



2021 Annual Report
LAKE SHORE BANCORP, INC.

**Envisioning
a bright
banking future.**

A close-up photograph of a hand holding a stalk of grain, likely wheat or corn, against a bright, golden sunset background. The hand is positioned on the right side of the frame, with the fingers gently gripping the stalk. The background is a soft, out-of-focus field of similar grain, creating a warm and natural atmosphere. The overall color palette is dominated by warm tones of gold, orange, and brown.

TABLE OF CONTENTS

LETTER TO SHAREHOLDERS	1
TRUE COMMUNITY BANKING	6
BOARD OF DIRECTORS SENIOR MANAGEMENT AND BANK OFFICERS	12
SUMMARY OF FINANCIAL INFORMATION SHAREHOLDER INFORMATION	Inside back cover

Shareholder Letter

DEAR SHAREHOLDERS, CUSTOMERS, PARTNERS AND FRIENDS,

Though 2021 posed its own unique set of challenges, we closed out the year hopeful for what lies ahead. Encouraged by the resilience of our community, and inspired by the success of our customers, we look forward to the bright banking future that awaits all who partner with us.

With the continued COVID-19 restrictions placed on our region, we are incredibly proud of our team and their dedication to the delivery of outstanding benefits and support to our shareholders, customers and communities. Together, we have been there to offer expert financial services despite the shifting landscapes of our world and the obstacles and opportunities that have emerged in their wake. For more than 130 years, Lake Shore Savings has worked to make banking the best it can be for Western New York. As the success of the last year made clear, it's a commitment we always keep front and center. Our 2021 operating highlights include:

- The outstanding success of the commercial team in originating a record volume of loans, managing loan forgiveness for existing Paycheck Protection Program (PPP) loans and processing a new round of PPP loans during 2021, to help our commercial borrowers navigate unprecedented circumstances.
- The retail lending team had a robust, record-breaking year for loan originations as a result of the low interest rate environment, which provided opportunities for customers to purchase their first home, renovate their existing home, refinance their mortgage or move to a new home, contributing to growth and stability in the communities that we serve.
- In further support of our market areas, Lake Shore Savings supported non-profits, sponsored important causes and set local businesses up for success with small business grants through the Federal Home Loan Bank of New York (FHLBNY).
- A smooth transition to a new and innovative core processing platform for handling deposit and loan transactions, which increased operational efficiencies and resulted in improved services to our customers including advanced digital and mobile banking, improved security features for debit cards and account transactions, new bank-to-bank funds transfer features, direct integration with accounting software and updated personal financial management solutions.
- The board of directors' dedication and wisdom to support the Company's initiatives, including the core conversion, and provide strategic guidance, thereby enhancing the value of Lake Shore Bancorp, Inc.

Along with every other business, our Company had to face the challenges presented by the ongoing COVID-19 pandemic, from reduced staffing caused by illness to customer concerns over meeting face-to-face to handle banking needs. We navigated these challenges smoothly by staying flexible and receptive to the needs of our customers and employees. Today, we continue to evolve to provide unmatched service to meet the changing needs of our customers.

2021 Highlights

4.0%

TOTAL ASSETS at December 31, 2021 of \$713.7 million, an increase of \$27.5 million compared to prior year

36.4%

BASIC EARNINGS PER SHARE increased 36.4% to \$1.05 compared to \$0.77 in prior year

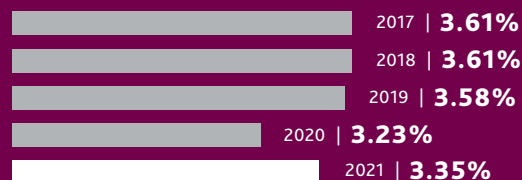
35.7%

NET INCOME increased 35.7% from \$4.6 million to \$6.2 million, primarily due to increased net interest margin and lower provision for loan losses

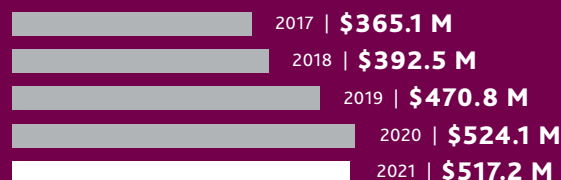
5.9%

TOTAL DEPOSITS increased by \$32.9 million, or 5.9% primarily due to \$54.9 million increase in core deposits, offset by runoff in the CD portfolio

