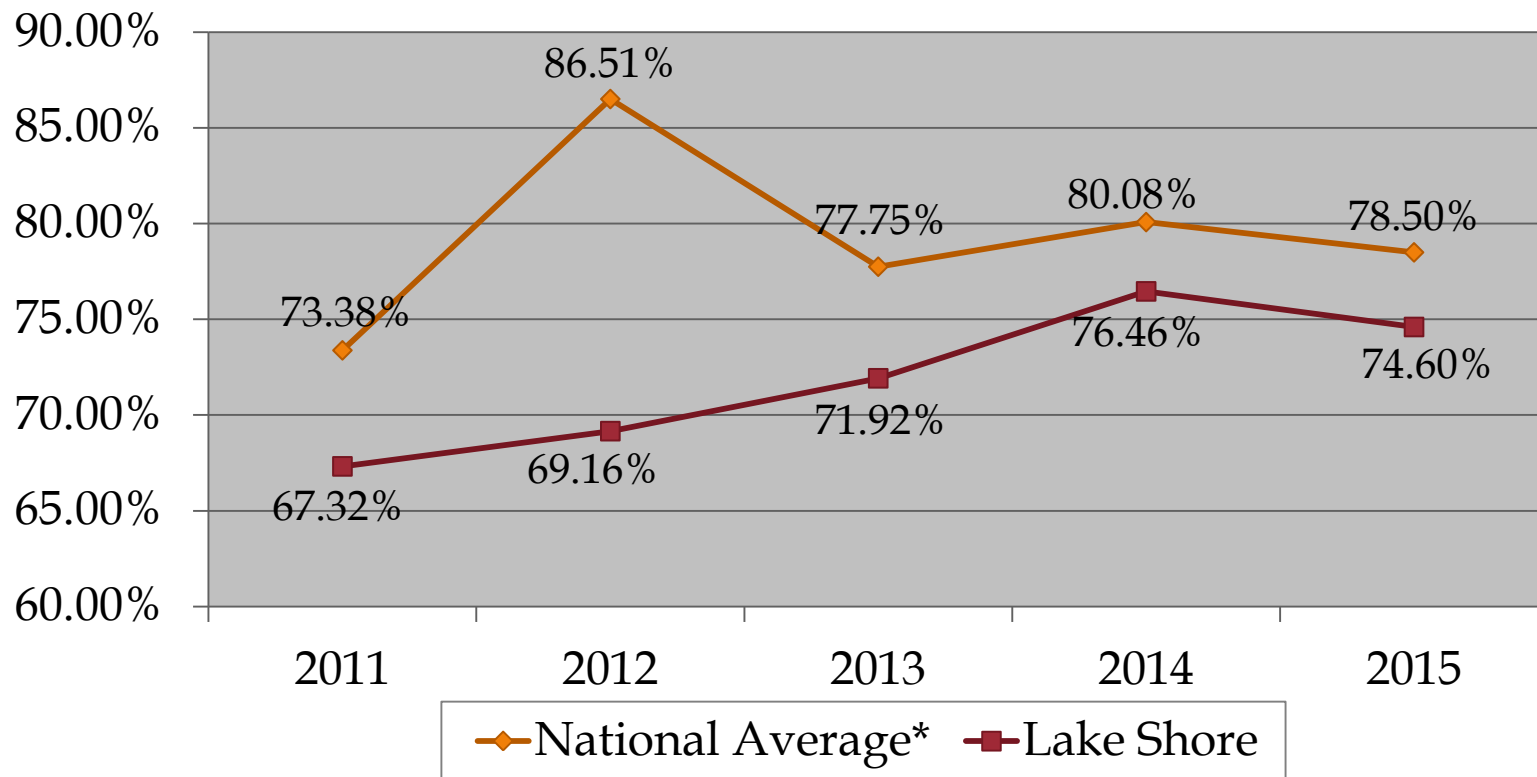
# Net Income

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

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# Efficiency Ratio (as of December 31<sup>st</sup>)



\* Includes Savings Institutions between \$300 and \$500 million in Assets Source:FDIC

