



RIGHT PLACE RIGHT TIME RIGHT BANK



LAKE SHORE BANCORP, INC.
2017 ANNUAL REPORT



BUSINESS 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 is committed to maintaining an efficient expense profile, driving commercial loan portfolio growth, identifying and managing enterprise risk, and achieving prudent growth which builds long-term sustainable value for investors.

Lake Shore common stock is traded on the NASDAQ Global Market as “LSBK” and its 6.1 million shares, including 3.6 million mutual holding company (MHC) shares, had a “market cap” of approximately \$104.6 million on December 31, 2017. The Company had total consolidated assets of \$519.0 million and total deposits of \$405.2 million at the end of 2017.

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 125 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. Locally headquartered in Western New York, Lake Shore Savings Bank has retail locations in Depew, East Amherst, Hamburg, Kenmore, Orchard Park, Snyder, Dunkirk, Fredonia, Jamestown, Lakewood, and Westfield, where it offers a broad range of retail and commercial lending and deposit services. Additional information about the Company and the Bank is available at lakeshoresavings.com.

TABLE OF CONTENTS

LETTER TO SHAREHOLDERS	1
OPERATIONS REVIEW	4
SENIOR MANAGEMENT	10
BOARD OF DIRECTORS	11
SELECTED FINANCIAL INFORMATION	12
SHAREHOLDER INFORMATION	13

WILKESON POINTE SCULPTURE Buffalo’s waterfront has been transformed into a year-round destination through a combination of intelligent public and private investment. This development has expanded to include nearby residential developments and park projects such as Wilkeson Pointe on the Outer Harbor.

Cover photo: Ian MacDonald

LETTER TO SHAREHOLDERS

Lake Shore Savings Bank is not just a community bank. We are *this* community's bank. Western New York is where we started in 1891 and it's where we continue to operate today, more than 126 years later. It's where the families and businesses we serve are located. It's where our employees live and work. And it's where we see great potential for the future growth of our company.

RIGHT PLACE, RIGHT TIME, RIGHT BANK

Western New York's economy is expanding dramatically, and the region's resurgence is perhaps nowhere more evident than in the Buffalo metropolitan area. The developing waterfront has attracted Western New Yorkers and tourists alike to enjoy the shores of Lake Erie. On the Buffalo Niagara Medical Campus, health care, education and research institutions have come together to form a life sciences hub that is putting Buffalo on the map nationally. The real estate market is booming. And, new businesses are opening and expanding.

Change is also taking place within Western New York's banking industry, which has experienced significant merger-related disruption in recent years. We have capitalized on that disruption, attracting new consumer and commercial clients with our high-quality, personalized customer service and local decision making.

All of these changes are creating excellent opportunities right now for a locally owned and operated community bank.

Our financial institution has and will continue to be strategic in our approach to growing our business here in Western New York. We are focused on growing and diversifying our loan mix, with a primary focus on commercial loans. On the funding side, our focus is on expanding our low-cost, core deposits. We also continue to make enhancements to our branch delivery and banking channels in order to better serve our retail and business banking customers.

During 2017, we initiated a major shift within our branches, transitioning from primarily transactional based interactions to a true consultative financial partner for our customers. Our branch staff are evolving to true universal bankers, committed to providing customized financial solutions for each of our customers and making sure that the customer understands the breadth of Lake Shore's products and account offerings. Concurrently, we continue to make significant investments in our online and mobile banking offerings, because we understand that in today's world, a true community bank must be able to deliver superior service both in-person and online, or anywhere a customer chooses to bank.

2017 FINANCIAL PERFORMANCE

The investments that we've made helped drive solid performance and growth in 2017 for Lake Shore Savings Bank. We achieved a significant milestone midway through the year, as our total assets topped \$500 million for the first time. At year-end, total assets of approximately \$519 million were up 6.1 percent from December 31, 2016.

Total deposits at December 31, 2017 grew by \$19.3 million, or 5.0 percent, to \$405.2 million compared to December 31, 2016. Our continued strategic focus on growing low-cost core deposits was a primary driver in our deposit growth during 2017.

