



PUBLIC DISCLOSURE

April 23, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lake Shore Savings Bank
Charter Number 705506

128 E 4th St.
Dunkirk, NY 14048-2226

Office of the Comptroller of the Currency

Corporate One Office Park, Building 2
4075 Monroeville Blvd, Suite 300
Monroeville, PA 15146-2529

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

Table of Contents

OVERALL CRA RATING	2
DEFINITIONS AND COMMON ABBREVIATIONS	3
DESCRIPTION OF INSTITUTION	7
SCOPE OF THE EVALUATION.....	8
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW	10
CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS.....	11
LENDING TEST	11
COMMUNITY DEVELOPMENT TEST.....	17
APPENDIX A: SCOPE OF EXAMINATION	A-1
APPENDIX B: COMMUNITY PROFILES FOR FULL-SCOPE AREAS.....	B-1

Overall CRA Rating: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The following major factors support the institution's rating:

- The average loan-to-deposit ratio is reasonable, given the bank's size, financial condition, and assessment area credit needs;
- A substantial majority of the bank's home mortgage lending activity originated within its delineated assessment areas;
- The distribution of home mortgage loans represents reasonable distribution among borrowers of different income levels;
- The geographic distribution of home mortgage loans reflects reasonable distribution among census tracts of different income levels;
- The bank's community development activities demonstrate adequate responsiveness to community development needs in its assessment areas; and
- The bank did not receive any CRA-related complaints during the evaluation period.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family

households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing).

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

Lake Shore Savings Bank (Lake Shore) is a single state, federally-chartered stock savings bank headquartered in Dunkirk, New York (NY). Lake Shore Mutual Holding Company (LSMHC) maintains a controlling interest in the bank, owning 59.20 percent of the outstanding stock as of December 31, 2017. LSMHC is a single-bank holding company with no other operations. There was no merger or acquisition activity during the evaluation period.

Lake Shore operates primarily in two assessment areas (AA), Erie County and Chautauqua County. Erie County is part of the Buffalo/Cheektowaga/Niagara Falls, NY Metropolitan Statistical Area (MSA) 15380 (Buffalo MSA). The Buffalo MSA includes Niagara County, NY to the north, which is the only other county in the MSA. Niagara County is not in the bank's AA because the bank does not have any offices or deposit taking locations in Niagara County. Chautauqua County is not located in an MSA. Erie and Chautauqua counties are contiguous counties in southwestern New York State. The AAs do not arbitrarily exclude low- or moderate-income geographies.

Lake Shore operates 11 branch locations within New York State. Five branches are located in Chautauqua County, including the main branch. The remaining six branches are located in Erie County. Of the branch offices, one branch is located in a low-income tract, five branches are located in middle-income tracts, and the remaining five branches are located in upper-income tracts. There are no branches in moderate-income census tracts. All branches have lobby and drive-up window facilities except the Westfield Branch, which only has a lobby facility. Branches offer standard business hours during weekdays and all branches offer Saturday hours. All branches have full-service ATMs and the bank operates an additional six full-service ATMs. Lake Shore did not open or close any branches during the evaluation period.

The bank's primary lending strategy is focused on real estate lending to both homeowners and commercial entities. Commercial lending has become an increasing focus for the bank moving forward. Mortgage products include fixed- and adjustable-rate loans for the purchase, refinance, and construction of one-to-four family and multi-family dwellings. Consumer loan offerings consist of home equity loans and lines of credit, auto loans, and personal loans. Commercial loans secured by real estate and other collateral are offered to businesses.

As of December 31, 2017, Lake Shore reported total assets of \$518 million and tier 1 capital of \$74 million. As of the same date, Lake Shore's balance sheet includes \$368 million in total loans, consisting of approximately 56.00 percent residential real estate mortgages, 38.00 percent commercial real estate, 5.00 percent commercial & industrial, and less than 1.00 percent of residential construction, individual, and other loans. The bank is funded with core deposits, with limited use of fully insured brokered deposits. Deposits sourced through the bank's market area total \$404 million.

The bank offers online account opening and online mortgage applications, text banking, free mobile banking, and mobile deposit through several smart phone applications. Lending products include conventional fixed- and adjustable-rate first and second mortgages, as well as multifamily residential and commercial real estate and commercial & industrial loans, which include equipment loans and various other secured business loans. Consumer deposit

products including checking accounts, savings accounts, money market accounts, health savings accounts, certificates of deposit, individual retirement accounts (IRAs), and ATM and debit cards. Services for businesses include commercial checking and remote deposit capture. The bank's website [www.lakeshoresavings.com] provides additional information on its services.

There are no financial or legal impediments to hinder Lake Shore's ability to help meet the credit needs of the communities it serves. Lake Shore received a "Satisfactory" rating during its last Intermediate Small Bank CRA Evaluation dated March 2, 2015.

