

LAKE SHORE BANCORP, INC.
Form 10-Q
August 12, 2015

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No.: 000-51821

LAKE SHORE BANCORP, INC.
(Exact name of registrant as specified in its charter)

United States
(State or other jurisdiction of incorporation or organization)

20-4729288
(I.R.S. Employer Identification Number)

31 East Fourth Street, Dunkirk, New York
(Address of principal executive offices)

14048
(Zip code)

(716)
366-4070

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practical date:

There were 5,977,372 shares of the registrant’s common stock, \$0.01 par value per share, outstanding at August 1, 2015.

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PART I

Item 1. Financial Statements

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Financial Condition

	June 30, 2015 (Unaudited)	December 31, 2014
	(Dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$ 8,015	\$ 7,460
Interest earning deposits	7,521	19,575
Federal funds sold	12,310	8,776
Cash and Cash Equivalents	27,846	35,811
Securities available for sale	129,194	138,202
Federal Home Loan Bank stock, at cost	1,355	1,375
Loans receivable, net of allowance for loan losses 2015 \$2,125; 2014 \$1,921	296,557	284,853
Premises and equipment, net	9,251	9,519
Accrued interest receivable	1,701	1,716
Bank owned life insurance	14,802	14,666
Other assets	886	1,329
Total Assets	\$ 481,592	\$ 487,471
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Interest bearing	\$ 337,379	\$ 349,777
Non-interest bearing	44,466	37,162
Total Deposits	381,845	386,939
Long-term debt	18,950	18,950
Advances from borrowers for taxes and insurance	3,284	3,415
Other liabilities	5,667	6,537
Total Liabilities	\$ 409,746	\$ 415,841
Commitments and Contingencies	-	-
Stockholders' Equity		
Common stock, \$0.01 par value per share, 25,000,000 shares authorized; 6,685,715 shares issued and 5,977,372 shares outstanding at June 30, 2015 and 6,673,940 shares issued and	\$ 67	\$ 67

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5,990,042 shares outstanding at December 31, 2014		
Additional paid-in capital	28,848	28,684
Treasury stock, at cost (708,343 shares at June 30, 2015 and 683,898 shares at December 31, 2014)	(6,816)	(6,420)
Unearned shares held by ESOP	(1,748)	(1,791)
Unearned shares held by compensation plans	(676)	(622)
Retained earnings	49,153	48,192
Accumulated other comprehensive income	3,018	3,520
Total Stockholders' Equity	71,846	71,630
Total Liabilities and Stockholders' Equity	\$ 481,592	\$ 487,471

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Income

	Three Months		Six Months Ended	
	Ended June 30, 2015	2014	June 30, 2015	2014
	(Unaudited)			
	(Dollars in thousands, except per share data)			
Interest Income				
Loans, including fees	\$ 3,424	\$ 3,365	\$ 6,794	\$ 6,670
Investment securities, taxable	449	630	942	1,332
Investment securities, tax-exempt	530	529	1,060	1,059
Other	5	3	11	4
Total Interest Income	4,408	4,527	8,807	9,065
Interest Expense				
Deposits	593	748	1,256	1,505
Short-term borrowings	-	8	-	20
Long-term debt	98	48	197	80
Other	25	26	49	51
Total Interest Expense	716	830	1,502	1,656
Net Interest Income	3,692	3,697	7,305	7,409
Provision for Loan Losses	185	-	210	-
Net Interest Income after Provision for Loan Losses	3,507	3,697	7,095	7,409
Non-Interest Income				
Service charges and fees	399	410	778	806
Earnings on bank owned life insurance	69	64	136	125
Recovery on previously impaired investment securities	43	18	75	101
Net gain on sale of securities available for sale	-	157	-	59
Net gain on sale of loans	21	-	45	-
Other	15	21	47	59
Total Non-Interest Income	547	670	1,081	1,150
Non-Interest Expenses				
Salaries and employee benefits	1,684	1,591	3,487	3,254
Occupancy and equipment	565	558	1,136	1,117
Data processing	252	194	502	377
Professional services	258	343	503	658
Advertising	103	169	209	268
FDIC Insurance	73	70	144	141
Postage and supplies	68	66	127	133
Other	259	278	461	559
Total Non-Interest Expenses	3,262	3,269	6,569	6,507
Income before Income Taxes	792	1,098	1,607	2,052
Income Tax Expense	93	199	339	378
Net Income	\$ 699	\$ 899	\$ 1,268	\$ 1,674
Basic earnings per common share	\$ 0.12	\$ 0.16	\$ 0.22	\$ 0.29
Diluted earnings per common share	\$ 0.12	\$ 0.16	\$ 0.21	\$ 0.29
Dividends declared per share	\$ 0.07	\$ 0.07	\$ 0.14	\$ 0.14

See notes to consolidated financial statements.