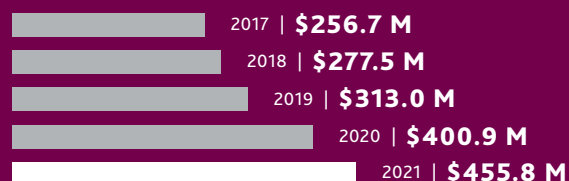
NET INTEREST MARGIN



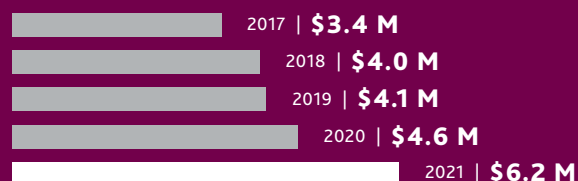
LOANS, NET



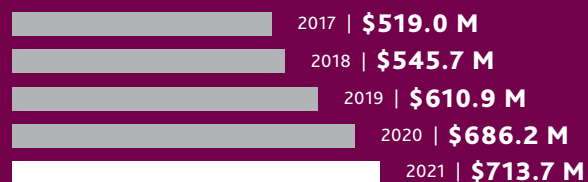
CORE DEPOSITS



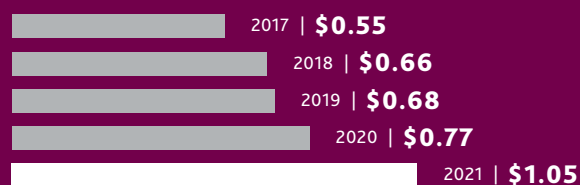
NET INCOME



TOTAL ASSETS



BASIC EARNINGS PER SHARE



FINANCIAL PERFORMANCE

We are pleased to report significant growth in both total assets and net income with the closing of 2021, achieving consistent growth and improved financial performance for our shareholders. In 2021, we grew assets and deposits, reported record earnings and increased dividends. The Company exceeded the \$714 million asset mark during the year, growing total assets by 4.0% from the prior year end. Cash and cash equivalents increased by \$24.6 million primarily due to a 5.9% increase in deposits and cash received from loan payoffs, partially offset by the use of funds to originate loans, pay off long term borrowings, and purchase investment securities. We experienced remarkable growth in loan originations during 2021 with \$89.6 million in commercial loan originations (including PPP loans) and \$74.4 million in residential and consumer loan originations. Loans receivable, net decreased \$6.9 million, or 1.3%, primarily due to commercial real estate and commercial business loan pay-downs, which included PPP loan forgiveness, that was partially offset by new loan originations. For the year ended December 31, 2021, the Company reported unaudited net income of \$6.2 million, or \$1.05 per diluted share, as compared to \$4.6 million, or \$0.77 per diluted share, for the year ended December 31, 2020.

Net income growth was positively impacted by a 12 basis point increase in net interest margin as a result of lower market rates on the cost of funds. Net income was also impacted by a \$1.0 million decrease in provision for loan losses. In 2020, the Company's provision for loan losses was primarily due to an adjustment of certain qualitative factors to take into account the uncertain impact of the COVID-19 pandemic on economic conditions and borrowers' ability to repay loans. As the economy improved in 2021 with businesses reopening, vaccine rollout and federal government stimulus support, it was not necessary to set aside additional reserves due to the pandemic.

SHAREHOLDER VALUE

The Company's shareholders received a 10% increase in dividend payments during 2021 to \$0.54 per share. Furthermore, the Company repurchased 150,542 shares of its outstanding stock at an average cost of \$14.98 per share during 2021 to improve shareholder value. The book value per share improved to \$15.45 at December 31, 2021 as compared to \$14.75 book value per share at the end of 2020. As we look to the future, we intend to retain our focus on shareholder value as part of our overall strategic plan to grow the Company in a measured and profitable manner. Our capital ratio remains above 11% providing us with the strength needed to proceed with our growth initiatives.