Scope of the Evaluation

Evaluation Period/Products Evaluated

Lake Shore was evaluated under the Intermediate Small Bank (ISB) examination procedures. These procedures evaluate the bank's performance based on a Lending Test and a Community Development (CD) Test. The Lending Test considers the Institution's performance pursuant to the following criteria: Loan-to-Deposit (LTD) Ratio Analysis; Assessment Area Concentration; Geographic Distribution; Borrower Profile; and Response to Community Reinvestment Act (CRA) Complaints. The CD Test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and CD services.

Our assessment of the bank's performance covered the time period from March 2, 2015 through April 23, 2018, which represents the evaluation period. Our assessment of performance under the Lending Test is based on the loan originations of the bank's primary loan product, home mortgage loans, during the period. This evaluation considers reportable mortgage loans pursuant to the Home Mortgage Disclosure Act of 1975 (HMDA) for the calendar years 2015 and 2016. The evaluation period for the CD Test is March 2, 2015 through April 23, 2018. The analysis took into consideration the economic, financial, and environmental factors that impact the bank's CRA performance. Demographic information was extracted from the 2010 Census data, and peer data was taken from 2016 aggregate HMDA information (the most recent year available) for HMDA reporting financial institutions that reported lending activity within the AAs.

Refer to the table in Appendix A for more information on the scope of review.

Data Integrity

In order to evaluate Lake Shore's record of originating residential mortgage loans, we analyzed loan data collected and reported by Lake Shore in accordance with HMDA requirements. We performed a data integrity examination to ensure the reliability of the bank's HMDA loan data. In addition, we evaluated processes employed by Lake Shore to ensure the accurate and complete reporting of HMDA data. We tested the accuracy of Lake Shore's HMDA loan data by comparing a sample of reported loans with Lake Shore's loan file documentation. We also reviewed the appropriateness of CD activities provided for consideration in our evaluation. This included testing of CD loans, investments, and services for accuracy and to determine if they qualify as defined CD activities. The data integrity examination indicated that Lake Shore's publicly available HMDA loan data and CD activity could be

relied on for this evaluation.

Selection of Areas for Full-Scope Review

Lake Shore has two AAs. We performed a full-scope review for both AAs.

Please refer to the table in Appendix B that provides demographic data for the AAs.

Ratings

As branch distribution was relatively even amongst the AAs, neither AA received more weight when arriving at the bank's final rating.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

Lake Shore's performance under the lending test is satisfactory. The loan-to-deposit (LTD) ratio is reasonable. A substantial majority of home mortgage loans were originated inside the bank's two AAs. The record of lending to borrowers of different incomes reflects reasonable distribution in both the Erie County AA and Chautauqua County AA. The geographic distribution of home loans reflects a reasonable distribution in both the Erie County AA and the Chautauqua County AA. While more loans were made in the Chautauqua County AA, Lake Shore originated a larger dollar volume in the Erie County AA.

Loan-to-Deposit Ratio

Lake Shore's quarterly average net LTD ratio is reasonable and performance is satisfactory. The bank's quarterly average LTD ratio over the twelve quarter review period was 83.17 percent. During this twelve-quarter period, this ratio ranged from a quarterly low of 74.04 percent to a quarterly high of 91.64 percent. The quarterly average net LTD ratio for a peer group of twelve similarly situated institutions, with total assets ranging from \$291 million to \$618 million and located in New York State, was 81.75 percent. The peer group's net LTD ratio ranged from a quarterly low of 38.02 percent to a quarterly high of 121.20 percent during the twelve-quarter review period.

Lending in Assessment Area

Lake Shore originated a substantial majority of home mortgage loans, by number and dollar volume, within its delineated AAs. This performance is outstanding. Lake Shore originated 93.01 percent of the number of loans and 88.74 percent of the dollar volume within its delineated AAs during the evaluation period. This ratio is a bank-wide calculation and is not calculated by individual AA. Analysis is limited to bank originations and purchases. Refer to the following table for more information:

Table 1 - Lending in the Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	228	91.94	20	8.06	248	39,329	87.43	5,656	12.57	44,985
Home Refinance	51	96.23	2	3.77	53	10,001	89.44	1,181	10.56	11,182
Home Improvement	27	96.30	1	3.70	28	4,656	99.74	12	0.26	4,668
Totals	306	93.01	23	6.99	329	53,986	88.74	6,849	11.26	60,835

Source: Lake Shores HMDA – reported data from 01/01/15 – 12/31/16

Lending to Borrowers of Different Incomes

Erie County, NY AA - Buffalo/Cheektowaga/Niagara Falls, NY MSA

The distribution of loans reflects reasonable distribution among individuals of different income levels in the Erie County AA. Our analysis considered the limited opportunities to lend to low-income families in the AA due to the significant market competition from local lenders, large national banks, and mortgage companies, and the high level of families below the poverty line. The level of competition for mortgage loans is strong, with 247 lenders competing for business and Lake Shore only attaining a mortgage market share level of 0.26 percent of total mortgages. Further, approximately 14.00 percent of families, or two-thirds of potential low-income borrowers, are below the federal poverty line.