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Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income/(Loss)

	Three Months Ended June 30, 2015 2014 (Unaudited) (Dollars in thousands)	
Net Income	\$ 699	\$ 899
Other Comprehensive (Loss) Income, net of tax benefit (expense)		
Unrealized holding (losses) gains on securities available for sale, net of tax benefit (expense)	(1,025)	940
Reclassification adjustments related to:		
Recovery on previously impaired investment securities included in net income, net of tax expense	(29)	(11)
Net gain on sale of securities included in net income, net of tax expense	-	(96)
Total Other Comprehensive (Loss) Income	(1,054)	833
Total Comprehensive (Loss) Income	\$ (355)	\$ 1,732
	Six Months Ended June 30, 2015 2014 (Unaudited) (Dollars in thousands)	
Net Income	\$ 1,268	\$ 1,674
Other Comprehensive (Loss) Income, net of tax benefit (expense)		
Unrealized holding (losses) gains on securities available for sale, net of tax benefit (expense)	(452)	2,466
Reclassification adjustments related to:		
Recovery on previously impaired investment securities included in net income, net of tax expense	(50)	(62)
Net gain on sale of securities included in net income, net of tax expense	-	(36)
Total Other Comprehensive (Loss) Income	(502)	2,368

Total Comprehensive Income	\$ 766	\$ 4,042
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See notes to consolidated financial statements.

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Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity

Six Months Ended June 30, 2015 and 2014 (Unaudited)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Unearned Shares Held by ESOP	Unearned Shares Held by Compensation Plans	Retained Earnings	Accumulated Other Comprehensive Income	Total
(In thousands, except share and per share data)								
Balance - January 1, 2014	\$ 66	\$ 28,039	\$ (6,588)	\$ (1,876)	\$ (499)	\$ 45,624	\$ 505	\$ 65,271
Net income	-	-	-	-	-	1,674	-	1,674
Other comprehensive income, net of tax expense of \$1,495	-	-	-	-	-	-	2,368	2,368
ESOP shares earned (3,968 shares)	-	6	-	43	-	-	-	49
Stock based compensation	-	2	-	-	-	-	-	2
Compensation plan shares granted (3,518 shares)	-	-	33	-	(33)	-	-	-
Compensation plan shares earned (1,942 shares)	-	3	-	-	23	-	-	26
Purchase of treasury stock, at cost (5,000 shares)	-	-	(62)	-	-	-	-	(62)
Cash dividends declared (\$0.14 per share)	-	-	-	-	-	(294)	-	(294)
Balance - June 30, 2014	\$ 66	\$ 28,050	\$ (6,617)	\$ (1,833)	\$ (509)	\$ 47,004	\$ 2,873	\$ 69,034
Balance - January 1, 2015	\$ 67	\$ 28,684	\$ (6,420)	\$ (1,791)	\$ (622)	\$ 48,192	\$ 3,520	\$ 71,630
Net income	-	-	-	-	-	1,268	-	1,268
Other comprehensive loss, net of tax benefit of \$666	-	-	-	-	-	-	(502)	(502)
Stock options exercised (11,775 shares)	-	136	-	-	-	-	-	136
ESOP shares earned (3,968 shares)	-	11	-	43	-	-	-	54
	-	1	-	-	-	-	-	1

Stock based compensation Compensation plan shares granted (15,455 shares)	-	-	145	-	(145)	-	-	-
Compensation plan shares earned (8,443 shares)	-	16	-	-	91	-	-	107
Purchase of treasury stock, at cost (39,900 shares)	-	-	(541)	-	-	-	-	(541)
Cash dividends declared (\$0.14 per share)	-	-	-	-	-	(307)	-	(307)
Balance - June 30, 2015	\$ 67	\$ 28,848	\$ (6,816)	\$ (1,748)	\$ (676)	\$ 49,153	\$ 3,018	\$ 71,846

See notes to consolidated
financial statements.