PUTTING PEOPLE FIRST

Our Company has been in existence for more than 130 years, and it has been sustained by building relationships one person or one business at a time. We are driven by seeing our customers excel, via the joy of home ownership, expansion

of an existing business, or the start of a new business, by helping a child open a savings account or a family plan for college expenses. Our staff is focused on delivering exceptional customer service to meet customer expectations however, wherever and whenever the need arises. Our digital services are supported by superior in-person assistance at one of our convenient locations or by contacting our call center for direction. The Company's focus on customer experience is geared to providing a custom solution that meets the customer's individual needs, while maintaining the integrity of the regulatory environment in which we serve.

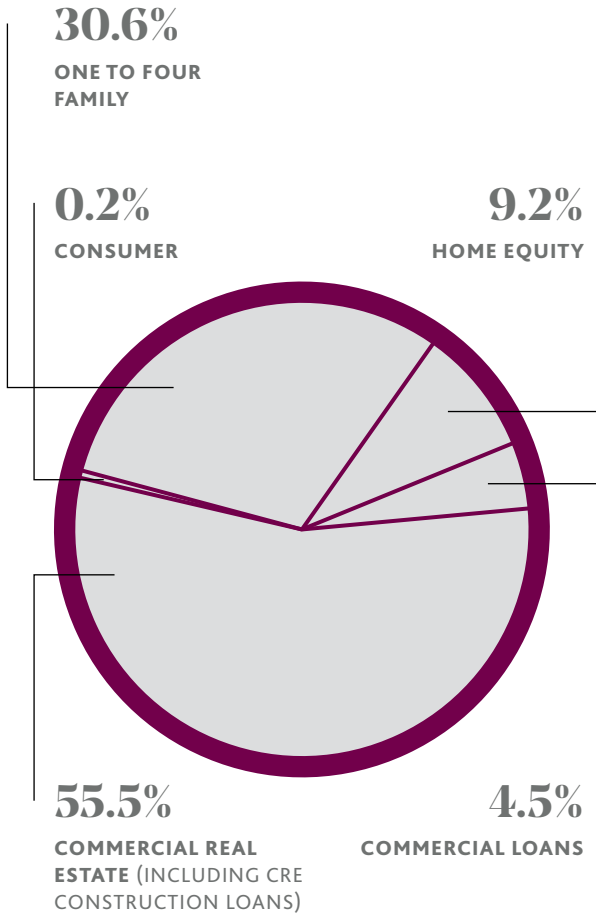
COMMUNITY SUPPORT

Our strategic efforts remain focused on supporting the communities we serve by providing assistance to non-profits, both in financial contributions and the volunteer work of our dedicated employees. One of the many organizations we supported during 2021 was the Roswell Park Herd of Hope to further the critical cancer research at Roswell Park Comprehensive Cancer Center, headquartered in Buffalo, NY, in memory and support of our employees and customers who have been impacted by cancer. In conjunction with organizations and corporations throughout Western New York, we are proud to be part of the unified effort to find a cure for cancer. In the fight against cancer, there's strength in numbers.

As we look to the future, we intend to retain our focus on shareholder value as part of our overall strategic plan to grow the Company in a measured and profitable manner.