INVESTMENT RATIONALE

PRUDENT AND CONSERVATIVE APPROACH TO GROWTH AND RISK MANAGEMENT

EXPERIENCED MANAGEMENT WITH THOROUGH KNOWLEDGE OF SERVICE AREA

COMMITMENT TO AN EFFICIENT OPERATING PROFILE

OPERATIONAL FOCUS ON MANAGING INTEREST RATE RISK

SOLID COMMUNITY BANKING CORE BUSINESS

ONLINE BANKING ENHANCEMENTS SUPPORT BRANCH EFFORTS TO SECURE RETAIL AND COMMERCIAL DEPOSITS

CONTINUED INVESTMENT IN ENHANCED DIGITAL CAPABILITIES TO MEET CUSTOMERS' TECHNOLOGY NEEDS

CAPITAL RATIOS SIGNIFICANTLY IN EXCESS OF REGULATORY DEFINITION FOR WELL CAPITALIZED

COMMERCIAL LENDING GROWTH EFFORTS FOCUSED ON GAINING MARKET SHARE IN THE BUFFALO METROPOLITAN AREA

2017 HIGHLIGHTS

Net interest income increased \$1.6 million, or 10.2%, compared to the prior year

Year-end loans receivable (net) of \$365.1 million increased 11.9% compared to December 31, 2016

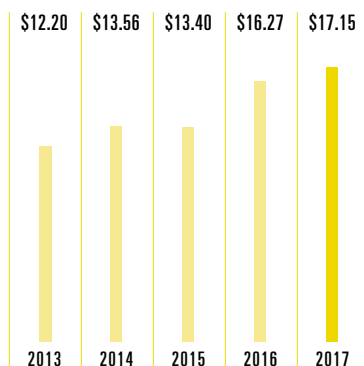
Total deposits grew by \$19.3 million, or 5.0%, to \$405.2 million compared to December 31, 2016

Net interest margin for 2017 improved by 17 basis points to 3.61% compared to 2016

Non-performing loans as a percent of total loans were 1.05% at December 31, 2017, an improvement of 75 basis points compared to the 2016 year-end

CLOSING STOCK PRICE

12/31



We are also very pleased with the loan growth we achieved in 2017, as our team focused on organically growing our commercial loan portfolios. Net loans at December 31, 2017 of \$365.1 million were up 11.9 percent compared to one year ago. Commercial loans, which made up 49.6 percent of total loans at year-end, were up \$41.8 million, or 30.0 percent, compared to the prior year.

Even as we grew our balance sheet, we delivered improved asset quality metrics. Non-performing loans as a percentage of total loans totaled 1.05 percent at December 31, 2017, an improvement of 75 basis points compared to the prior year-end. Our year-end allowance for loan losses as a percentage of nonperforming loans was 85.65 percent, up significantly from 49.13 percent at year-end 2016.

The quality and diversity of our balance sheet drove solid income generation in 2017. Net interest income for the full year 2017 increased \$1.6 million, or 10.2 percent, compared to the prior year. The Company's net interest margin for 2017 was 3.61 percent, a 17-basis-point improvement compared to 2016.

Net income for the full year 2017 was \$3.4 million, or \$0.55 per share, compared to \$3.5 million, or \$0.58 per share, in 2016. 2017 net income reflected a \$1.4 million decrease in non-interest income, a \$481,000 increase in non-interest expense and a \$410,000 increase in income tax expense, partially offset by increased net interest income and a \$615,000 decrease in our provision for loan losses.

The Tax Cuts and Jobs Act ("Tax Act") was enacted during the fourth quarter of 2017 and lowered the corporate tax rate from 34 percent to 21 percent, which will lower the Company's tax expense in future years. Generally accepted accounting principles require that the impact of the Tax Act be accounted for in the period of enactment. As such, the Company was required to write down the value of its net deferred tax assets as of December 31, 2017, to reflect the reduction in the corporate tax rate. The increased income tax expense was primarily due to the \$262,000 net deferred tax asset write-down related to the Tax Act, along with higher pre-tax income during 2017. Lake Shore expects to realize significant future benefit from the recent tax law changes that will more than make up for the one-time charge recognized in the fourth quarter of 2017. We are excited by the expected positive and ongoing earnings impact from tax reform, and believe that this reduction in corporate tax rates will accelerate efforts to build value for shareholders.

EXECUTING ON OUR STRATEGY FOR GROWTH

Looking towards the future, we plan to continue executing on our strategy for targeted and sustainable growth. We will continue to grow and diversify our non-interest income, enhance operating efficiency and utilize capital market tools in order to continue supporting Lake Shore Savings Bank's growth. We will also continue to mitigate enterprise risk, by shortening the term of our interest-earning assets and by increasing investments in liquid assets in order to take advantage of rising interest rates moving forward.