The bank's percentage of home purchase loans granted to low-income borrowers is significantly below the percentage of lending to low-income borrowers by other HMDA-reporting lenders in the AA and is significantly below the percentage of low-income families in the AA. The percentage of home purchase loans to moderate-income borrowers is near to the percentage of lending to moderate-income borrowers by other HMDA-reporting lenders in the AA. The bank's home purchase loans to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. Overall, Lake Shore's lending to low- and moderate-income borrowers represented 25.64 percent of AA lending, which is below both the aggregate peer lending comparator of 39.58 percent and the demographic comparator of 38.71 percent of the AA.

The bank's percentage of home mortgage refinance loans made to low-income borrowers is significantly below the percentage of lending to low-income borrowers by other HMDA-reporting lenders in the AA and is significantly below the percentage of low-income families in the AA. The bank did not make any home refinance loans to low-income borrowers over the assessment period. The bank's percentage of home mortgage refinance loans made to moderate-income borrowers is near to the percentage of lending to moderate-income borrowers by other HMDA-reporting lenders in the AA and is near the percentage of moderate-income families in the AA. Overall, Lake Shore's lending to low- and moderate-income borrowers represented 16.67 percent of AA lending, which is below the peer lending comparator of 29.05 percent and is significantly below the demographic comparator of 38.71 percent of the AA. Lake Shore's total refinance activity in the AA is impacted by significant competition and borrowers' financial and economic constraints. The bank originated only 20 home refinance loans during the evaluation period, totaling approximately 20.00 percent of overall lending within the AA.

The bank's percentage of home improvement loans granted to low-income borrowers is significantly below the percentage of lending to low-income borrowers by other HMDA-reporting lenders in the AA and is significantly below the percentage of low-income families in the AA. The bank did not make any home improvement loans to low-income borrowers over the assessment period. Lake Shore's home improvement lending was limited, as the bank originated fourteen home improvement loans during the evaluation period in the AA. The percentage of home improvement loans to moderate-income borrowers exceeds the percentage of lending to moderate-income borrowers by other HMDA-reporting lenders in the AA and significantly exceeds the percentage of moderate-income families in the AA. Overall,

Lake Shore’s lending to low- and moderate-income borrowers represented 33.33 percent of AA lending, which is near to the peer lending comparator of 42.22 percent and the demographic comparator of 38.71 percent of the AA.

The table below shows the distribution of HMDA loans in the AA among borrowers of different income levels for the period of January 1, 2015 through December 31, 2016. This is compared to the percentage of families in each income category as well as the aggregate peer performance in 2016, the most recent year for which data is available.

Table 2a - Borrower Distribution of Residential Real Estate Loans in the Erie County AA												
Borrower Income Level	Low			Moderate			Middle			Upper		
Loan Type	% of AA Families	Peer Lending Data	% of Number of Loans	% of AA Families	Peer Lending Data	% of Number of Loans	% of AA Families	Peer Lending Data	% of Number of Loans	% of AA Families	Peer Lending Data	% of Number of Loans
Home Purchase	21.61	10.99	2.56	17.10	28.59	23.07	20.29	26.78	28.21	41.00	33.64	46.15
Home Refinance	21.61	8.06	0.00	17.10	20.99	16.67	20.29	29.24	22.22	41.00	41.71	61.11
Home Improvement	21.61	15.19	0.00	17.10	27.03	33.33	20.29	24.58	25.00	41.00	33.20	41.67

Source: Lake Shores HMDA – reported data from 01/01/15 – 12/31/16

Chautauqua County, NY – Non-MSA AA

The distribution of loans reflects reasonable distribution among individuals of different income levels in the Chautauqua County AA.

The bank’s percentage of home purchase loans granted to low-income borrowers exceeds the level of lending to low-income borrowers by other HMDA-reporting lenders, but it was below the percentage of low-income families residing within the AA. The percentage of lending to moderate-income borrowers exceeds the average by other HMDA-reporting lenders and significantly exceeds the AA demographics. Overall, Lake Shore’s lending to low- and moderate-income borrowers represented 45.03 percent of AA lending, which exceeds both the peer lending comparator of 39.29 percent and the demographic comparator of 41.02 percent.

The bank’s percentage of home mortgage refinance loans granted to low-income borrowers significantly exceeds the level of lending to low-income borrowers by other HMDA-reporting lenders, but it was below the percentage of low-income families residing within the AA. The percentage of lending to moderate-income borrowers was near to both the AA demographics and the average of other HMDA-reporting lenders. Overall, Lake Shore’s lending to low- and moderate-income borrowers represented 32.00 percent of AA lending, which exceeds the peer lending comparator of 25.14 percent and is below the demographic comparator of 41.02 percent.