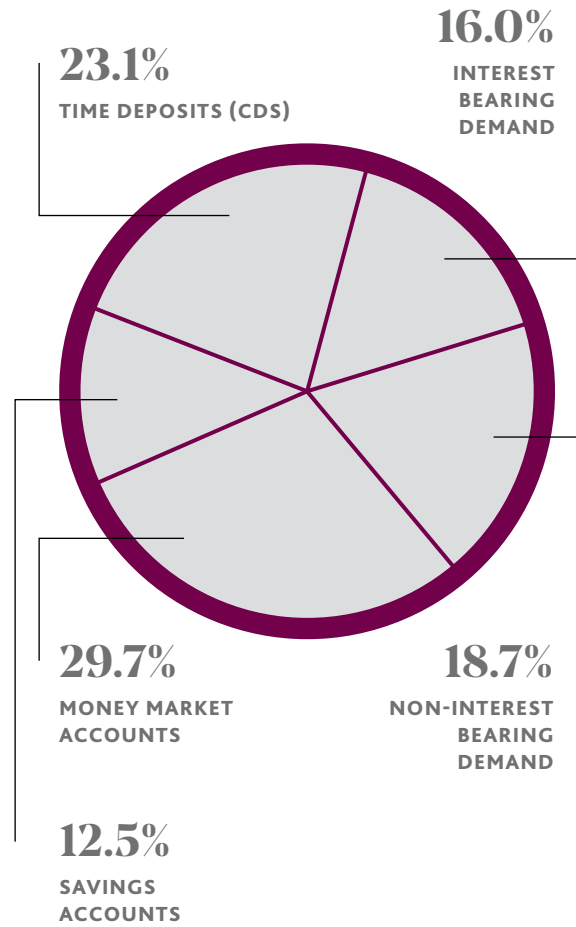
**LOAN
COMPOSITION**

as of December 31, 2021

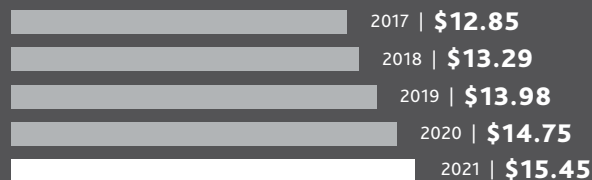


**DEPOSIT
COMPOSITION**

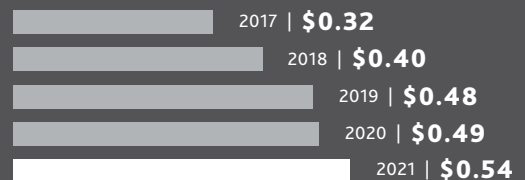
as of December 31, 2021



BOOK VALUE PER SHARE



**ANNUAL DIVIDENDS
PAID PER SHARE**



CHANGES TO OUR BOARD

In February 2022, we welcomed Michelle M. DeBergalis to our board. Michelle is the president and CEO of American Realty Group, Inc., a real estate services corporation, and was formerly the chief operating officer at McGuire Development Company, LLC. Her significant executive-level real estate development experience in both the public and private sectors, along with her strategic understanding of the region, will benefit our employees, customers and shareholders alike. She is a very valuable addition to our team.

FUTURE FOCUS

Our Board of Directors remains focused on the governance of the Company to ensure that its strategic direction is based on the Company's foundation of relationship building, customer service and community service. Our Company is well positioned for a bright banking future ahead, with strong capital levels, sustained growth and strategic focus on its customers, employees, communities and shareholders. As we move forward in 2022 and beyond, we will continue to improve our ability to serve our customers and market areas by leveraging the use of our new core processing platform to create operational efficiencies, by strengthening existing relationships and continuing outreach to bring new customers to our "community-minded" banking services, by establishing strategies to drive growth resulting in increased value to our shareholders and by supporting, training and recognizing our staff members for their talents and accomplishments.



Daniel P. Reininga

Daniel P. Reininga
President and Chief Executive Officer



Kevin M. Sanvidge

Kevin M. Sanvidge
Chairman of the Board

MICHAEL E. BRUNECZ DEDICATION:

Honoring the legacy of our former chairman.

Michael Brunecz served as chairman of our board of directors from 1993 to 2013, guiding Lake Shore Savings through a significant period of growth and progress with his visionary leadership. In honor of his contributions to our organization, his lasting legacy and his well-deserved retirement, Lake Shore Savings unveiled the "Michael E. Brunecz Administration Building" on June 24, 2021.





CLARKSBURG CIDER

Supporting the sweet success of a craft cider startup.

MICHAEL ROBB,
CEO/Owner

Combining their affinity for the outdoors with their love for finely crafted beverages, Michael Robb, Bryan LeFauve and Larry Robb launched Clarksburg Cider in 2021. Thanks in part to the financial insights and guidance offered by Jeff Werdein, EVP, Commercial Division for Lake Shore Savings, the cider trio has taken advantage of every juicy opportunity.



