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Our track record of **proven performance**

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emanates from a relentless focus on

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building customer and community

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relationships that drive shared success.

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By *Putting People First* and providing

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unmatched personalized service,

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we continue to generate **solid results** for

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shareholders, while providing opportunities

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for our customers to reach their goals

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and achieve their dreams.

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2014 ANNUAL REPORT

 **Lake Shore Bancorp, Inc.**

*Putting People First.*<sup>™</sup>

## Corporate Profile

Lake Shore Bancorp, Inc. (“the Company”) is the mid-tier holding company of Lake Shore Savings Bank, a mission-driven community institution dedicated to serving the financial needs of consumers and businesses within the bank’s Western New York market area. The Company’s common stock is traded on the NASDAQ Global Market as “LSBK” and its 5.9 million shares, including 3.6 million mutual holding company (MHC) shares, had a “market cap” of approximately \$81.2 million on December 31, 2014. The Company had total consolidated assets of \$487.5 million and total deposits of \$386.9 million at the end of 2014.

Lake Shore Savings Bank is dedicated to serving the financial needs of consumers and businesses in Western New York, which it has been doing for more than 123 years. Lake Shore is focused on providing high-quality, personal customer service through its 11 full-service branches and 18 ATMs that are located throughout Chautauqua and Erie counties. Headquartered in Dunkirk, New York, Lake Shore has retail locations in Dunkirk, Fredonia, Jamestown, Lakewood, Westfield, Depew, East Amherst, Hamburg, Kenmore, Orchard Park and Snyder, where it offers a broad range of retail and commercial lending and deposit services.

The Company is committed to maintaining an efficient expense profile, driving commercial loan portfolio growth, identifying and managing institutional risk, and achieving prudent growth which builds long-term sustainable value for investors. Additional information about the Company and the Bank is available at [www.lakeshoresavings.com](http://www.lakeshoresavings.com).

## INVESTMENT RATIONALE

Operational focus on managing interest rate risk

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Commitment to an efficient operating profile

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Solid community banking core business

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Growth efforts focused on Western New York and increasing market share

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Investment in enhanced digital capabilities to meet customer’s technology needs

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Solid and stable asset quality metrics compared to industry peer average

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Capital ratios in excess of regulatory definition for well capitalized

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Experienced management with deep knowledge of service area

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# Proven Performance. Solid Results.

At Lake Shore Savings Bank we live by a simple philosophy – one that is difficult to duplicate. We believe that doing right by our customers to help them succeed allows our Bank to thrive while consistently generating solid and sustainable results for our shareholders.

In short, it's a win-win strategy that has delivered throughout our 123-year history. The value and resilience of that strategy has been affirmed in recent years through our track record of proven performance amid historically challenging economic conditions, unprecedented regulatory challenges, and fast-changing consumer preferences and expectations.

*Putting People First* is more than a slogan; it's a mindset that permeates our organization and keeps each of us focused on exceeding customer expectations and building lasting, meaningful relationships with individuals, businesses and organizations throughout the communities we serve.

For Lake Shore, 2014 was in many ways a year of transition during which we struck a prudent balance between continuing to generate solid returns for our shareholders, while executing on a long-term strategy which better positions the Bank to perform in a changing interest rate environment. Anchored by our strong capital position, operating efficiency and ongoing profitability, we were able to continue to invest in talent and technology, and take substantive steps to reposition our balance sheet. While these actions have reduced our near-term profitability, we are better positioned to benefit from the anticipated rise in interest rates, while maintaining the financial strength and flexibility to leverage opportunities to enhance or grow our franchise in an improving economy.

## 2014: Industry Challenges, Customer Opportunities

While we began to see positive economic signs in 2014, in many ways the aftershocks of the recession and the sluggish recovery continue to ripple through our industry. The Federal Reserve's cautious approach has extended the low interest rate environment considerably longer than many economists had predicted. For a local community bank that is deeply committed to our customers' success, this presents a formidable challenge for us.

While we welcome the highly favorable borrowing opportunities this environment provides our customers, the persistently low interest rates continue to apply significant pressure to margins and profitability.

During 2014 we continued to diversify the Bank's funding mix by focusing on core deposit growth and reducing dependence on more costly time deposits and borrowings. We also took important steps to shorten the duration of our interest-earning assets. In the simplest terms, while we will continue to be a competitive residential mortgage lender within our service area, we are placing a larger emphasis on underwriting quality commercial real estate and other business loans with shorter durations.