# Capital Levels – Bank Only

## (as of December 31<sup>st</sup>)

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	<u>2015</u>	<u>2014</u>	<u>Well-Capitalized (Regulatory Definition)*</u>
<b>Total capital (to risk-weighted assets)</b>	24.93%	25.71%	>10.0%
<b>Tier 1 capital (to adjusted total assets)</b>	24.21%	24.95%	>8.0%
<b>Common Equity Tier 1 capital (to risk-weighted assets)</b>	24.21%	N/A	>6.5%

*\* As of 12/31/2015*

# 1<sup>st</sup> Quarter 2016 Balances vs. 2015 Year End Balances

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- Total Assets of \$474.3 million
- Sold \$14.4 million of Treasury Bonds
- \$12.0 million increase in Cash & Cash Equivalents
- \$15.6 million decrease in Investments
- Loans, net increased \$4.6 million
- Total Deposits increased \$2.0 million

# 1<sup>st</sup> Quarter 2016 vs. 1<sup>st</sup> Quarter 2015 Results

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## ➤ 2016 1<sup>st</sup> Quarter Net Income

- \$1.95 million - a \$1.39 million increase
- Impacted by \$1.1 million after tax gain on sale of securities
- \$874,000 - without gain on sale of securities, a 53.6% YOY increase

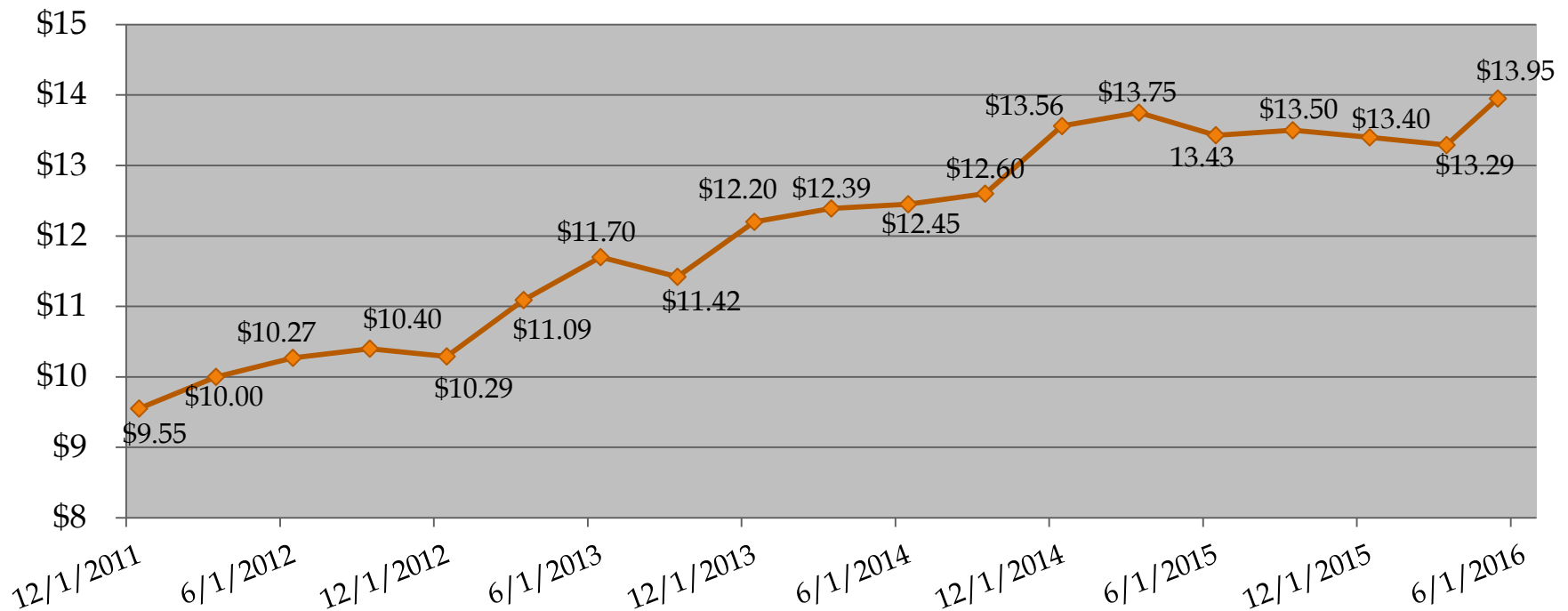
## **Other Components of Net Income (excluding gain on sale of securities):**

