



www.ceocfomobile.com
© All rights reserved
Issue: November 18, 2019



Taking a People First and Concierge Approach in providing Personal Service to Customers has resulted in a Great Return for Shareholders and a Positive Impact on the Community for Lake Shore Bancorp, Inc.



Daniel P. Reininga
President & CEO



Rachel A. Foley
CFO

Lake Shore Bancorp, Inc.
(Nasdaq: LSBK)
www.lakeshoresavings.com

Contact:
Daniel P. Reininga, President and CEO
716-366-4070
Daniel.reininga@lakeshoresavings.com

Interview conducted by: Lynn Fosse, Senior Editor, CEOCFO Magazine

CEOCFO: Mr. Reininga, what is the philosophy behind Lake Shore Bancorp, Inc?

Mr. Reininga: At Lake Shore Savings Bank our mission statement is "Putting People First" by helping our customers, energizing our employees, respecting our shareholders and serving the communities of our region. Our philosophy is driven by our mission statement and by taking a concierge approach in providing personal service to our customers with energized employees, resulting in a great return for our shareholders and a positive impact on our community.

CEOCFO: What is different about your customer service? How do you treat your employees differently? How do you interact with the community?

Mr. Reininga: It all boils down to a concierge approach for customer service in the market areas that we serve, which is exclusive to Western New York, primarily within Chautauqua and Erie counties. When a

"At Lake Shore Savings Bank our mission statement is "Putting People First" by helping our customers, energizing our employees, respecting our shareholders and serving the communities of our region. Our philosophy is driven by our mission statement and by taking a concierge approach in providing personal service to our customers with energized employees, resulting in a great return for our shareholders and a positive impact on our community." - Daniel P. Reininga

customer wants to engage with Lake Shore Savings Bank, it is connectivity with a person, as opposed to a call center that is located out of state. We really do focus on the customer relationship and experience. Where possible, within the confines of the regulatory environment, we make exceptions to the services we provide, in that if you contact us and request a higher dollar amount on your debit card processing limit or remote deposit capture limit, we can handle that for you. The personal connection with our customer base provides us with "Raving Fans" that share their Lake Shore Savings banking experience with others in our market area.

CEOCFO: What about your relationship with your employees? How do you treat members of the team?

Mr. Reininga: It is very important for us to have a very good rapport with our team members across all levels, including senior management members, front office/customer facing staff and back office staff, all who provide critical support to customer service and our banking activities. We work on creating a culture and a work environment that our employees enjoy being in and that motivates our employees to provide the best service to our customers and communities. We have built teams that work together to achieve our goal of providing a "Raving Fan" customer experience. We encourage our employees to laugh and have fun while at work. We strive to provide our employees a positive work/life balance and to encourage our employees to make a positive impact in the communities where we live and work via community service activities.

CEOCFO: How do you breakdown between personal and business banking activities? What is the breakdown today and what would you like it to be?

Mr. Reininga: We are transitioning our balance sheet from a thrift bank focused on residential mortgage loans and retail deposits to more of a commercial focus. We continue to grow our retail book of business, but we are taking advantage of opportunities available in our market place to diversify our portfolio. The shift from a Savings and Loan Association, that was established in 1891 and primarily a residential mortgage lender, to a commercial bank is constrained somewhat by the regulations that govern federal savings banks like us. That being said, our portfolio is growing on the commercial side. We hired Jeffrey M. Werdein as our Executive Vice President Commercial Division five years ago. Jeff and his team of commercial lenders are growing the commercial portfolio in a very effective way with strong underwriting, proper credit risk metrics and adjustable rate pricing. The diversification of our portfolio towards commercial banking has allowed us to effectively manage interest rate risk and to improve asset quality.

CEOCFO: How do you navigate the interest rate environment that we have today and that is coming up, perhaps changing? How do you fit that into your plans and strategy?