Since the company's public offering, we have grown our net loans from \$205.3 million at March 31, 2006 to \$365.1 million at the close of 2017, in large part due to our team's success in organically growing commercial real estate and commercial business lending. We've stayed true to our community bank roots, by building relationships with business customers in our market areas and offering customized, personal customer service, to allow these businesses the opportunity to contribute to the local economy in the areas where our customers and employees live and work. This strategy has proven successful and we see continued opportunity in this niche in the future. Further, we expect that our continued focus on originating shorter duration commercial business and real estate loans will improve our asset mix, reduce our interest rate risk and increase our net interest margin in future periods.

We are also providing the right products and services to respond to our customers changing needs. Among these are our concierge banking, Card Valet® and Benefits Checking, which offer an array of benefits and rewards for our customers. We understand that there is no one-size-fits all solution, and we've made it a priority to offer a wide variety of flexible and unique financial products and services to meet each individual customer's needs.

Lake Shore Savings Bank has made significant investments in its technology, enhancing mobile, online and ATM banking capabilities in order to help our customers bank when and where they want. We introduced mobile banking for our business banking customers, including the addition of business mobile deposit capture. Also, five ATMs in our network have been equipped with deposit capture technology, to provide added convenience. In 2017, we completed the conversion of all of our customers' debit cards to EMV chip cards, which provides better defense against fraud and counterfeiting. And, we have made it easier for prospective customers to join Lake Shore Savings Bank with the addition of online account opening to our website, lakeshoresavings.com.

COMMITTED TO BUILDING SHAREHOLDER VALUE

As a public company, we are committed to building lasting value for our shareholders. To that end, our strong capital ratios have allowed for organic growth without dilution to Lake Shore Bancorp shareholders' investments. For the year ended December 31, 2017, each of our capital ratios were significantly in excess of what regulators consider to be well-capitalized.

Our Board of Directors also views the consistent payment of dividends as an important component of how we reward our shareholders and as such, has declared a regular cash dividend during the past 10 years. During 2017, shareholders received total dividends of \$0.32 per share, a 14.3 percent increase compared to 2016. And, on February 8, 2018, our Board announced a \$0.02 increase to our quarterly cash dividend to \$0.10 per share, payable on March 15 to shareholders of record as of February 27. Based on the Company's closing stock price of \$16.45 on February 8, this represents an annualized dividend yield of 2.43 percent.

During 2017, we repurchased 17,100 shares of our common stock at an average price of \$15.75 per share. Our Board of Directors remains focused on maintaining an active program to repurchase our common stock in order to return capital to our shareholders.

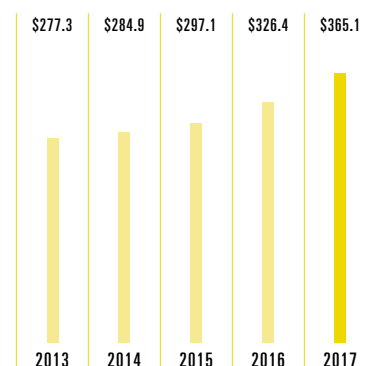
WELL-POSITIONED FOR SUCCESS IN 2018 AND BEYOND

After 126 years in business, we continue to be the local bank that cares about its customers and communities. We will continue to put our shareholders, customers and communities first with their best interests in mind, as we adopt new technology, products and services to meet their changing needs. With ample business opportunity right here in Western New York, strong loan pipelines and a talented, service-oriented team, we are well-positioned to achieve continued success in 2018 and the future.

This is the right place and the right time. And Lake Shore Savings Bank is without a doubt the right bank.

LOANS, NET

In millions at 12/31



Daniel P. Reininga
President and Chief Executive Officer

Gary W. Winger
Chairman of the Board

CANALSIDE has been central to Buffalo's rebirth and continues to fuel tourism, create jobs and increase economic opportunity for the entire region.



The developing waterfront has attracted Western New Yorkers and tourists alike to enjoy the shores of Lake Erie.



JOHN R. OISHEI CHILDREN'S HOSPITAL

The 12-story, 185 inpatient bed John R. Oishei Children's Hospital ensures pediatric and maternal services remain available for patients in the Western New York region.