To that end, we added significant talent and depth to our commercial lending team, and focused on honing our commercial lending expertise. As part of this effort, we developed enhanced sales and strategy sessions aimed at identifying better ways to differentiate Lake Shore from the competition through unique capabilities, value-added expertise, and highly personalized service. The result has been more high-quality commercial loans on our books, as well as a re-energized banking team eager to help our customers succeed and grow their businesses. We're already beginning to realize a return on this investment, as we delivered commercial real estate loan growth of \$9.5 million, a 16.2% increase from year-end 2013.

Not only does this focus on commercial lending more effectively position Lake Shore for long-term profitable growth, but it also aligns with the growing optimism that we are hearing from our customers. Whether it's a hardware store in a small hamlet or a manufacturing firm

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Since 2009, we have grown core deposits by nearly 60% to \$204.8 million.

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## Core Deposit Growth

In millions; At 12/31



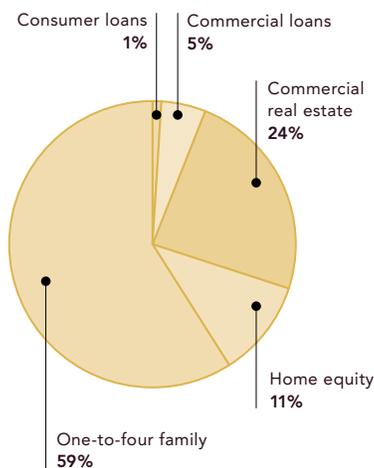
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We're preparing  
for a rising interest  
rate environment  
by shortening  
the duration of  
our portfolio.

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### Loan Portfolio Composition

At 12/31/14



expanding in the outskirts of Buffalo, there is renewed enthusiasm toward investing in growth that Lake Shore can help fund and facilitate. Further, we are also seeing signs of a ripple effect from the emerging revitalization of downtown Buffalo. Beyond the potential business and lending opportunities for Lake Shore, the improving economic climate in Buffalo has positive implications for the entire region.

### Invested in Technology, Committed to Efficiency

Another key area of focus has been the advancement and implementation of a robust digital platform that now offers our retail and commercial customers a full suite of capabilities that allow for convenient, swift and secure online transactions. Enhancements include the launch of mobile banking for retail use, improved bill payment services, and enhanced cash management applications for small businesses and commercial customers. While doing business with a smile and a handshake will always be core to Lake Shore's relationship strategy, we also know that customers want access to a full range of channels and user-friendly options to transact their banking at any time, from wherever they may be.

Investing in new technology not only makes banking easier and more convenient for our customers, but also benefits our Company by enabling improved, more streamlined processes that facilitate cost-savings or improve productivity. Maintaining an efficient expense profile is an essential tool for financial health and competitiveness in the current banking environment. Cost efficiency is also critical in the face of increased regulation that continues to demand more of the time, expertise and resources of local community banks such as Lake Shore.

### Delivering Sound Financial Performance

Our 2014 results reflect our measured long-term approach to managing our business along with a commitment to deliver solid and sustainable returns to Lake Shore shareholders. Throughout 2014 we focused on reducing the term of our interest-earning assets, while at the same time reducing our dependence on higher-cost fixed-rate time deposits. We sold longer-term securities and mortgage loans and reinvested the proceeds in interest-earning assets of shorter duration, while also focusing on growing our lower-cost core deposit funding base. In the near-term this impacts profitability, but over the longer-term positions the Bank for stronger performance and growth.

For 2014, we reported net income of \$3.2 million, or \$0.55 per diluted share, compared to net income of \$3.7 million, or \$0.65 per diluted share, for 2013. Our total assets grew by more than \$5 million to \$487 million at year end, up from \$482 million on December 31, 2013, and driven by growth in our commercial real estate loan portfolio of \$9.5 million. Our focus on growing transaction and savings accounts yielded solid core deposit growth of \$9.2 million or 4.7% at 2014 year end. Since 2009, we have grown core deposits by nearly 60%, to \$204.8 million. And, despite some upward movement in classified loans during the year, non-performing loans as a percentage of total loans were 1.66% at December 31, 2014, or 38 basis points below the average non-performing loans ratio for all national savings institutions as of December 31, 2014.

Further, our 2014 performance helped fortify our already solid capital base, with capital ratios exceeding all applicable regulatory requirements for well-capitalized banks. On December 31, 2014, the Bank's total capital to risk-weighted assets ratio was 25.71%, an increase of 63 basis points from 2013 year end. Meanwhile, Tier I capital to risk-weighted assets of 24.95% was up 59 basis points from December 31, 2013.