Mr. Reininga: That is a very interesting question. Everyone is talking about the potential for negative rates and what that is going to do to the banking model as we know it. Will the three percent spread between the Fed funds rate and the prime rate be preserved? What do negative rates really mean for the U.S. market? There will need to be a significant

amount of research to determine if a negative rate environment could become a reality and if so, how to adapt to it. However, as far as managing through the current interest rate, we just have to be traditional bankers focused on maintaining spread.

We also have to be efficient in the delivery of our services. We have to maintain cost control while effectively managing the book of business that we add to our balance sheet. We offer traditional digitally focused products and ancillary services. We deploy an approach with borrowings that are appropriate, with deposits that are proper and, to a certain degree; we deploy the use of derivative instruments, if it makes sense.

CEOCFO: *What is the competitive landscape in your geographic area?*

Mr. Reininga: When you look at our marketplace we have two distinct geographies. We serve Chautauqua County where we have been since 1891, and Erie County where we began to expand organically starting in 2003 with two branch offices, which has grown now to six branches. We have a very strong presence in Chautauqua County with about 14% of the deposit market share and a significant share of residential mortgage loans. In Erie County we have less than one percent of the deposit market share, so we have a lot of room to grow in Erie County, which includes the City of Buffalo and surrounding suburbs. However, the overall opportunity that we have and where we set ourselves apart is our concierge services when it comes to meeting our customer's needs. We have several large banks that we compete with and that do not provide the personal service and attention that we do.

We bank with an individual's best interest in mind in everything we do and that is really helping us to forge new relationships in our market areas. Here, every day people will come in saying, "I am tired of the big bank," and that they want to be with a community bank that is locally owned and operated, that gives back to the community, that approves loans locally, and that lends money locally to small businesses, resulting in economic growth so that everyone in the community can benefit. People want a bank that is actively engaged in the community and, more importantly, that provides personal service and is available to answer a question in person. We take pride in being available for our customers thru multiple channels, including digital channels. We focus on banking in a way that is appropriate for the customer. For example, a customer can start a loan application online on their own time, and then set up a meeting with a regional sales manager, loan officer or personal banker to finish the application in person. If the customer wants to start electronically and finish in person or start in person and finish electronically or somewhere in between, we can accommodate that.

CEOCFO: *Do you do much outreach for new business or is a lot of it word of mouth?*

Mr. Reininga: There are outreach sessions that we hold on a consistent basis and we are constantly beating the pavement, so to speak. I hold "meet and greet" sessions with accounting firms, law firms, realtors, and others to get our message out there. In the Erie County marketplace, we obviously have room to grow and continue to strive to make our presence known. I have recently attended outreach sessions with a

community church. We will talk to various church groups and tell our story. Our team developed a really great product that provides banking benefits and rewards to the church members. We are kind of unique in that realm of service.

CEOCFO: *What is the economy like in Western New York, today?*

Ms. Foley: The economy is showing improvement in many sectors. Western New York has not grown as fast as other areas of the country. However, our market area has experienced recent growth, especially in the Buffalo metropolitan area. The City of Buffalo has strengthened its downtown corridor, evidenced by the building of a new children's hospital, new hotels, a hockey arena for up and coming hockey players that is associated with the Buffalo Sabres organization and its ownership that has attracted new events to our area, a new University of Buffalo medical school situated near the main medical corridor and several new multi-family housing units. Businesses have entered our market area due to the lower cost of living and high quality of life with shorter commute times and quality educational opportunities, which has been a competitive advantage. Western New York has relatively lower prices on housing as compared to other areas of the country. In our viewpoint, it is a very positive environment with many opportunities available for our bank to grow.

CEOCFO: *How does the weather affect your branches being open and available or are people just used to the fact that could be a challenge sometimes in your communities?*

Ms. Foley: People around here are really used to the weather. One time we had a vendor visit us from Florida in the month of January and he could not believe that people were actually going about their daily business after a snow storm! However, we do see an increased use of our drive-up lanes in the winter. We encourage people to use our online or mobile banking services during the winter months to avoid a trip to the bank in bad weather to complete a transaction. We strive to train our older generation of customers to use our digital channels not only for avoiding the weather but to stay connected to us if they move south for the winter.