At Lake Shore Savings Bank, we have always viewed community as the best possible investment, from both a philanthropic and business perspective. We're fully committed to nurturing the ties we have established with our home communities during our more than 125 years in business, and we couldn't be prouder to call Western New York home.

Throughout Erie and Chautauqua counties, where our 11 branches are located, we support athletic, educational, civic and charitable organizations and events through our Community Reinvestment Fund. As a locally headquartered company, we believe it's vital that we invest in programs which directly benefit the communities we serve.

From a business perspective, we see great potential in Western New York and especially in the Buffalo metropolitan area. While it's true that this region has battled through challenging economic times during the last four decades, Western New Yorkers are resilient and investments being made to develop employment opportunities in the health sciences, technology and clean energy sectors are producing results. These new jobs require a more educated workforce and offer more competitive wages that the area needs to retain graduates from our 20 colleges and universities.

Buffalo's burgeoning status as a center for life sciences is helping to drive the transformation of the region's economy. More than 12,000 people now work, study or volunteer at the Buffalo Niagara Medical Campus (BNMC), a consortium of the region's top health care, education, and research institutions. From the newly constructed University at Buffalo Jacobs School of Medicine and Biomedical Sciences and Kaleida Health's John R. Oishei Children's Hospital, to the expanded Roswell Park Cancer Institute, the progress and potential of the BNMC is clear.

Along with the transformation of Buffalo into a national health sciences hub, Western New York remains a pivotal location for international trade with its location in the heart of the Northeastern Trade Corridor, where more than 80 percent of all U.S.-Canada trade occurs. Buffalo remains a key border crossing location for the eastern United States with five area bridges to Canada.

Also fueling the economy's transition is the "Buffalo Billion," an investment by New York State intended to create even more jobs, particularly in the health and life sciences, advanced manufacturing and tourism industries, driving strong economic activity in the coming years.

We see great potential to attract new commercial banking relationships from the more than 60,000 businesses in and around Buffalo that generate more than \$97 billion in annual revenues.¹ In addition, we are well-positioned to serve retail customers in Erie County, which has a population of more than 900,000, through our six Buffalo-area branches. We also remain very committed to serving the needs of businesses and individuals in Chautauqua County, where we were established. With continued opportunity for growth, Western New York is clearly the **Right Place** for a local, service-oriented financial institution like Lake Shore Savings Bank.

RIGHT PLACE

¹ U.S. Census – American Fact Finder (Survey of Business Owners)



New businesses are opening and expanding, including in the growing craft beer industry.

BIG DITCH BREWERY Its name refers to the working name of the Erie Canal, the historic waterway that altered the trajectory of Buffalo and the Great Lakes region forever.



RIGHT TIME

With our 125+ year history of service to Western New York, Lake Shore Savings Bank has been here supporting this region through the full range of economic conditions. We were here from the nationwide depression in the 1890s that was responsible for the failure of many smaller banks, to the early 20th century when the relocation of Lackawanna Steel and Iron Company from Pennsylvania to Buffalo provided a significant economic lift to the region. Through the growth of Western New York in the 1920s into the onset of the Great Depression and the start of the shrinking of what had been the 13th-largest city in America, Buffalo, Lake Shore has been here.

With the decline of the area's steel manufacturing in the 1970s the region lost population along with many jobs that supported a thriving middle class and was forced to initiate a long slow climb to rebuild the local economy. During this challenging time Lake Shore Savings Bank supported the communities of Western New York and grew to \$100 million in assets by 1992 and then doubled in size to \$200 million by 2000.

Another major economic slowdown with roots in the housing crisis of 2007 also impacted Western New York, slowing the local economy and driving up unemployment during the "Great Recession" of 2008. But the region has made solid improvements since then, with private sector job growth increasing every month since April 2010. In addition, the Buffalo area economy continues to benefit from significant resources provided by New York State to help the region attract additional private investment and jobs from businesses seeking to access a talented and educated workforce. With more than 100,000 students studying at area colleges and universities, there are tens of thousands of new graduates each year available to satisfy that need.