Today, their beverages are stocked in over 300 stores, restaurants and bars. Their cidery/restaurant, The Tap Room at Clarksburg Cider, has been equally successful, offering customers fine cuisine and cider in an elevated yet approachable atmosphere. But through all the success, the company remains committed to their mission:

“To support local community, redefine what a true craft cider can be and never get too big for our britches.”

Like any business just starting out, Clarksburg Cider needed capital and a bank that could see their vision—and help make it a reality. At Lake Shore Savings, they found that and more.

“Someone like Jeff Werdein isn’t just our banker, he is our advisor and now, friend. We have been a customer of Lake Shore Savings for over a decade with our other businesses, and our experience with Clarksburg Cider has only strengthened the relationship we have with Lake Shore.”

The bank guided Clarksburg Cider through obtaining a PPP loan so they could continue to grow and operate despite the pandemic, while providing counsel and insights that allowed the craft cider company to fully utilize the financing options available to them.

“Lake Shore Savings has been more than just a financing option. They have been a true partner.”

Even through the challenges of the past few years, partner Bryan LeFauve has appreciated Lake Shore Savings’ willingness to find tailored solutions, versus institutions

that rely on cookie-cutter products to address their clients’ concerns.

“With many banking institutions, a customer is only a number or a line on a financial statement. We have never felt that way with Lake Shore Savings and the challenges of the last two years have not changed that feeling.”

But of course, the responsiveness and timeliness of solutions remain exceedingly important to the partners of Clarksburg Cider. Like most industries, time is money in the cider business.

“When we have a problem, they work to get it solved, and fast.”

Today, Clarksburg Cider continues to craft delicious hard cider and delight countless thirsty enthusiasts with the backing of a financial partner they can trust. Together with Lake Shore Savings Bank, the partners of Clarksburg Cider are sipping something especially exquisite: success.

“We need options to grow our business and make the best decisions for our company. Lake Shore serves customers like us well. We get a level of service and access that you wouldn’t get at a big bank if you weren’t a Fortune 500 company.”





JON PALMERI,
Owner

JONNY THE BARBER

Building a blossoming relationship with a beloved local barber.



A hardworking “Kenmore-Tonawanda kid.” A lot of hard work (and little bit of luck). And a “hair empire” that’s evolved from humble roots in his parents’ garage to, today, three locations around Western New York. That’s the journey Jon Palmeri (aka Jonny the Barber) has been on—and Lake Shore Savings Bank has helped him on his way.

“Lake Shore was simply amazing. They were very fair with rates and terms for us.”

As a barber, Jon Palmeri knows the magic that interpersonal connections can bring to a business or interaction. So when he received a glowing recommendation from a friend to bank at Lake Shore with Dylan Rubadeaux, VP, Commercial Loan Officer, he felt good about the ease and depth of relationship that developed from there.

“Any questions [are] answered with a text or quick call. I finally feel like I have the relationship with a local bank which I’ve been searching for...[that] can help me grow my business to whatever I can imagine.”

In particular, Jon Palmeri credits the fair rates and terms provided by Lake Shore as having paved the way for his expanding business, growing from a single small



barbershop to today’s network of locations on Delaware Avenue in the Town of Tonawanda, downtown Buffalo and, coming soon, a salon in Williamsville. He feels he’s found his kindred banking spirits in the “people helping people” attitude he’s experienced at every step of the way. Even through potentially complicated deals, the seamless nature of the transactions has allowed his business to continue to grow.

“As a customer, you can tell the Lake Shore Savings Bank team members are truly masters of their field and know how to get the deals done. Well done.”

Personal care. Straightforward interactions. A friend you can trust in the business. It seems it’s no coincidence that the level of service Jon Palmeri provides as a barber is mirrored in the bank he chooses to call his financial home. And today, we’re proud that he recommends Lake Shore to “anyone looking for a bank” that will help them grow their business.

MATT GREEN,
Co-Owner

BRIAN GREEN,
Co-Owner



Fueling a full-service real estate group's full potential.

THE GREEN ORGANIZATION

The Green Organization is a full-service real estate group that specializes in multifamily real estate acquisitions and ground-up construction. Their established management team has been successfully acquiring and operating multifamily properties for over 30 years. For father-son team Brian and Matt Green, having a financial partner that understands them has made all the difference. With Dylan Rubadeaux, VP, Commercial Loan Officer at Lake Shore Savings, the Greens have had the benefit of committed financial counsel and expert advice.