Lake Shore's Board of Directors continued to leverage the strength of the Bank's capital position to consistently enable us to pay cash dividends to shareholders. Our capacity to consistently deploy capital in the form of shareholder dividends is a steady reminder of the strength of our bank, as well as the commitment to returning value to shareholders. During 2014, cash dividends of \$0.28 per share of common stock were declared and based on the closing price of \$13.56 on December 31, 2014, the dividend provided an implied return to shareholders of 2.1% for the year.

## The Outlook for 2015

Although we see a generally improving economy for much of our service area, we expect the operating environment will remain challenging for community banks that face persistent headwinds fueled by continued low interest rates and the growing burden of regulatory requirements. Certainly, a rise in interest rates is inevitable, yet with the Federal Reserve signaling that rates will hold steady until at least mid-2015 or later, our focus is on effectively adapting to current conditions while positioning ourselves for the future.

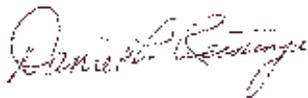
We are confident that our proactive steps and solid performance in 2014 will further enhance our competitive position this coming year. Our strong capital and liquidity positions not only provide a healthy level of insurance against changing economic or industry conditions, but also the flexibility to leverage opportunities to deploy capital in ways that can help strengthen our financial foundation and grow our capabilities or franchise.

In 2015, we expect to benefit from the full implementation of our digital banking platform from both a customer satisfaction and cost-efficiency perspective. While technology changes at a pace that requires consistent investment, the key elements of our platform are now fully functional and provide capabilities that match those of many larger banks. We are now in a strong position to make incremental upgrades and enhancements to assure that our technology remains current and will not require another large-scale investment in the near future.

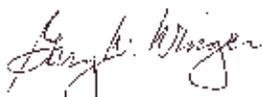
Moving forward, we will also continue to focus on our commercial lending business as we seek to add high-quality commercial credits to our balance sheet as a strategic step aimed at moderating future interest rate risk while expanding customer relationships and driving growth in our core deposit base. Our enhanced commercial lending focus is expected to generate more opportunities to partner with smaller financial institutions, either to originate commercial loans or participate in some meaningful way in larger lending opportunities. By further developing these strategic relationships in the regional banking community, we may identify potential opportunities to strategically grow our franchise or add to our branch network in future years.

Of course, none of our past success – or future aspirations – are possible without the very core of our business – our people. *Putting People First* encompasses both our customers and employees, and we remain committed to investing in our people, providing them with the training, tools and technology to deliver high-value personalized service while doing their jobs in the most efficient, effective and rewarding ways possible. We are proud of the exceptional team that we have assembled. The commitment and care they exhibit “on the job” can often be seen outside of working hours, as many Lake Shore employees are deeply involved in community and charitable efforts.

As noted at the onset of this letter, ours is a win-win strategy. We are committed and well positioned to provide the financial resources and services to help our neighbors, businesses and communities thrive — for it is only through their success that we are able to maintain our strength, achieve our goals, and return long-term value to our shareholders. On behalf of our Board of Directors, thank you for your continued faith and investment in Lake Shore Bancorp, Inc.



Daniel P. Reininga  
President and Chief Executive Officer



Gary W. Winger  
Chairman of the Board

From left to right:  
Gary W. Winger and  
Daniel P. Reininga

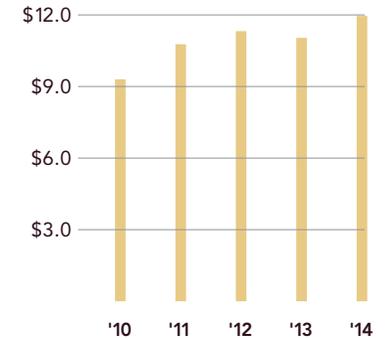
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Building sustainable  
shareholder value  
is our priority.

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## Book Value Per Share

At 12/31



Lake Shore's Commercial Banking team is focused on helping business owners thrive and grow.



# The Right Mix



Appointed as Lake Shore Savings Bank's Executive Vice President of the Commercial Division in August 2014, Jeffrey M. Werdein shares his insights on the commercial lending environment in Western New York.

## Commercial Lending Focus Supports Growth, Fortifies Balance Sheet

With Western New York's economy heading in the right direction, Lake Shore Savings Bank is focused on helping businesses build on that momentum.