Lake Shore did not originate any home improvement loans to low-income borrowers in the Chautauqua County AA. This is significantly below the percentage of home improvement loans made to low-income borrowers by other HMDA-reporting lenders and the demographic

comparator. The percentage of lending to moderate-income borrowers is below the level of lending to moderate income borrowers by other HMDA-reporting lenders and is near to the percentage of moderate-income families residing within the AA. Overall, Lake Shore’s lending to low- and moderate-income borrowers represented 18.18 percent of AA lending, which is below the peer lending comparator of 41.83 percent and the demographic comparator of 41.02 percent. Home improvement loans are not one of the bank’s primary lending products and Lake Shore only originated eleven home improvement loans in the AA during the evaluation period.

The table below shows the distribution of HMDA loans in the AA among borrowers of different income levels for the period of January 1, 2015 through December 31, 2016. This is compared to the percentage of families in each income category as well as the aggregate peer performance in 2016, the most recent year for which data is available.

Table 2b - Borrower Distribution of Residential Real Estate Loans in the Chautauqua County AA												
Borrower Income Level	Low			Moderate			Middle			Upper		
Loan Type	% of AA Families	Peer Lending Data	% of Number of Loans	% of AA Families	Peer Lending Data	% of Number of Loans	% of AA Families	Peer Lending Data	% of Number of Loans	% of AA Families	Peer Lending Data	% of Number of Loans
Home Purchase	22.64	10.21	12.28	18.38	29.08	32.75	22.59	23.53	25.15	36.39	38.18	29.82
Home Refinance	22.64	7.18	16.00	18.38	17.96	16.00	22.59	28.45	28.00	36.39	46.41	40.00
Home Improvement	22.64	15.47	0.00	18.38	26.36	18.18	22.59	25.79	45.45	36.39	32.38	36.36

Source: Lake Shores HMDA – reported data from 01/01/15 – 12/31/16

Geographic Distribution of Loans

Erie County AA, NY - Buffalo/Cheektowaga/Niagara Falls, NY MSA

The geographic distribution of loans reflects reasonable dispersion throughout the census tracts of different income levels, and Lake Shore’s performance is satisfactory. There were no conspicuous gaps identified within the AA. For reasons previously stated, opportunities to lend in low-income geographies were limited.

The bank’s distribution of home purchase loans in low-income geographies is below the percentage of the peer aggregate lending in low-income geographies and is below the percentage of owner-occupied housing units (OOHUs) in low-income geographies. The bank did not originate any home mortgage purchase loans in low-income geographies, however, the percentage of peer lending by other HMDA-reporting lenders was 2.32 percent and the percentage of OOHUs in the AA was 5.30 percent, indicating minimal demand from borrowers and limited opportunity to lend. The bank’s distribution of home purchase loans made in moderate-income geographies exceeds the percentage of peer aggregate lending in moderate-income geographies and is near to the percentage of OOHUs in moderate-income geographies. Overall, Lake Shore’s lending within low- and moderate-income census tracks

represented 13.04 percent of AA lending, which is near to the peer lending comparator of 19.54 percent and the demographic comparator of 14.09 percent.

The bank’s geographic distribution of home mortgage refinance loans in low-income geographies significantly exceeds the percentage of the peer aggregate lending in low-income geographies and is near to the percentage of OOHUs in low-income geographies. The bank’s geographic distribution of home mortgage refinance loans in moderate-income geographies exceeds the percentage of the peer aggregate lending in moderate-income geographies and is below the percentage of OOHUs in moderate-income geographies. Overall, Lake Shore’s lending within low- and moderate-income census tracts represented 15.00 percent of AA lending, which exceeds the peer lending comparator of 11.06 percent and is near to the demographic comparator of 19.84 percent.

The bank’s distribution of home improvement loans in low-income geographies is below the percentage of the peer aggregate lending in low-income geographies and is below the percentage of OOHUs in low-income geographies. The bank did not originate any home improvement loans in low-income geographies. However, the percentage of peer lending by other HMDA-reporting lenders was 6.41 percent and the percentage of OOHUs in the AA was 5.30 percent, indicating minimal demand from borrowers and limited opportunity to lend. The bank’s distribution of home improvement loans made in moderate-income geographies is significantly below to the percentage of peer aggregate lending in moderate-income geographies and is significantly below the percentage of OOHUs in moderate-income geographies. Overall, Lake Shore’s lending within low- and moderate-income census tracts represented zero percent of AA lending, which is significantly below the peer lending comparator of 19.84 percent and the demographic comparator of 21.76 percent. Lake Shore’s home improvement lending was limited, as the bank originated fourteen home improvement loans during the evaluation period in the AA.

Census Tract Income Level	Low			Moderate			Middle			Upper		
	% of AA Owner Occupied Housing	Peer Lending Data	% of Number of Loans	% of AA Owner Occupied Housing	Peer Lending Data	% of Number of Loans	% of AA Owner Occupied Housing	Peer Lending Data	% of Number of Loans	% of AA Owner Occupied Housing	Peer Lending Data	% of Number of Loans
Home Purchase	5.30	2.32	0.00	14.54	11.77	13.04	39.97	42.91	41.30	40.18	43.00	45.65
Home Refinance	5.30	1.75	5.00	14.54	9.31	10.00	39.97	39.52	60.00	40.18	49.43	25.00
Home Improvement	5.30	6.41	0.00	14.54	15.35	0.00	39.97	41.25	50.00	40.18	36.99	50.00

Source: Lake Shores HMDA – reported data from 01/01/15 – 12/31/16

Chautauqua County, NY – Non-MSA AA

The bank’s geographic distribution of loans in the Chautauqua County AA is reasonable.