“Working with Lake Shore Savings has been key because they understand our business. What impresses us is that they have the vision to see the opportunity. They add valuable insight into the repositioning or construction of a project.”

Lake Shore Savings helped The Green Organization finance the modern and elegant Forest Green Apartments, which became a highly profitable investment for the company. The Green Organization has valued having a financial partner that believes in their vision and their ability to execute on it.

“Working with Lake Shore Savings has allowed us to grow faster with the flexibility that the bank offers.”

But what Brian and Matt Green have valued most is Lake Shore Savings' ability to work through nuanced challenges that call for customized strategies.

“They look at a project from multiple angles. Finding the best and most cost-effective path has always been their priority.”

The expertise and experience the company has in value-add acquisitions, new construction, property management and maintenance, and leasing serve The Green Organization well to this day. With the backing of Lake Shore Savings, Brian and Matt Green of The Green Organization continue to lead their company from one profitable venture to the next, adding over \$80 million in new assets to their multifamily portfolio over the last five years.

“Lake Shore Savings Bank has always worked to create a valuable working relationship along with competitive deal terms.”

Nancy Yocum Retirement

In 1995, Nancy Yocum joined the Company's Board of Directors as our first woman board member and has served with dedication for 27 years. Mrs. Yocum has been an integral part of the Bank's growth from three branches in Chautauqua County to 11 branches, including expansion into the Erie County market area. When she joined the Board, total assets were less than \$130 million. She chaired our Audit and Risk Committee with keen insights and industry knowledge. In 2006, after the Company's transition to a public company, she successfully transitioned her duties as Audit and Risk Committee Chair to meet the Securities and Exchange Commission requirements for financial reporting. Throughout her tenure, Mrs. Yocum has demonstrated an enduring desire to learn and grow. Her tireless work ethic and one-of-a-kind personality will be missed by all who worked with her. We extend to Mrs. Yocum our sincere gratitude and appreciation for the service and leadership she has provided to the Company and the Bank.





Top row JOHN P. MCGRATH TRACY S. BENNETT RONALD J. PASSAFARO DANIEL P. REININGA, President and Chief Executive Officer KEVIN M. SANVIDGE, Chairman of the Board JACK L. MEHLTRETTER

Bottom row CATHARINE M. YOUNG NANCY L. YOCUM SHARON E. BRAUTIGAM, Vice Chairperson of the Board

Right: MICHELLE M. DEBERGALIS



COMMERCIAL LENDING AND OTHER OFFICERS

- BARBARA M. FANCHER, Vice President, Commercial Credit Administration Manager
- WENDY HARRINGTON, Corporate Secretary
- MICHAEL R. NOVILLE, Vice President, Commercial Loan Officer
- CHERIE RINDFLEISCH, Vice President, Commercial Loan Officer
- DYLAN P. RUBADEAUX, Vice President, Commercial Loan Officer

BRANCH MANAGEMENT OFFICERS

- ADAM J. DIMITRI, Vice President, Regional Sales Officer
- AMY HARDING, Vice President, Regional Sales Officer
- GABRIELE J. MADDALENA, Vice President, Regional Sales Officer
- CHRISTINA SCHWINDLER, Vice President, Regional Sales Officer
- SAMANTHA GOLOMBEK, Assistant Vice President, Regional Branch Sales Manager

MILLENNIAL ADVISORY BOARD MEMBERS

- BRANDON IHRIG, Math Teacher, Amherst High School
- KALE MANN, President and Pastor, Soar Into Your Destiny, Inc., Faith Temple Community Church
- DR. SUE MCNAMARA, Associate Professor and Internship Coordinator, SUNY Fredonia
- PETER MOLL, Human Resource Generalist, Lake Shore Savings Bank
- CHRISSY ORTOLANO, Account Manager, Trusted Nurse Staff
- CHRIS PHILLIPS, Internal and IT Audit Manager, Kaleida Health
- STEVEN PRZYBYLA, General Counsel, 22nd Century Group, Inc.
- BRITTANY SANVIDGE, Brand Communications Manager, PostProcess Technologies
- MOLLY WHITE, JD/MELP, Vermont Law School