The area's economy has realized a significant boast from nearly \$8 billion in construction in the City of Buffalo since 2013, and approximately \$19.2 billion in construction activity for the Western New York region as a whole. One of the most significant projects during this time was built on 88 acres in South Buffalo, where Republic Steel's Buffalo manufacturing facility once stood. In late 2017, technology innovator Tesla's Gigafactory 2 opened on this site. Tesla subsidiary SolarCity, in partnership with Panasonic, manufactures photovoltaic modules at the 1.2 million square foot production facility, the largest facility of its type in the Western Hemisphere. This year, the plant is expected to expand into manufacturing of individual solar cells and is projected to create 3,000 new permanent jobs.

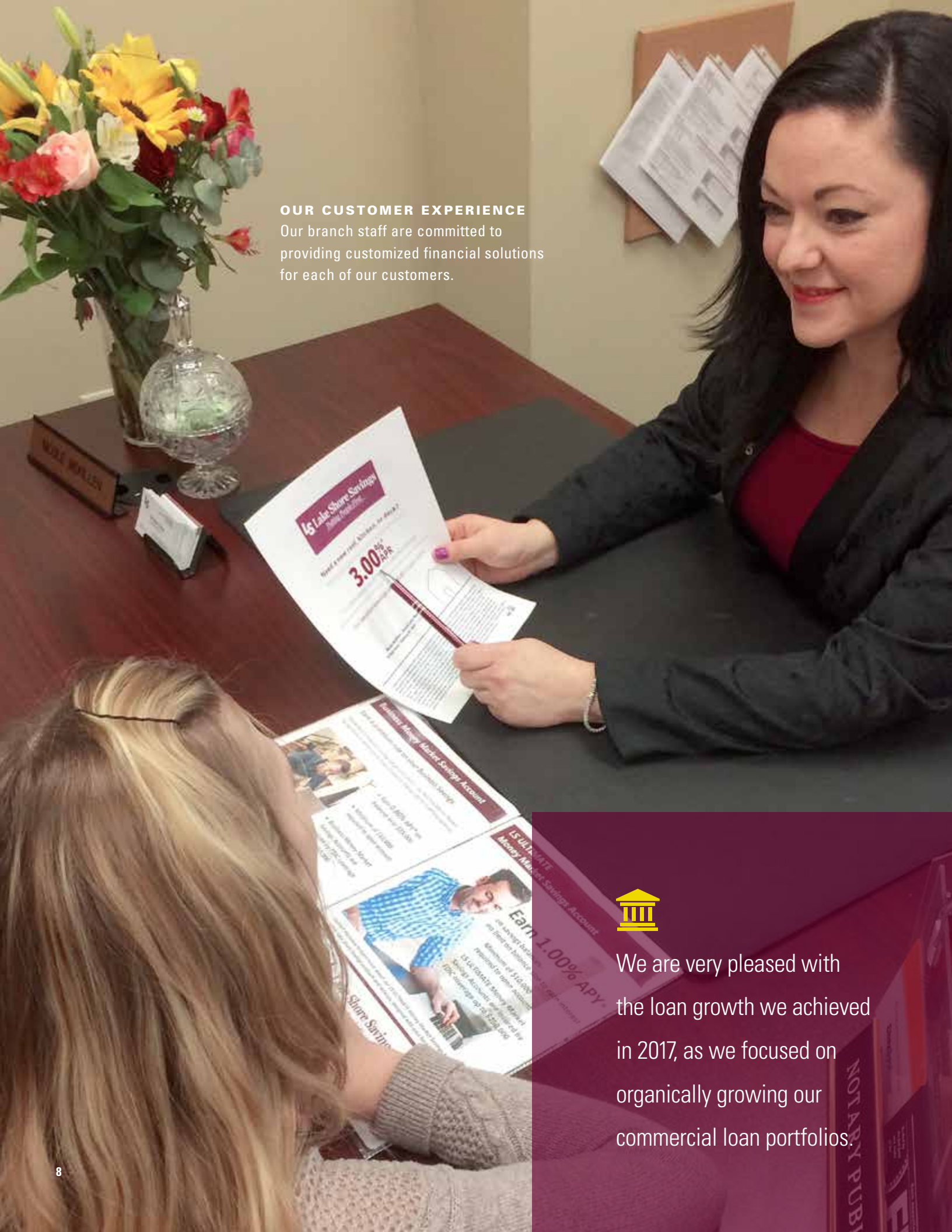
The region's overall economy has made a steady comeback, with unemployment averaging just 5% in 2016 and 5.2%² in 2017. In addition to significant growth in business, the local residential real estate market is very strong. Home prices increased 20.3%³ from 2006 to 2015, a growth rate which ranks fourth among the nation's top 100 metro areas. Even so, the Buffalo metropolitan area remains one of the most affordable housing markets in the U.S. according to a NAHB/Wells Fargo Housing Opportunity Index.