The promising resurgence of downtown Buffalo has spawned a regional ripple effect of improving economic activity, particularly in the commercial real estate market. No doubt, some industries in Erie and Chautauqua counties continue to grapple with the lingering effects of the recession. For others, however, business is picking up to the extent that more focus is shifting to growth and expansion opportunities.

That business climate aligns well with two of Lake Shore's top priorities – helping local businesses thrive and grow while also achieving greater diversification of our loan portfolio. The shorter terms and improved profitability associated with commercial loans enable us to better balance risk and opportunity and enhance our profitability potential in preparation for a rising interest rate environment.

To that end, in 2014 we elevated our game when it comes to commercial lending. We added talent and technology and initiated best practices to create greater consistency in how we go to market and leverage our strengths of local decision making and personalized service. We are seeing positive results. For example, commercial real estate loans grew by \$9.5 million in 2014, representing a year-over-year increase of 16.2%.

Our approach is built on four pillars that serve as the foundation for smart and steady commercial loan growth that stands to benefit Lake Shore, our customers, and our shareholders.

- > **Protect the balance sheet.** For smaller community banks such as Lake Shore, financial strength and stability is paramount. We are not pursuing growth for the sake of growth but rather focusing on making quality loans to good, qualified borrowers with good, qualified projects. We want to be a commercial lender of first resort and will not sacrifice quality for quantity.
- > **Pursue a diversified lending portfolio.** We continue to add commercial loans to our portfolio as a means to reduce the term of our interest-earning assets, while also reducing our dependence on higher cost fixed-rate time deposits. We are focused on diversification within our commercial loan book of business, making sure we maintain a healthy mix of real estate loans for projects such as multi-family housing, office space, retail business space and warehouses while also financing sound small business and commercial and industrial (C&I) enterprises that bolster branch deposits.
- > **Promote the Lake Shore difference.** Lake Shore offers a unique value proposition grounded in our strong community presence, local decision making, and ready accessibility and flexibility. We don't have a 1-800 number like many bigger banks. All lending decisions are made locally, not by an out-of-town loan committee that does not fully appreciate and understand our community or customers.
- > **Provide personalized service.** Our commitment to Putting People First extends beyond our retail and residential customers. Behind every business venture are people aspiring to grow their enterprise and better their community. As local bankers, we partner with our customers to provide customized solutions and quality community banking service. We're all about building relationships that last long beyond that first loan.

We are committed to taking a purposeful and disciplined approach to diversifying our portfolio by adding a solid mix of commercial loans. Over time, we are confident this effort will make us a stronger, more versatile bank, while building long-term shareholder value.

The Lake Shore Savings Bank Mobile App is one of several recent technology enhancements that allow customers to do their banking from just about anywhere, at any time.



# Going Mobile

## New Digital Platform Offers Ease, Convenience for Customers

At Lake Shore Savings Bank, we pride ourselves in providing the personal touch. Our *Putting People First* approach means customers are greeted by friendly and familiar faces at our branches; our commercial bankers meet business owners on their turf; and a local human voice is just a phone call away to answer questions or address concerns.

Yet, we also know that providing personalized service increasingly means leveraging technology to make banking faster, easier and more convenient. That's why over the last several years we have made significant investments in enhancing our digital platform so our customers can bank from just about anywhere, at any time.

Our enhanced digital platform serves to complement our 11 branches in Erie and Chautauqua counties. Customers now have access to full online banking capabilities, such as improved bill payment services and mobile banking with our branded app that allows transactions from smart phones and tablets. We recently rolled out remote deposit capture that allows retail customers to scan checks and deposit funds through a mobile device rather than visiting an ATM or branch. Small business and commercial customers can also benefit from enhanced cash management applications.

This digital platform matches capabilities offered by competitor banks — an important factor as we ramp up our efforts to add more commercial accounts to our portfolio. In addition, electronic security is a top priority. Importantly, our digital platform features state-of-the-art security technology, and our mobile applications are provided by a reliable, secure source.

New technology doesn't just make life easier for our customers. The digital tools also help our staff operate more efficiently, further improving on our low-cost business model.

Ongoing investments in technology make Lake Shore more competitive and efficient while deepening relationships with our customers. That makes for a stronger bank, and adds long-term value for our shareholders.



Sonia Ortolano, Lake Shore Savings Bank Vice President, Management Information Systems, checks on a router that helps facilitate secure online and mobile banking technologies.

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We set ourselves apart by providing unmatched personal service to individuals, small businesses and community organizations.