Lake Shore did not originate any home purchase, home refinance, or home improvement loans in the single low-income census tract. Opportunities to lend in low-income geographies are

limited in the AA as it contains only one low-income census tract that contains 0.58 percent of the owner-occupied housing units in the AA. Aggregate peer lending in this census tract was limited as well, with peer aggregate lending levels below 0.50 percent for purchase and refinance loans, while no home improvement loans were made by any lenders in the census tract.

The percentage of home purchase loans made in moderate-income geographies was near to the percentage of peer aggregate lending in moderate-income geographies and was near to the percentage of OOHUs in moderate-income geographies. Overall, Lake Shore’s lending within low- and moderate-income census tracts represented 12.21 percent of AA lending, which is near to the peer lending comparator of 16.51 percent and the demographic comparator of 16.79 percent.

The percentage of home refinance loans made in moderate-income geographies is below the percentage of peer aggregate lending in moderate-income geographies and below the percentage of OOHUs in moderate-income geographies. Overall, Lake Shore’s lending within low- and moderate-income census tracts represented 8.00 percent of AA lending, which is below the peer lending comparator of 12.01 percent and significantly below the demographic comparator of 16.79 percent.

The bank’s distribution of home improvement loans in moderate-income geographies was significantly below the peer aggregate level and percentage of OOHUs in the AA, as Lake Shore originated no home improvement loans in moderate-income geographies. The percentage of peer lending by other HMDA-reporting lenders was 17.68 percent and the percentage of OOHUs in the AA was 16.21 percent. However, Lake Shore’s total home improvement lending in the AA was limited, as the bank only originated eleven home improvement loans during the two-year evaluation period.

The table below illustrates loan originations reported by Lake Shore during the review period. Loan originations are categorized by geography income level and compared to the 2016 aggregate peer performance. The table also includes a comparison to the percentage of OOHUs in within the AA.

Table 3b – Geographic Distribution of Residential Real Estate Loans in the Chautauqua County AA												
Census Tract Income Level	Low			Moderate			Middle			Upper		
Loan Type	% of AA Owner Occupied Housing	Peer Lending Data	% of Number of Loans	% of AA Owner Occupied Housing	Peer Lending Data	% of Number of Loans	% of AA Owner Occupied Housing	Peer Lending Data	% of Number of Loans	% of AA Owner Occupied Housing	Peer Lending Data	% of Number of Loans
Home Purchase	0.58	0.49	0.00	16.21	16.02	12.21	74.31	74.22	68.02	8.89	9.28	19.77
Home Refinance	0.58	0.49	0.00	16.21	11.52	8.00	74.31	79.90	72.00	8.89	8.09	20.00
Home Improvement	0.58	0.00	0.00	16.21	17.68	0.00	74.31	72.10	74.31	8.89	10.22	18.18

Source: Lake Shores HMDA – reported data from 01/01/15 – 12/31/16

Responses to Complaints

Lake Shore did not have any complaints made relating to its CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The Community Development Test is satisfactory. Overall, Lake Shore's community development activities demonstrate adequate responsiveness to the community development needs of its AAs when considering the bank's capacity, performance context, and the availability of community development opportunities in the bank's AAs.

Number and Amount of Community Development Loans

Erie County, NY AA - Buffalo-Niagara Falls Metropolitan Statistical Area

Considering the needs and opportunities in AA, and Lake Shore's performance context and capacity, the bank's community development activity reflects adequate responsiveness in the Erie County AA. During the evaluation period, the bank originated one loan totaling \$3 million for a specialty healthcare-related business that has portions of its services directed to low- and moderate-income (LMI) individuals. Opportunities for community development lending are limited in Erie County due to competition from both large regional and area community financial institutions.

Chautauqua County, NY – Non-MSA AA

Considering the needs and opportunities in the AA, and Lake Shore's performance context and capacity, the bank's CD lending activity reflects adequate responsiveness in the Chautauqua County AA. During the evaluation period, the bank originated one CD loan totaling \$50 thousand for the revitalization of the lake front area in Dunkirk. Opportunities for community development lending are limited in Chautauqua County. Community contacts and demographic data indicate that the housing stock is very old and costly to repair, with not a lot of new affordable units being built. While homes are very affordable, credit barriers are significant for LMI borrowers.

Community Development Lending in the Broader Statewide Area

Outside of its AAs, the bank originated a \$13 million loan for a property that is part of the Rochester City Master Plan. This property is in a low-income census tract and will contribute to the revitalization of the city's downtown area.