Lake Shore Savings Bank has been here for Western New York businesses and families through it all — during challenging periods when the region has struggled and those in which it has thrived. As always, we're here at the **Right Time** to help our customers benefit from the region's current economic upswing.

² New York State Department of Labor

³ According to Kiplinger's magazine, using data from Clear Capital





OUR CUSTOMER EXPERIENCE

Our branch staff are committed to providing customized financial solutions for each of our customers.



We are very pleased with the loan growth we achieved in 2017, as we focused on organically growing our commercial loan portfolios.



69 DELAWARE AVENUE The area's economy has realized a significant boost from nearly \$8 billion in construction in the City of Buffalo since 2013.

From the time we opened our first branch in downtown Dunkirk in 1891, we have provided the products and services our customers needed with an emphasis on quality customer service. And as our customers' needs and expectations have changed over time, we've changed with them, making the right investments in technology and people.

In the past, a bank branch was a place where customers would come to transact business — cash a check, make a deposit, or pay their mortgage. Providing superior customer service meant getting customers through the line as quickly and efficiently as possible. There was little conversation, aside from the small talk as pleasant exchanges and quick turnaround of processing transactions were keys to success.

Considering the current competitive banking environment, especially in the Western New York region, it was important that we offer a shift in the customer branch experience. It is no longer imperative for customers to rush in on lunch hours to transact business with the advent of platforms such as online and mobile banking. Younger and tech savvy customers value the convenience of being able to simply take a photo of a check with their smartphone and deposit it quickly and directly into their account. Our customers can make their mortgage payments or even pay bills simply by logging into their online account. These have become the "table stakes" for meeting the convenience needs of the modern banking customer, and Lake Shore Savings Bank is ready to play.

To compete with larger financial institutions, we invested in the systems necessary to make it easier than ever for our customers to bank whenever, wherever and however they want. This includes our more recent investments in the technology necessary to provide our customers with 24/7 account access.

As technology has provided convenient offsite and on-the-go banking access, the branch has also evolved. With more convenient options for handling many transactions, in-branch traffic across our industry has declined over time. This trend has necessitated a fundamental shift in branch staff, from transactional order-takers to proactive consultative professionals. Lake Shore Savings Bank has already recognized this change in service expectation and has actively responded by transitioning our branch staff to universal banker roles, and continuing our commitment to providing customized financial solutions for each of our customers, to accommodate an enhanced approach to service throughout our branch network. We have armed them with the skills needed to engage with customers and build relationships. Conversations have evolved from exchanging pleasantries to asking the right questions to ensure each customer is utilizing the best products and services to meet their individual lifestyle and financial needs.

As technology continues to evolve, Lake Shore Savings Bank remains committed to evaluating and deploying innovative conveniences to ensure our customers can interact with us through the channel of their choice. Customized solutions combined with one-on-one customer interactions have now become the gold standard for doing business and the defining factor of a true community bank such as Lake Shore Savings Bank. By "Putting People First" in all we do, both in-person and online, we are always striving to deliver superior service and do what's necessary to be the **Right Bank**.

RIGHT BANK

SENIOR MANAGEMENT

Daniel P. Reininga

President and Chief Executive Officer

SINCE 2011

Jeffrey M. Werdein

Executive Vice President,
Commercial Division

SINCE 2014

Rachel A. Foley

Chief Financial Officer and Treasurer

SINCE 2006

Beverly J. Sutton

Vice President of Banking Operations

SINCE 2015

Steven Schiavone

Controller

SINCE 2008

Janinne Fiegl Dugan

Vice President, Human Resources Officer

SINCE 1994

Sonia N. Ortolano

Vice President, Management
Information Systems Officer

SINCE 2004

Nicole May

Compliance and CRA Officer

SINCE 2002

Mark J. Peters

Internal Auditor and Enterprise Risk Manager

SINCE 2016

Brenda Mikolajczak

Assistant Vice President,
Marketing and Sales Director

SINCE 2016

BANK OFFICERS

Wendy J. Harrington

Corporate Secretary

Louis P. DiPalma

Vice President, CML Portfolio
Business Development Officer

John P. Huber

Vice President

Beverley J. Mulkin

Vice President

Charles D. Brooks

Assistant Vice President,
Commercial Loan Officer

Adam J. Dimitri

Assistant Vice President

Magdalena Dye

Assistant Vice President

Barbara M. Fancher

Assistant Vice President

Richard E. Greco, Jr.