Top row MARK J. PETERS, Internal Auditor and Enterprise Risk Manager JANINNE FIEGL DUGAN, Vice President, Human Resource Officer DANIEL P. REININGA, President and Chief Executive Officer SUSAN C. BALLARD, Executive Vice President, Retail, Sales and Marketing STEVEN SCHIAVONE, Controller and Principal Accounting Officer RACHEL A. FOLEY, Chief Financial Officer and Treasurer

Bottom row NICOLE MAY, Compliance and CRA Officer JEFFREY M. WERDEIN, Executive Vice President, Commercial Technology Division SONIA N. ORTOLANO, Vice President, Information Technology

Not pictured: BEVERLY J. SUTTON, Vice President of Retail Banking Operations

SELECTED FINANCIAL DATA

Our selected consolidated financial and other data is set forth below and is derived from, and should be read in conjunction with, our audited consolidated financial statements and notes thereto, beginning on page F-1 of our 2021 Annual Report on Form 10-K.

SELECTED FINANCIAL CONDITION DATA

As of December 31,
(Dollars in thousands)

	2021	2020
TOTAL ASSETS	\$ 713,739	\$ 686,200
LOANS, NET	517,206	524,143
SECURITIES AVAILABLE FOR SALE	88,816	79,285
FEDERAL HOME LOAN BANK STOCK	1,606	1,905
TOTAL CASH AND CASH EQUIVALENTS	67,585	42,975
TOTAL DEPOSITS	593,184	560,259
LONG-TERM DEBT	21,950	29,750
TOTAL STOCKHOLDERS' EQUITY	87,976	85,924
ALLOWANCE FOR LOAN LOSSES	6,118	5,857
NON-PERFORMING LOANS	9,634	3,103
NON-PERFORMING ASSETS	9,757	3,161

SELECTED OPERATING DATA

For the year ended December 31,
(Dollars in thousands, except per share data)

	2021	2020
INTEREST INCOME	\$ 24,659	\$ 24,336
INTEREST EXPENSE	2,665	4,404
NET INTEREST INCOME	21,994	19,932
PROVISION FOR LOAN LOSSES	650	1,625
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	21,344	18,307
TOTAL NON-INTEREST INCOME	3,188	2,992
TOTAL NON-INTEREST EXPENSE	17,057	15,917
INCOME BEFORE INCOME TAXES	7,475	5,382
INCOME TAXES	1,288	824
NET INCOME	\$ 6,187	\$ 4,558
BASIC AND DILUTED EARNINGS PER SHARE	\$1.05	\$0.77
DIVIDENDS DECLARED PER SHARE	\$0.54	\$0.49

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 retail and commercial deposits
- Continued investments in enhanced digital capabilities to meet customers' technology needs
- Commercial lending growth efforts focused on gaining market share in the Buffalo metropolitan area

SHAREHOLDER INFORMATION

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 US, LLP
20 Stanwix Street
Suite 800
Pittsburgh, PA 15222

TRANSFER AGENT & REGISTRAR

Computershare Investor Services

By Regular Mail
PO 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 and Treasurer*
716.366.4070 ext 1020
Rachel.foley@lakeshoresavings.com

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, maintaining its history of being a strong residential mortgage lender in its market areas, identifying and managing enterprise risk, and achieving prudent growth which builds long-term sustainable value for investors.

The Company's common stock is traded on the NASDAQ Global Market as "LSBK" and its 5.7 million shares, including 3.6 million mutual holding company (MHC) shares, had a "market cap" of approximately \$84.8 million on December 31, 2021. The Company had total consolidated assets of \$713.7 million and total deposits of \$593.2 million at the end of 2021.

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 130 years. Our focus is on providing high-quality, personal customer service through our 11 full-service branches and 19 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.

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 2021. 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.



Headquarters
31 East Fourth Street | Dunkirk, NY 14048

716.366.4070

LakeShoreSavings.com

NASDAQ: LSBK