Number and Amount of Qualified Investments

Lake Shore has provided an adequate level of qualified investments and donations throughout its AAs. Lake Shore made one new investment while continuing to hold two investments made during the prior evaluation period on its books. Additionally, the bank made 69 total donations totaling \$85,212 to organizations that benefit or serve LMI individuals and geographies.

Erie County, NY AA - Buffalo-Niagara Falls Metropolitan Statistical Area

During the evaluation period, Lake Shore did not purchase any CD Investments within the Erie County AA. However, the bank continues to hold a municipal bond for a local school district with a book value of \$461 thousand.

Lake Shore made additional donations and grants totaling \$33,675 to 30 organizations in Erie County that benefit LMI individuals and geographies during the evaluation period.

Chautauqua County, NY – Non-MSA AA

During the review period, Lake Shore purchased one municipal bond for a local school district with a book value of \$300 thousand. This security was issued by a school district that predominantly serves LMI students. In addition, the bank continues to hold a second local school district municipal bond currently valued at \$190 thousand.

Additionally, Lake Shore made donations and grants totaling \$41,414 to 34 organizations in Chautauqua County that benefit LMI individuals and geographies during the evaluation period.

The bank made an additional \$10,248 in donations to five organizations that benefit LMI individuals in both of its AAs.

Extent to Which the Bank Provides Community Development Services

Erie County AA, NY - Buffalo/Cheektowaga/Niagara Falls, NY MSA

Lake Shore's performance in providing CD services in the Erie County AA is adequate. CD services primarily involved service on boards and committees for charitable and economic development organizations. Bank employees also provided first-time home buyer seminars and financial literacy seminars for LMI youth. Bank employees worked with five organizations totaling 280 hours of service. The following are examples of the CD services provided by the bank:

- An employee served as a committee member for a public benefit corporation created by the state to promote and assist business development. The specific committee provided loans to small businesses in underserved markets, including low-income borrowers who may not qualify for conventional loans.
- A bank employee served as the chairman for a charitable, community-based organization that provides services and programs to LMI individuals. Additionally, this employee served as the campaign chairperson for an initiative that raised money to

offer financial assistance to those facing hardships so no one is turned away from the organization or its programs.

- A bank employee served as a local chairperson for a charitable organization that offers services to those in need and raises funds to help struggling families with a variety of issues.
- A bank employee volunteers for an organization that provides free tax preparation services to LMI individuals in the local community.

Chautauqua County, NY – Non-MSA AA

Lake Shore's performance in providing CD services in the Chautauqua County AA is adequate. CD services primarily involved service on boards and committees for charitable and economic development organizations. Bank employees provided three first-time home buyer seminars and provided financial literacy training to low-income and at-risk students. Further, bank employees served on 13 boards or committees for organizations with CD purposes and volunteered 116 total hours. The following are examples of the CD services provided by the bank:

- A senior executive served on the board of directors for an organization that promotes strong neighborhoods by addressing blight, improving property values, and transforming troubled properties into useful assets.
- A bank employee served on the Finance Committee for an organization that creates opportunities for economic and community development. The organization provides low interest loans to local businesses and industries as a means to attract new businesses, retain and grow established businesses, create and retain jobs, foster entrepreneurship and innovation, build commercial capacity, and increase the property tax base.
- A bank employee served on the board of directors for an organization that promotes neighborhood stabilization, community revitalization, and economic development through projects and partnerships that affect the local community.

First Home Club

Lake Shore participated in the New York Federal Home Loan Bank affordable housing program, which provides down payment and closing cost assistance to qualified first-time homebuyers at or below 80.00 percent of the area median family income. During the review period, Lake Shore enrolled 14 borrowers in the program. There are 23 enrollees in the program with loans to the bank. Since the program's inception in 2014, the bank has made 30 loans.

Responsiveness to Community Development Needs

Erie County, NY AA - Buffalo-Niagara Falls Metropolitan Statistical Area

Lake Shore demonstrates a reasonable level of responsiveness to community development needs within the Erie County AA. Lake Shore has made an adequate level of CD loans and investments, and provides an adequate level of CD services to LMI individuals and geographies.

Chautauqua County, NY – Non-MSA AA

Lake Shore demonstrates a reasonable level of responsiveness to CD needs within the Chautauqua County AA. Lake Shores has made an adequate level of CD loans and investments, and provides an adequate level of CD services to LMI individuals and geographies.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: (01/01/2015 to 12/31/2016) Investment and Service Tests and CD Loans: (03/02/2015 to 4/23/2018)	
Financial Institution	Products Reviewed	
Lake Shore Savings Bank (Lake Shore/LSSB) Dunkirk, New York	Residential Mortgage Loans Community Development Loans, Investments, and Services	
Affiliate(s)	Affiliate Relationship	Products Reviewed
N/A		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
1) Erie County, NY AA - Buffalo/Cheektowaga/ Niagara Falls, NY MSA	Full Scope	Portion of the Buffalo/Cheektowaga/Niagara Falls, NY MSA comprised of: <ul style="list-style-type: none"> • Erie County
2) Chautauqua County, NY – Non-MSA AA	Full Scope	Chautauqua County, NY