CEOCFO: *Would you tell us about mortgages? How are you able to show the value for so many who are just looking for the quick online way of doing things?*

Mr. Reininga: The value that we have, as I somewhat alluded to earlier, was that you can start electronically if you want to and finish in person or start in person and finish electronically. One of the success points for our mortgage origination platform is that we do have a decentralized approach. Therefore, a customer can come into a branch and sit down with one of our customer service specialists, assistant branch sales managers or regional branch sales managers and get the process started. We process locally. We process residential loans at our headquarters in Dunkirk New York. We process Commercial loans at our Orchard Park Commercial lending headquarters. We make decisions locally. We underwrite locally and we can get the process completed very efficiently when compared to other bigger banks. That type of service sets us apart.

Our branch sales folks will track the mortgage applicant from beginning to end, to make sure that the customer is satisfied with the process, and more importantly, achieve their dream of home ownership that they are interested in. For example, we had a customer that came in with a contract to purchase a home in early December and we were able to close in time to get them into the house before Christmas! That was a full court press, obviously, and probably not similar to all situations. However, everything lined up perfectly. We were able to support that process in a very good way!

CEOCFO: *That is quick, I will grant you that!*

Mr. Reininga: Of course, in today's regulatory world, with all the "T crossing and I dotting", a substantial amount of time has been added to the process, but we try to be as efficient with that as we can.

CEOCFO: *Why the decision to go more into commercial? How has your strategy worked out and what were the biggest challenges in people recognizing now you have this whole other side to the banking experience?*

Ms. Foley: We initially expanded our commercial lending focus when we noticed an opportunity to meet the needs of smaller business customers that were not able to garner the attention of bigger banks, due to the loan size, particularly in the area of middle market commercial real estate. The growth in the commercial loan area has resulted in our ability to better manage interest rate risk as commercial loans are generally for shorter terms and have adjustable rates.

I do not know if many of our retail customers are aware of how robust our commercial lending side is, especially if they have been long time consumers in Chautauqua County. However, the growth of our commercial division has allowed us to have a stronger presence, especially in the Erie County marketplace. By servicing commercial customers, we have been given the opportunity to increase our market penetration in Erie County one relationship at a time. When we meet with a commercial customer, get to know them and service their needs, they find that we also have a strong retail banking side which gives us the opportunity to attract the customer's personal business, create a "Raving Fan" and obtain other opportunities for growth. It has been very powerful for us. The transition has been very good.

CEOCFO: *Would you tell us about community involvement and how you decide where to help?*

Mr. Reininga: We focus on activities that are appropriate for the communities that we serve. We have so many "legacy" or long-time relationships with organizations in our market areas. For example, we have supported the theatre department at the State University of New York at Fredonia which has provided opportunities for area school children and seniors to enjoy performances. We have also supported The Resource Center, which is an organization that provides employment opportunities for adults with developmental and intellectual disabilities.

Another charitable organization that we support is the Mikey's Way Foundation. Mikey Friedman was a young man who had a very rare form of cancer and received a Make-A-Wish grant. He used the grant to start his own foundation that provides electronic devices to kids that are in a

hospital being treated for cancer. He stated that the most boring time during cancer treatment is watching the hands on the clock move. He gave the children different devices; such as iPads, video games and laptops that are connected to the internet. The devices are on a cart and the patients have the opportunity to choose their own device and they use the device to distract themselves from their treatment and to stay connected with their family and friends. It has been a very effective organization for us to support. We have been a supporter for almost eight years.

At times an individual branch will have organizations or fund raisers that they want to support and we do that throughout the year as well. It is generally a team effort when we support anything and we like to focus on kids and adults that have challenges in their lives and who are less fortunate than us.