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	Six Months Ended	
	June 30,	2014
	2015	(Unaudited)
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,268	\$ 1,674
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of investment securities	162	147
Amortization of deferred loan costs	244	217
Provision for loan losses	210	-
Recovery on previously impaired investment securities	(75)	(101)
Net gain on sale of investment securities	-	(59)
Originations of loans held for sale	(3,277)	(112)
Proceeds from sales of loans held for sale	3,322	112
Net gain on sale of loans	(45)	-
Depreciation and amortization	415	366
Increase in bank owned life insurance, net	(136)	(125)
ESOP shares committed to be released	54	49
Stock based compensation expense	108	28
Decrease in accrued interest receivable	15	79
Decrease in other assets	473	156
(Decrease) increase in other liabilities	(204)	187
Net Cash Provided by Operating Activities	2,534	2,618
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available for sale securities:		
Sales	-	10,337
Maturities, prepayments and calls	7,753	7,063
Purchases of Federal Home Loan Bank Stock	(29)	(351)
Redemptions of Federal Home Loan Bank Stock	49	362
Loan origination and principal collections, net	(12,188)	504
Additions to premises and equipment	(147)	(321)
Net Cash (Used in) Provided by Investing Activities	(4,562)	17,594
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(5,094)	4,558
Net decrease in advances from borrowers for taxes and insurance	(131)	(93)
Net decrease in short term borrowings	-	(11,650)
Proceeds from issuance of long-term debt	3,250	15,200
Repayment of long-term debt	(3,250)	(4,100)
Proceeds from stock options exercised	136	-
Purchase of treasury stock	(541)	(62)
Cash dividends paid	(307)	(294)
Net Cash (Used in) Provided by Financing Activities	(5,937)	3,559
Net (Decrease) Increase in Cash and Cash Equivalents	(7,965)	23,771
CASH AND CASH EQUIVALENTS - BEGINNING	35,811	17,202
CASH AND CASH EQUIVALENTS - ENDING	\$ 27,846	\$ 40,973

SUPPLEMENTARY CASH FLOWS INFORMATION

Interest paid	\$ 1,501	\$ 1,648
Income taxes paid	\$ 370	\$ 285

SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Foreclosed real estate acquired in settlement of loans	\$ 45	\$ 79
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See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Unaudited)

Note 1 – Nature of Operations and Basis of Presentation

Lake Shore Bancorp, Inc. (the “Company,” “us,” “our,” or “we”) was formed on April 3, 2006 to serve as the stock holding company for Lake Shore Savings Bank (“the Bank”) as part of the Bank’s conversion and reorganization from a New York-chartered mutual savings and loan association to the federal mutual holding company form of organization.

The interim consolidated financial statements include the accounts of the Company and the Bank, its wholly owned subsidiary. All intercompany accounts and transactions of the consolidated subsidiary have been eliminated in consolidation.

The interim financial statements included herein as of June 30, 2015 and for the three and six months ended June 30, 2015 and 2014 have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and therefore, do not include all information or footnotes necessary for a complete presentation of the consolidated statements of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated statement of financial condition at December 31, 2014 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information and to make the financial statements not misleading. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The consolidated results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results for any subsequent period or the entire year ending December 31, 2015.

To prepare these consolidated financial statements in conformity with GAAP, management of the Company made a number of estimates and assumptions relating to the reporting of assets and liabilities and the reporting of revenue and expenses. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, securities valuation estimates, evaluation of impairment of securities and income taxes.

The Company has evaluated events and transactions occurring subsequent to the statement of financial condition as of June 30, 2015 for items that should potentially be recognized or disclosed in these consolidated financial

statements. The evaluation was conducted through the date these consolidated financial statements were issued.

Note 2 – New Accounting Standards

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 is intended to clarify and simplify revenue recognition principles, develop a common revenue standard across industries and accounting frameworks, and improve the usefulness and consistency of revenue reporting. ASU 2014-09 is effective for annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2016. Early application is not permitted. The Company has not yet determined the impact the adoption of ASU 2014-09 will have on its financial condition and results of operations.