Appendix B: Community Profiles for Full-Scope Areas

Erie County AA, NY - Buffalo/Cheektowaga/Niagara Falls, NY MSA

Demographic Information for Full-Scope Area: (Name of Multistate Metropolitan Area)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	236	12.71	19.92	39.41	25.85	2.12
Population by Geography	919,040	10.21	17.51	35.95	34.85	1.49
Owner-Occupied Housing by Geography	250,238	5.30	14.54	39.97	40.18	0.00
Businesses by Geography	51,992	8.07	14.38	38.66	38.35	0.53
Farms by Geography	1,268	3.15	6.47	46.21	44.16	0.00
Family Distribution by Income Level	231,113	21.61	17.10	20.29	41.00	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	89,464	19.10	25.88	35.56	19.46	0.00
Median Family Income HUD Adjusted Median Family Income for 2016 Households Below the Poverty Level	= 62,350 = 67,300 = 14%	Median Housing Value Unemployment Rate (February 2018 Bureau of Labor and Statistics)				= 116,880 = 6.10%

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census, and 2016 HUD updated MFI.

Lake Shore's first AA is comprised of Erie County, New York. The Erie County AA, NY is part of the Buffalo/Cheektowaga/Niagara Falls, NY MSA, 15380. The principal city within the AA is Buffalo. The AA consists of 236 census tracts, of which there are 30 low-income census tracts, 47 moderate-income census tracts, 93 middle-income census tracts, 61 upper-income census tracts, and 5 that have not been assigned an income classification.

The 2010 U.S. Census reported the total population of the AA at 919,040. Within the Erie County AA, there are 378,080 households and 231,113 families. There are 420,432 housing units, of which, 59.52 percent are owner occupied, 30.41 percent are rental occupied, and 10.07 percent are vacant housing units. Approximately 5.30 percent of owner-occupied housing is located in low-income geographies, 14.54 percent in moderate-income geographies, 39.97 percent in middle-income geographies, and 40.18 percent in upper-income geographies. The median housing value is \$116,880. The median residential sale price for Erie County is \$148,000 compared to the state median of \$228,000 (excluding New York City) and the national median of \$250,400.

The 2010 U.S. Census reported the median family income for the Erie AA was \$62,530, and 2016 FFIEC Adjusted Median Family Income is \$67,300. Approximately, 21.61 percent of families are low-income, 17.10 percent are moderate-income, 20.29 percent

are middle-income, and 41.00 percent are upper-income. Additionally, 31.92 percent of households received social security and 22.31 percent were retired. Households below the poverty level are at 14.01 percent of total households in the AA, compared to 15.70 percent in New York State and 12.70 percent nationally.

Competition for mortgage loans is strong and includes local commercial and savings banks and branches of larger regional and nationwide banks. Based on the most recent 2016 Peer Mortgage Data, there were 247 lending institutions within the AA competing for mortgage applications. Lake Shore ranks 56 with a market share of 0.26 percent by count and 0.53 percent by total dollar amount. The top five lenders in the AA are M&T Bank, Wells Fargo Bank, N.A., First Niagara Bank, N.A., Quicken Loans, and 1st Priority Mortgage, Inc. The top five hold 39.96 percent by count and 39.05 percent of total dollar market share. First Niagara Bank, N.A. was acquired by KeyBank N.A. after the 2016 Peer Mortgage Data. Including KeyBank N.A. with First Niagara N.A. would increase the top five lenders market share to 44.06 percent and 42.41 percent respectively.

Based on the June 30, 2017 FDIC Summary of Deposit Market Share report, Lake Shore's deposit market share within the Erie County AA - Buffalo/Cheektowaga/Niagara Falls, NY MSA was 0.45 percent, ranking ninth out of the sixteen institutions in the AA. The bank's primary competitors are Manufacturers and Traders Trust Company (51 offices, 67.08 percent market share), KeyBank N.A. (52 offices, 13.39 percent market share), Bank of America, N.A. (20 offices, 5.55 percent market share), Citizens Bank, N.A. (35 offices, 4.47 percent market share), and Northwest Bank (20 offices, 3.70 percent). The top five competitors hold 94.20 percent of the total market share.

According to the Bureau of Labor Statistics, the February 2018 non-seasonally adjusted unemployment rate for Erie County was 6.20 percent. While the unemployment rate has decreased from 6.40 percent as of January 2015, it continues to exceed the state unemployment rate of 4.60 percent and the national unemployment rate of 4.10 percent.

According to the National Council of Counties, economic growth indicators in Erie County have shown growth since the previous recession. Unemployment rates, job growth, economic output growth, and median home price growth have surpassed pre-recession levels but continue to trail average large-sized county economies.