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# Executive and Senior Management Team



**Daniel P. Reininga**  
*President and Chief Executive Officer*  
 Since 2011

**ADDITIONAL EXPERIENCE**  
**Internal:** Vice Chairman of Board of Directors, Executive Vice President and Chief Operations Officer  
**External:** Chairman of a real estate investment company



**Jeffrey M. Werdein**  
*Executive Vice President, Commercial Division*  
 Since 2014

**ADDITIONAL EXPERIENCE**  
**External:** Commercial banking positions with Citibank, Chase Manhattan, and Evans Bank



**Rachel A. Foley**  
*Chief Financial Officer and Treasurer*  
 Since 2006

**ADDITIONAL EXPERIENCE**  
**Internal:** Controller  
**External:** Internal auditor positions at M&T Bank



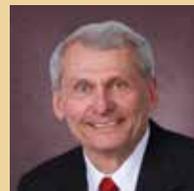
**Beverly Sutton**  
*Internal Auditor*  
 Since 1997

**ADDITIONAL EXPERIENCE**  
**Internal:** Assistant Auditor, Security Officer



**Nancy LaTulip**  
*Vice President, Commercial and Small Business Lending Erie County*  
 Since 2008

**ADDITIONAL EXPERIENCE**  
**External:** Retail banking and small business lending positions at Greater Buffalo Savings Bank, First Niagara and Key Bank



**Lou DiPalma**  
*Vice President, Commercial and Small Business Lending Chautauqua County*  
 Since 2003

**ADDITIONAL EXPERIENCE**  
**Internal:** Branch Manager  
**External:** Public- and Private-sector management experience



**Charles D. Brooks**  
*Assistant Vice President, Commercial Loan Officer*  
 Since 2011

**ADDITIONAL EXPERIENCE**  
**Internal:** Management Trainee, Branch Manager



**Steven Schiavone**  
*Controller*  
 Since 2008

**ADDITIONAL EXPERIENCE**  
**External:** Financial and/or tax accounting positions at Citigroup, Greater Buffalo Savings Bank, and M&T Bank



**Janinne Fiegl Dugan**  
*Vice President, Human Resources*  
 Since 1994

**ADDITIONAL EXPERIENCE**  
**Internal:** Management Trainee, Human Resources Benefits Officer



**Sonia Ortolano**  
*Vice President, Management Information Systems Officer*  
 Since 2004

**ADDITIONAL EXPERIENCE**  
**Internal:** Teller and MIS Assistant



**Cynthia Guenther**  
*Residential Loan Operations, Loan Servicing Manager and System Analyst*  
 Since 2010

**ADDITIONAL EXPERIENCE**  
**Internal:** Teller Supervisor, Customer Service Representative and Mortgage Originator



**Nicole May**  
*Compliance Officer*  
 Since 2002

**ADDITIONAL EXPERIENCE**  
**Internal:** Security Officer, Assistant Internal Auditor

# Board of Directors



**Gary W. Winger**  
*Chairman of the Board,  
Principal, Compass Consulting, Inc.*  
Director since 1997  
**BOARD COMMITTEES**  
Asset/Liability



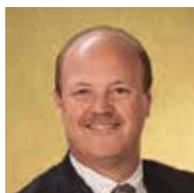
**Sharon E. Brautigam**  
*Partner, Brautigam & Brautigam, LLP*  
Director since 2004  
**BOARD COMMITTEES**  
Nominating and Governance, Compensation  
(Chairs Nominating and Governance Committee)



**Nancy L. Yocum**  
*Vice Chairperson of the Board, retired CPA and  
former Partner of Brumfield & Associates*  
Director since 1995  
**BOARD COMMITTEES**  
Audit/Risk (Chairs Committee)



**Reginald S. Corsi**  
*Former Executive Vice President and  
Chief Operations Officer of Lake Shore Bancorp, Inc.*  
Director since 2008  
**BOARD COMMITTEES**  
Audit/Risk



**Daniel P. Reininga**  
*President & Chief Executive Officer*  
Director since 1994  
**BOARD COMMITTEES**  
Asset/Liability



**David C. Mancuso**  
*Former President and Chief Executive Officer  
of Lake Shore Bancorp, Inc.*  
Director since 1998  
**BOARD COMMITTEES**  
Asset/Liability (Chairs Committee)



**Susan C. Ballard**  
*Chief Operating Officer of  
National Fire Adjustment Co., Inc.*  
Director since 2012  
**BOARD COMMITTEES**  
Nominating and Governance, Compensation



**Kevin M. Sanvidge**  
*Chief Executive Officer and Administrative Director of the  
Chautauqua County Industrial Development Agency*  
Director since 2012  
**BOARD COMMITTEES**  
Nominating and Governance, Compensation  
(Chairs Compensation Committee)