In June 2014, the FASB issued ASU 2014-12, “Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period” (“ASU 2014-12”). ASU 2014-12 applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The update requires that a

performance target be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. ASU 2014-12 is effective for the reporting periods beginning after December 15, 2015. Management does not expect the adoption of this update to have a material impact on the Company's consolidated financial statements or results of operations.

Note 3 – Investment Securities

The amortized cost and fair value of securities are as follows:

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
SECURITIES AVAILABLE FOR SALE:				
U.S. Treasury bonds	\$ 12,797	\$ 1,416	\$ -	\$ 14,213
Municipal bonds	57,138	2,648	(78)	59,708
Mortgage-backed securities:				
Collateralized mortgage obligations-private label	54	1	-	55
Collateralized mortgage obligations-government sponsored entities	43,960	203	(501)	43,662
Government National Mortgage Association	448	34	-	482
Federal National Mortgage Association	6,317	276	(7)	6,586
Federal Home Loan Mortgage Corporation	2,436	101	-	2,537
Asset-backed securities-private label	1,351	529	(86)	1,794
Asset-backed securities-government sponsored entities	98	10	-	108
Equity securities	22	27	-	49
	\$ 124,621	\$ 5,245	\$ (672)	\$ 129,194

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in thousands)		
SECURITIES AVAILABLE FOR SALE:				
U.S. Treasury bonds	\$ 12,817	\$ 1,544	\$ -	\$ 14,361
Municipal bonds	57,158	3,635	(7)	60,786
Mortgage-backed securities:				
Collateralized mortgage obligations-private label	61	-	-	61
Collateralized mortgage obligations-government sponsored entities	50,465	237	(710)	49,992
Government National Mortgage Association	524	47	-	571
Federal National Mortgage Association	7,107	366	-	7,473
Federal Home Loan Mortgage Corporation	2,650	117	-	2,767
Asset-backed securities-private label	1,546	584	(107)	2,023
Asset-backed securities-government sponsored entities	111	11	-	122
Equity securities	22	24	-	46
	\$ 132,461	\$ 6,565	\$ (824)	\$ 138,202

All of our collateralized mortgage obligations are backed by residential mortgages.

At June 30, 2015 and at December 31, 2014, equity securities consisted of 22,368 shares of Federal Home Loan Mortgage Corporation ("FHLMC") common stock.

At June 30, 2015 and December 31, 2014, thirty-one municipal bonds with a cost of \$10.7 million and fair value of \$11.2 million and \$11.4 million, respectively, were pledged under a collateral agreement with the Federal Reserve Bank of New York for liquidity borrowing. In addition, at June 30, 2015 and December 31, 2014, six municipal bonds with a cost of \$1.5 million and a fair value of \$1.5 million and \$1.6 million, respectively, were pledged as collateral for customer deposits in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limits.

The following table sets forth the Company's investment in securities available for sale with gross unrealized losses of less than twelve months and gross unrealized losses of twelve months or more and associated fair values as of the dates indicated:

	Less than 12 months		12 months or more		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
(Dollars In thousands)						
June 30, 2015						
Municipal bonds	\$ 1,904	\$ (53)	\$ 545	\$ (25)	\$ 2,449	\$ (78)
Mortgage-backed securities	8,421	(46)	20,817	(462)	29,238	(508)
Asset-backed securities -private label	513	(20)	752	(66)	1,265	(86)
	\$ 10,838	\$ (119)	\$ 22,114	\$ (553)	\$ 32,952	\$ (672)

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	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(Dollars In thousands)						
December 31, 2014						
Municipal bonds	\$ -	\$ -	\$ 814	\$ (7)	\$ 814	\$ (7)
Mortgage-backed securities	7,569	(53)	25,027	(657)	32,596	(710)
Asset-backed securities -private label	610	(28)	829	(79)	1,439	(107)
	\$ 8,179	\$ (81)	\$ 26,670	\$ (743)	\$ 34,849	\$ (824)

The Company reviews investment securities on an ongoing basis for the presence of other-than-temporary impairment (“OTTI”) with formal reviews performed quarterly.