Per January 2018 Moody's Analytics data, the Buffalo/Cheektowaga/Niagara Falls NY MSA ended 2017 on a positive note as professional services and healthcare have shown recent upticks. This is partially due to the 'Buffalo Billion' initiative that was first announced in 2012 by the Governor of New York. The initiative aims to invest \$1 billion in Buffalo's economy through a combination of state grants and tax breaks to stimulate economic development in the Buffalo region. A focal point of the initiative was \$750 million in incentives for SolarCity, a division of Tesla, to build a solar panel manufacturing facility outside of Buffalo that will be considered the largest of its kind in the western hemisphere.

During the evaluation period, OCC representatives met with community development and affordable housing organizations operating in the AA. The organizations identified multiple items as community development needs including financial institution involvement in area economic development, small business loans and affordable housing loans that includes lending in low income neighborhoods. We also contacted an additional organization that provides help to LMI individuals with home improvement grants. The contact indicated opportunities for local financial institutions are limited and felt the local community banks are fairly comparable. The contact also stated that residents tended to bank at whichever bank was most convenient or closest to their home.

Chautauqua County, NY – Non-MSA AA

Demographic Information for Full Scope Area: Lake Shore Chautauqua AA 2016						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	35	2.86	22.86	62.86	11.43	0.00
Population by Geography	134,905	2.61	20.47	66.26	10.66	0.00
Owner-Occupied Housing by Geography	38,428	0.58	16.21	74.31	8.89	0.00
Businesses by Geography	6,881	7.11	17.77	65.70	9.42	0.00
Farms by Geography	510	0.39	14.31	77.25	8.04	0.00
Family Distribution by Income Level	34,870	22.64	18.38	22.59	36.39	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	14,304	2.72	29.17	63.07	5.03	0.00
Median Family Income HUD Adjusted Median Family Income for 2016 Households Below the Poverty Level	= 54,386 = 58,900 = 16%	Median Housing Value Unemployment Rate (February 2018 Bureau of Labor and Statistics)				= 81,864 = 6.80%

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 US Census and 2016 FFIEC updated MFI

Lake Shore's second AA is comprised of Chautauqua County, New York. The AA consists of 35 census tracts, of which there are one low-income census tract, 8 moderate-income census tracts, 22 middle-income census tracts, and 4 upper income census tracts.

The 2010 U.S. Census reported the total population of the AA at 134,905. Within the AA, there are 38,370 households and 34,870 families. There are 66,784 total housing units, of which 57.54 percent are owner-occupied, 24.88 percent are rental-occupied, and 17.58 percent are vacant housing units. Approximately 0.58 percent of owner-occupied housing is located in low-income geographies, 16.21 percent in moderate-income geographies, 74.31 percent in middle-income geographies, and 8.89 percent in upper-income geographies. The median housing cost is \$81,864.

The 2010 median family income for this AA was \$54,386 and the 2016 FFIEC updated median family income is \$58,900. Approximately 2.61 percent of families are low-income, 20.47 percent are moderate-income, 66.26 percent are middle-income, and 10.66 percent are upper-income. Additionally, 33.98 percent of households received social security and 21.38 percent were retired. Households below the poverty level remains elevated at 16.00 percent of total households in the AA, compared to 15.70 percent in New York State and 12.70 percent nationally.

Median family income is 82.00 percent of the national level. The median housing price in the AA is \$81,864 compared to the state median of \$228,000 (excluding New York City) and the national median of \$250,400.

Competition for mortgage loans is strong and includes local commercial and savings banks, branches of larger regional and nationwide banks, and national mortgage lenders. Based on 2015 and 2016 Peer mortgage data, there were 25 lending institutions within the county competing for mortgage applications. Lake Shore ranked fifth, with a market share of 5.05 percent. The top four lenders, with combined market share of 49.82 percent, are Community Bank, N.A., M&T Bank, Quicken Loans, and Northwest Bank.

Based on the June 30, 2017 FDIC Summary of Deposit Market Share report, Lake Shore's deposit market share within the Chautauqua County, NY – Non-MSA AA was 14.56 percent, ranking the bank fifth out of nine institutions. The bank's primary competitors are: Community Bank, N.A. (12 offices, 23.10 percent market share), KeyBank (five offices, 19.72 percent market share), Manufacturers and Traders Trust Company (eight offices, 19.29 percent market share), and Northwest Bank (five offices, 14.95 percent market share).

According to the Bureau of Labor Statistics, the February 2018 non-seasonally adjusted unemployment rate for Chautauqua County was 6.80 percent. While the unemployment rate has decreased from 7.60 percent as of January 2015, it continues to exceed the state unemployment rate of 4.60 percent and the national unemployment rate of 4.10 percent.

According to the National Council of Counties, economic growth in Chautauqua County remains anemic. Unemployment rates, job growth, and median home price growth remain below pre-recession levels and continue to trail average mid-sized county economies.

We contacted one local organization that creates economic opportunities to empower low income individuals as a way out of poverty. A specific community need mentioned was for banks to be more involved in affordable housing development as current housing stock is very old and costly to repair. An additional community service need was for banks to provide lower cost products for LMI individuals.