**Tracy S. Bennett**  
*CPA and Former Vice President of Administration,  
SUNY Fredonia*  
Director since 2010  
**BOARD COMMITTEES**  
Audit/Risk, Asset/Liability

## Selected Financial Data

Our selected consolidated financial and other data is set forth below, which is derived in part from, and should be read in conjunction with our audited consolidated financial statements and notes thereto, beginning on page F-1 of our 2014 Annual Report on Form 10-K.

| As of December 31,                       | 2014       | 2013       | 2012       | 2011       | 2010       |
|--|------------|------------|------------|------------|------------|
| <b>Selected Financial Condition Data</b> |            |            |            |            |            |
| <i>(Dollars in thousands)</i>            |            |            |            |            |            |
| Total assets                             | \$ 487,471 | \$ 482,167 | \$ 482,387 | \$ 488,597 | \$ 479,047 |
| Loans, net                               | 284,853    | 277,345    | 272,933    | 275,068    | 263,031    |
| Securities available for sale            | 138,202    | 157,964    | 159,368    | 164,165    | 153,924    |
| Federal Home Loan Bank stock             | 1,375      | 1,560      | 1,852      | 2,219      | 2,401      |
| Total cash and cash equivalents          | 35,811     | 17,202     | 19,765     | 23,704     | 33,514     |
| Total deposits                           | 386,939    | 388,235    | 378,543    | 379,798    | 375,785    |
| Short-term borrowings                    | -0-        | 11,650     | 11,200     | 6,910      | 5,000      |
| Long-term debt                           | 18,950     | 7,850      | 14,400     | 27,230     | 34,160     |
| Total stockholders' equity               | 71,630     | 65,271     | 66,985     | 63,947     | 55,210     |
| Allowance for loan losses                | 1,921      | 1,813      | 1,806      | 1,366      | 953        |
| Non-performing loans                     | 4,729      | 4,606      | 2,420      | 2,798      | 2,341      |
| Non-performing assets                    | 5,130      | 5,187      | 3,000      | 3,113      | 2,645      |

| For the year ended December 31,                      | 2014      | 2013      | 2012      | 2011      | 2010      |
|--|-----------|-----------|-----------|-----------|-----------|
| <b>Selected Operating Data</b>                       |           |           |           |           |           |
| <i>(Dollars in thousands, except per share data)</i> |           |           |           |           |           |
| Interest income                                      | \$ 17,879 | \$ 18,614 | \$ 19,650 | \$ 20,765 | \$ 19,926 |
| Interest expense                                     | 3,348     | 3,556     | 4,603     | 5,636     | 6,316     |
| Net interest income                                  | 14,531    | 15,058    | 15,047    | 15,129    | 13,610    |
| Provision for loan losses                            | 222       | 105       | 656       | 415       | 2,115     |
| Net interest income after provision for loan losses  | 14,309    | 14,953    | 14,391    | 14,714    | 11,495    |
| Total non-interest income                            | 2,235     | 2,092     | 2,030     | 1,666     | 3,454     |
| Total non-interest expense                           | 12,819    | 12,334    | 11,811    | 11,307    | 11,533    |
| Income before income taxes                           | 3,725     | 4,711     | 4,610     | 5,073     | 3,416     |
| Income taxes   | 567       | 968       | 984       | 1,393     | 373       |
| Net income   | \$ 3,158  | \$ 3,743  | \$ 3,626  | \$ 3,680  | \$ 3,043  |
| Basic earnings per common share                      | \$ 0.55   | \$ 0.66   | \$ 0.64   | \$ 0.65   | \$ 0.53   |
| Diluted earnings per common share                    | \$ 0.55   | \$ 0.65   | \$ 0.64   | \$ 0.65   | \$ 0.53   |
| Dividends declared per share                         | \$ 0.28   | \$ 0.28   | \$ 0.25   | \$ 0.28   | \$ 0.24   |