Assistant Vice President

Amy Harding

Assistant Vice President

Gabriele J. Maddalena

Assistant Vice President

Sally A. Pyne

Assistant Vice President

Dylan P. Rubadeaux

Assistant Vice President,
Commercial Loan Officer

Scott T. Swan

Assistant Vice President

Hiroko Walters

Assistant Vice President

MILLENNIAL ADVISORY BOARD

Alex Czechowski

Student, State University of New York
at Fredonia

Casey DeMarco

Assistant Vice President, Associate
Relationship Manager, HSBC Bank

Brandon Ihrig

Math Teacher, Amherst High School

Kale Mann

President, Soar Into Your Destiny, Inc.

Dr. Sue McNamara

Assistant Professor and Internship
Coordinator, State University
of New York at Fredonia School
of Business

Chrissy Ortolano

Sales Operations and Training Specialist,
Hover Networks

Chris Phillips

Account Executive and
Project Manager, Accessium Group

Steven Przybyla

Executive Vice President of Business
Development and General Counsel,
Dent Neurological Institute

Molly White

Staff Attorney,
Center for Elder Law and Justice

BOARD OF DIRECTORS

Gary W. Winger

Chairman of the Board,
Principal, Compass Consulting, Inc.

DIRECTOR SINCE 1997

BOARD COMMITTEES
Asset/Liability, Loan

Nancy L. Yocum

Vice Chairperson of the Board,
Retired CPA and Former Partner of
Brumfield & Associates

DIRECTOR SINCE 1995

BOARD COMMITTEES
Chairs Audit/Risk

Susan C. Ballard

Branch Consultant for Hunt Real Estate ERA

DIRECTOR SINCE 2012

BOARD COMMITTEES
Nominating and Governance,
Compensation, Loan

Tracy S. Bennett

CPA and Former Vice President
of Administration, SUNY Fredonia

DIRECTOR SINCE 2010

BOARD COMMITTEES
Audit/Risk, Asset/Liability

Sharon E. Brautigam

Of Counsel, Brautigam & Brautigam, LLP

DIRECTOR SINCE 2004

BOARD COMMITTEES
Chairs Nominating and
Governance, Compensation

David C. Mancuso

Former President and Chief Executive Officer
of Lake Shore Bancorp, Inc.

DIRECTOR SINCE 1998

BOARD COMMITTEES
Chairs Asset/Liability, Loan

Jack L. Mehlretter

Vice President of Information Technology,
Gibraltar Industries

DIRECTOR SINCE 2016

BOARD COMMITTEES
Audit/Risk

Daniel P. Reininga

President and Chief Executive Officer

DIRECTOR SINCE 1994

BOARD COMMITTEES
Chairs Loan, Asset/Liability

Kevin M. Sanvidge

Former Chief Executive Officer and
Administrative Director of the Chautauqua
County Industrial Development Agency

DIRECTOR SINCE 2012

BOARD COMMITTEES
Chairs Compensation,
Nominating and Governance

Directors Emeritus

Michael E. Brunecz

Reginald S. Corsi

James P. Foley, DDS

SUMMARY SELECTED FINANCIAL DATA

AS OF DECEMBER 31, 2017 2016

SELECTED FINANCIAL CONDITION DATA

(Dollars in thousands)

Total assets	\$	518,977	\$	489,174
Loans, net		365,063		326,365
Total deposits		405,153		385,893
Total stockholders' equity		78,375		76,030

FOR THE YEAR ENDED DECEMBER 31, 2017 2016

SELECTED OPERATING DATA

(Dollars in thousands, except per share data)