CEOCFO: How many branches do you have? Do you see the need for additional branches?

Ms. Foley: We currently have eleven branches; five branches in Chautauqua County and six branches in Erie County. We constantly evaluate the need for additional branches. Due to the number of banking channels now available, a branch is no longer needed primarily for processing transactions. However, we still feel that the branch is important to people and banking. People like to meet with their banker in person to discuss their financial needs and to obtain advice and assistance. Branches remain an important part of our strategy in the communities that we serve.

As we put together strategies for the future, and if the strategy includes branch expansion, any new branch will have a very different look than a traditional or existing branch. The new branch will have a smaller footprint and be more focused on space utilization for consulting and education. We are evaluating opportunities to revamp the interior of our existing branches on a gradual basis to better meet the customer's banking needs.

CEOCFO: How is business these days?

Mr. Reininga: We continue to grow our balance sheet effectively with the right kind of assets being added to it and we have numerous opportunities available in our market area to meet growth targets. We have a very unique situation in part of our Erie County New York marketplace, in that there are over two hundred and forty lending institutions in that area. Out of state banks and other financial service organization are expanding into the Buffalo marketplace at a rapid rate, creating more competition. However, we tell our story, emphasize our local roots, explain our mission statement and our customer service model and we are able to build customer relationships that allow us to grow.

With the efficiency of digital channels, the "clicks instead of the bricks," our customers can reach us almost 24/7. We have senior staff members who get text messages from customers at all times of the day; our branch staff experiences the same thing. It is just amazing how we service our customers these days and that is the whole change that

Rachel alluded to earlier. The branch really is the center of excellence and it is a place for a customer to come in and have a cup of coffee and talk to someone about financial goals. The customer can come in for traditional services as well. We have to be ready to provide all services at all levels.

We have a millennial advisory board that is a non-binding board that we meet with on a quarterly basis. The group provides feedback to us on banking products and services. In a millennial's world they want to do ten things at once and when they want to talk to a person they want to be able to click something and get that person instantly. Therefore, that is some of the focus that we have as we evolve our banking model to meet the needs of younger generations that are digitally engaged.

CEOCFO: *Why should investment and business communities pay attention to Lake Shore Savings?*

Mr. Reininga: With the business community, it is obviously the great products that we have and the customer service that we have alluded to; it is absolutely just a great, great organization to deal with. By the way, I came from the business community into the bank ten years ago. That is part of the evolution that we have been focusing on; developing the commercial side of our business while maintaining an effective support of our consumer side of the business as well.

When it comes to the shareholders and the opportunities that they have by holding our stock, we have a great capital position and we have room to leverage the capital to grow our balance sheet. We are in a mutual holding company structure, and therefore have the opportunity, if we need additional capital for growth, to complete a second step transaction and sell the shares currently held by our top tier savings and loan holding company, Lake Shore, MHC. Approximately 60% of the mid-tier holding company's stock (Lake Shore Bancorp, Inc.), is held by Lake Shore, MHC. The remaining stock is held by public shareholders. The depositors are considered the owners of the stock held by Lake Shore, MHC. The opportunity to purchase Lake Shore Bancorp, Inc. shares in the open market is a value proposition due to the potential second step opportunity. At this time, we do not have plans to complete a second step transaction due to the high levels of capital that we hold. However, we are actively creating shareholder value by effectively managing our balance sheet, leveraging our capital, paying dividends and repurchasing shares. The organic growth of our earnings is as important as the earnings per share. Our current dividend yield is approximately 3% based on today's market price. Our stock is a great investment opportunity. The story is there. The growth is there. We are leveraging our capital. We can leverage our capital by another few hundred million dollars and maintain capital ratios that are still well above the regulatory minimums. Leveraging our capital with a commercial portfolio focus is going to be the best return we can possibly get for our shareholders.