## Selected Financial Ratios and Other Data

| At or for the year ended December 31,  | 2014    | 2013    | 2012    | 2011    | 2010    |
|--|---------|---------|---------|---------|---------|
| <b>Performance Ratios</b>  |         |         |         |         |         |
| Return on average assets   | 0.65%   | 0.77%   | 0.74%   | 0.76%   | 0.67%   |
| Return on average equity   | 4.58%   | 5.64%   | 5.47%   | 6.15%   | 5.32%   |
| Dividend payout ratio <sup>1</sup>   | 50.91%  | 43.08%  | 39.06%  | 43.08%  | 45.28%  |
| Interest rate spread <sup>2</sup>  | 3.06%   | 3.19%   | 3.07%   | 3.14%   | 2.98%   |
| Net interest margin <sup>3</sup>   | 3.21%   | 3.34%   | 3.26%   | 3.34%   | 3.21%   |
| Efficiency ratio <sup>4</sup>  | 76.46%  | 71.92%  | 69.16%  | 67.32%  | 67.59%  |
| Non-interest expense to average<br>total assets                              | 2.63%   | 2.55%   | 2.40%   | 2.34%   | 2.54%   |
| Average interest-earning assets to<br>average interest-bearing liabilities   | 120.93% | 119.39% | 119.69% | 116.58% | 115.39% |
| <b>Capital Ratios</b>  |         |         |         |         |         |
| Total risk-based capital to risk<br>weighted assets <sup>5</sup>             | 25.71%  | 25.08%  | 23.77%  | 21.81%  | 20.44%  |
| Tier 1 risk-based capital to risk<br>weighted assets <sup>5</sup>            | 24.95%  | 24.36%  | 23.04%  | 21.27%  | 20.05%  |
| Tangible capital to tangible assets <sup>5</sup>                             | 13.16%  | 12.75%  | 12.14%  | 11.18%  | 10.28%  |
| Tier 1 leverage (core) capital to<br>adjustable tangible assets <sup>5</sup> | 13.16%  | 12.75%  | 12.14%  | 11.18%  | 10.28%  |
| Equity to total assets   | 14.69%  | 13.54%  | 13.89%  | 13.09%  | 11.52%  |
| <b>Asset Quality Ratios</b>  |         |         |         |         |         |
| Non-performing loans<br>as a percent of total net loans                      | 1.66%   | 1.66%   | 0.89%   | 1.02%   | 0.89%   |
| Non-performing assets<br>as a percent of total assets                        | 1.05%   | 1.08%   | 0.62%   | 0.64%   | 0.55%   |
| Allowance for loan losses<br>as a percent of total net loans                 | 0.67%   | 0.65%   | 0.66%   | 0.50%   | 0.36%   |
| Allowance for loan losses<br>as a percent of non-performing loans            | 40.62%  | 39.36%  | 74.63%  | 48.82%  | 40.71%  |
| <b>Other Data</b>  |         |         |         |         |         |
| Number of full service offices   | 11      | 11      | 10      | 10      | 10      |

<sup>1</sup> Represents dividends declared per share as a percent of diluted earnings per share.

<sup>2</sup> Represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the year.

<sup>3</sup> Represents the net interest income as a percent of average interest-earning assets for the year.

<sup>4</sup> Represents non-interest expense divided by the sum of net interest income and non-interest income.

<sup>5</sup> Represents the capital ratios of Lake Shore Savings Bank since Lake Shore Bancorp, Inc., as a savings and loan holding company, is not currently subject to formula-based capital requirements at the holding company level.

### Cautionary Statement

The statements contained herein that are not purely historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which statements generally can be identified by the use of forward-looking terminology, such as "may," "will," "expect," "estimate," "anticipate," "believe," "target," "plan," "project" or "continue" or the negatives thereof or other variations thereon or similar terminology, and are made on the basis of management's current plans and analyses of our business and the industry in which we operate as a whole. These factors in some cases have affected, and in the future could affect, our financial performance and could cause actual results to differ materially from those expressed in or implied by such forward-looking statements. Information on factors that could affect the Company's business and results are discussed in the Company's periodic reports filed with the Securities and Exchange Commission including the Company's annual report on Form 10-K for 2014. We do not undertake to publicly update or revise our forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