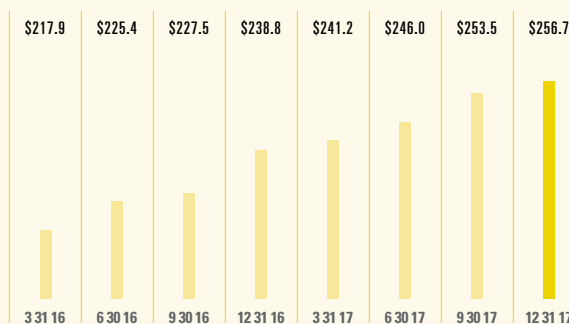
Interest income	\$	19,408	\$	17,518
Interest expense		2,630		2,294
Net interest income		16,778		15,224
Provision for loan losses		510		1,125
Total non-interest income		2,655		4,070
Total non-interest expense		14,360		13,879
Income before income taxes		4,563		4,290
Income taxes		1,185		775
Net income	\$	3,378	\$	3,515
Basic earnings per common share	\$	0.55	\$	0.58
Diluted earnings per common share	\$	0.55	\$	0.58
Dividends declared per share	\$	0.32	\$	0.28

Our selected consolidated financial and other data as set forth on this page, 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 2017 Annual Report on Form 10-K.

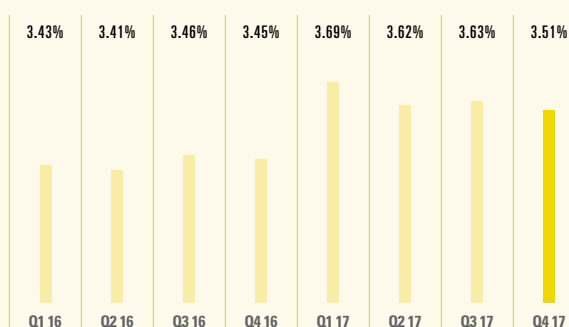
PERFORMANCE SUMMARY

CORE DEPOSIT GROWTH

IN MILLIONS

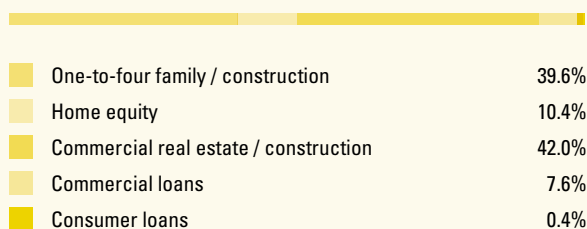


NET INTEREST MARGIN



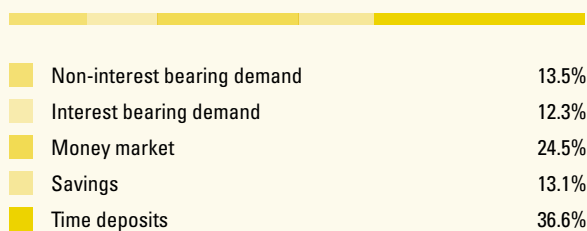
LOAN PORTFOLIO COMPOSITION

TOTAL LOANS = \$365.2 MILLION



DEPOSIT COMPOSITION

TOTAL DEPOSITS = \$405.2 MILLION



SHAREHOLDER INFORMATION

ANNUAL SHAREHOLDERS MEETING

May 16, 2018 – 8:30 a.m.
Clarion Hotel and Conference Center
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

BY REGULAR MAIL

P.O. Box 505000
Louisville, KY 40233-5000

BY OVERNIGHT DELIVERY

462 South 4th Street, Suite 1600
Louisville, KY 40202

(800) 368-5948

computershare.com/investor

INVESTOR RELATIONS CONTACT

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

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 2017. 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.

SHAREHOLDER PROFILE

AS OF MARCH 6, 2018

Lake Shore MHC	59.9%
Institutions	14.5%
Individuals	21.2%
Officers & Directors	4.4%

BRANCH LOCATIONS



Chautauque County

128 East Fourth Street
Dunkirk, NY 14048

30 East Main Street
Fredonia, NY 14063

115 East Fourth Street
Jamestown, NY 14701

1 Green Avenue, WE
Lakewood, NY 14701

106 East Main Street
Westfield, NY 14787

Erie County

570 Dick Road
Depew, NY 14043

5751 Transit Road
East Amherst, NY 14051

59 Main Street
Hamburg, NY 14075

3438 Delaware Avenue
Kenmore, NY 14217

3111 Union Road
Orchard Park, NY 14127

4950 Main Street
Snyder, NY 14226



Lake Shore Bancorp, Inc.

Putting People First.[™]