- \$164,000 increase in net interest income
  - \$40,000 increase in non-interest income
  - \$301,000 decrease in income tax expense
- Offset by
- \$105,000 increase in provision expense
  - \$95,000 increase in non-interest expense

# LSBK Closing Stock Price

## December 31, 2011 thru May 10, 2016

Source: Nasdaq.com



# 2016 Activities

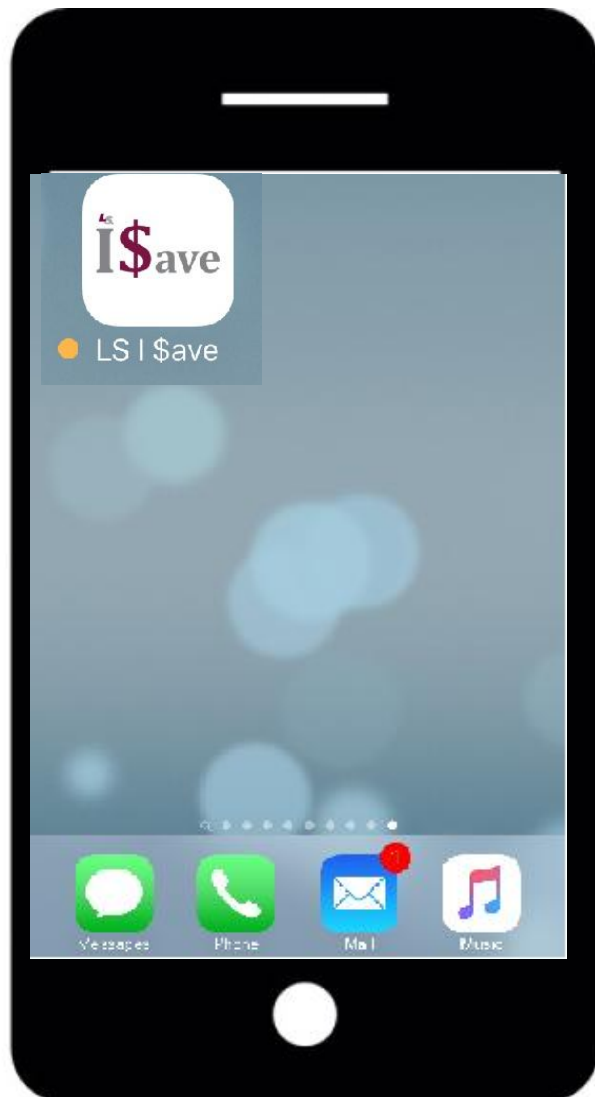
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## Celebrating 125 Years of Service in 2016

**Daniel P. Reininga**  
**President and Chief Executive Officer**

# Celebrating 125 Years of Service in 2016

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## New Checking Accounts & Mobile App

- Checking accounts enhanced with “proximity couponing” technology and additional lifestyle savings benefits

# Celebrating 125 Years of Service in 2016

## 125<sup>th</sup> Anniversary Product Promotions



Join the Celebration

# Home Equity Line of Credit

# 1.25%

APR\*

✓ Processing and decisions made locally!

6 Month Introductory Rate

**CELEBRATING 125<sup>th</sup> ANNIVERSARY**

**Banking with Your Best Interest in Mind!**

**FDIC**

**LS Lake Shore Savings** *Putting People First.™*  
[www.lakoshoresavings.com](http://www.lakoshoresavings.com)

# Celebrating 125 Years of Service in 2016

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## 125<sup>th</sup> Anniversary Product Promotions



- **Anniversary Money Market**
  - High-yield product to attract new customers
- **Earn Bonus for Switching to Lake Shore Savings**
  - Acquire new core deposit relationships

# Celebrating 125 Years of Service in 2016

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## 125<sup>th</sup> Anniversary Events & Activities



- September 10<sup>th</sup> - Cortese Live Radio Show and “Celebration Day” at each branch location
- Sweepstakes - win trip for 4 to Disney World
- Various local sponsorships throughout the year highlighting our 125 years of service to Chautauqua and Erie Counties

# Summary

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

# Conclusion

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## Questions?

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

# Lake Shore, MHC

## Annual Meeting of Members

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