# Branch Locations

## Chautauqua County

128 East Fourth Street  
Dunkirk, New York 14048  
PHONE 716-366-4070  
FAX 716-366-2965



30 East Main Street  
Fredonia, New York 14063  
PHONE 716-673-9555  
FAX 716-679-0696



115 East Fourth Street  
Jamestown, New York 14701  
PHONE 716-664-1103  
FAX 716-664-1183



1 Green Avenue, WE  
Lakewood, New York 14701  
PHONE 716-483-3400  
FAX 716-483-3468



106 East Main Street  
Westfield, New York 14787  
PHONE 716-326-4414  
FAX 716-326-4422



## Erie County

570 Dick Road  
Depew, New York 14043  
PHONE 716-898-2022  
FAX 716-684-5069



5751 Transit Road  
East Amherst, New York 14051  
PHONE 716-688-6114  
FAX 716-688-5941



59 Main Street  
Hamburg, New York 14075  
PHONE 716-646-9480  
FAX 716-646-9481



3438 Delaware Avenue  
Kenmore, New York 14217  
PHONE 716-898-2010  
FAX 716-874-2057



3111 Union Road  
Orchard Park, New York 14127  
PHONE 716-674-2066  
FAX 716-674-4347



4950 Main Street  
Snyder, NY 14226  
PHONE 716-898-2101  
FAX 716-839-1404



- Corporate Headquarters
- Branch Location

# Shareholder Information

## Annual Shareholders Meeting

May 20, 2015  
 8:30 a.m.  
 Clarion Hotel  
 The Lighthouse Room  
 30 Lake Shore Drive East  
 Dunkirk, NY 14048

## National Stock Listing

The NASDAQ Global Market  
 under the symbol LSBK

## Special Counsel

Luse Gorman, PC  
 5335 Wisconsin Avenue, NW  
 Suite 780  
 Washington, DC 20015

## Independent Auditors

Baker Tilly Virchow Krause, LLP  
 20 Stanwix Street  
 Suite 800  
 Pittsburgh, PA 15222

## Transfer Agent and Registrar

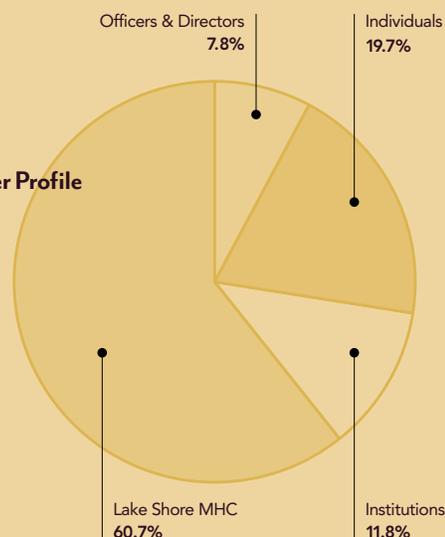
Computershare Shareholder Services  
 P.O. Box 30170  
 College Station, TX 77842-3170  
 (800) 368-5948  
[www.computershare.com/investor](http://www.computershare.com/investor)

## Investor Relations Contact

Rachel A Foley  
 Chief Financial Officer/Treasurer  
 (716) 366-4070 option 4 ext 1220  
[rachel.foley@lakeshoresavings.com](mailto:rachel.foley@lakeshoresavings.com)

## Shareholder Profile

At 12/31/14



## Lake Shore Savings Bank Officers

Daniel P. Reininga  
*President and Chief Executive Officer*

Jeffrey M. Werdein  
*Executive Vice President, Commercial Division*

Rachel A. Foley  
*Chief Financial Officer and Treasurer*

Janinne Fiegl Dugan  
*Vice President, Human Resource Officer*

Nicole May  
*Compliance Officer*

Sonia N. Ortolano  
*Vice President, MIS Officer*

Steven Schiavone  
*Controller*

Beverly J. Sutton  
*Internal Auditor*

Wendy J. Harrington  
*Corporate Secretary*

Louis P. DiPalma  
*Vice President*

John P. Huber  
*Vice President*

Nancy L. LaTulip  
*Vice President*

Beverly J. Mulkin  
*Vice President*

David P. Warren  
*Vice President*

Charles D. Brooks  
*Assistant Vice President*

Theresa M. Campanella  
*Assistant Vice President*

Adam J. Dimitri  
*Assistant Vice President*

Magdalena Dye  
*Assistant Vice President*

Barbara M. Fancher  
*Assistant Vice President*

Gabriele J. Maddalena  
*Assistant Vice President*

Nancy L. March  
*Assistant Vice President*

Sally A. Pyne  
*Assistant Vice President*

## OUR MISSION

At Lake Shore Savings, **Putting People First** means helping our Customers, energizing our Employees, respecting our Shareholders, and serving the Communities in our region.

Lake Shore's Mission is to deliver outstanding customer service and financial assistance to customers, building lasting relationships, and assisting customers in achieving their financial goals. Lake Shore Professionals will meet Customer and Bank needs in an environment providing professional growth opportunities and fair rewards.

We will be responsive to our Shareholders by maintaining a strong financial position as an independent bank with an emphasis on profitability, fair Shareholder returns, and bank safety and soundness. We will build on our success as a locally operated financial institution, to serve the financial needs of our Communities.