The Company determines whether the unrealized losses are other-than-temporary in accordance with FASB ASC Topic 320 “Investments - Debt and Equity Securities.” The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral and the continuing performance of the securities.

Management also evaluates other facts and circumstances that may be indicative of an OTTI condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which fair value has been less than cost, and near-term prospects of the issuer. The Company uses the cash flow expected to be realized from the security, which includes assumptions about interest rates, timing and severity of defaults, estimates of potential recoveries, the cash flow distribution from the provisions in the applicable bond indenture and other factors, then applies a discounting rate equal to the effective yield of the security. If the present value of the expected cash flows is less than the amortized book value it is considered a credit loss.

The fair value of the security is determined using the same expected cash flows; the discount rate is a rate the Company determines from open market and other sources as appropriate for the security. The difference between the fair value and the credit loss is recognized in other comprehensive income, net of taxes.

At June 30, 2015, the Company’s investment portfolio included nine municipal bonds, eight mortgage-backed securities and one private-label asset-backed security in the “unrealized losses less than twelve months” category. The nine municipal bonds and eight mortgage-backed securities were not evaluated further for OTTI as the unrealized losses on the individual securities were less than 20% of book value, which management deemed to be immaterial. In addition, the mortgage-backed securities were issued by government sponsored enterprises. The Company expects these securities to be repaid in full, with no losses realized. Management does not intend to sell these securities and it is more likely than not that it will not be required to sell these securities. The private label asset-backed security was evaluated further for OTTI, as the probability of default is high and the Company’s analysis indicated a possible loss of principal.

At June 30, 2015, the Company had one municipal bond, twenty mortgage-backed securities and one private label asset-backed security in the “unrealized losses twelve months or more” category.

The one municipal bond and twenty mortgage-backed securities were not evaluated further for OTTI, as the unrealized losses were less than 20% of book value. The temporary impairments were due to declines in fair value resulting from changes in interest rates and/or increased credit liquidity spreads since the securities were purchased. The Company expects these securities to be repaid in full, with no losses realized. Management does not intend to sell these securities and it is more likely than not that it will not be required to sell these securities.

The private label asset-backed security in this category was evaluated further for OTTI, as the probability of default is high and the Company's analysis indicated a possible loss of principal.

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The following table provides additional information relating to the private label asset-backed securities with gross unrealized losses as of June 30, 2015 (dollars in thousands):

Security	Book Value	Fair Value	Unrealized Loss	Lowest Rating	Delinquent % Over 60 days	Delinquent % Over 90 days	Foreclosure%	OREO%
1	\$ 818	\$ 752	\$ (66)	CCC	19.90%	18.90%	9.20%	2.20%
2	533	513	(20)	CCC	17.20%	16.80%	6.30%	1.90%
Total	\$ 1,351	\$ 1,265	\$ (86)					

The two private label asset-backed securities listed above were evaluated for OTTI under the guidance of FASB ASC Topic 320. The Company believes the unrealized losses on these private label asset-backed securities occurred due to challenges in the economic environment resulting from the recent financial crisis and increased levels of delinquency trends in the underlying loan pools. It is possible that principal losses may be incurred on the tranches we hold in these specific securities. Management's evaluation of the estimated discounted cash flows in comparison to the amortized book value for the securities listed above did not reflect the need to record an OTTI charge against earnings during the six months ended June 30, 2015. The estimated discounted cash flows for these securities did not show an additional principal loss under various prepayment and default rate scenarios. Management concluded that it does not intend to sell these securities and that it is not likely it will be required to sell these securities.

Management also completed an OTTI analysis for two private label asset-backed securities, which did not have unrealized losses as of June 30, 2015. Management reviewed key credit metrics for these securities, including delinquency rates, cumulative default rates, prepayment speeds, foreclosure rates, loan-to-value ratios and credit support levels. Management's calculation of the estimated discounted cash flows did not show additional principal losses for these securities under various prepayment and default rate scenarios. As a result of the stress tests that were performed, management concluded that additional OTTI charges were not required as of June 30, 2015 on these securities. Management also concluded that it does not intend to sell the securities and that it is not likely it will be required to sell these securities.

The unrealized losses shown in the previous table, were recorded as a component of other comprehensive loss, net of tax on the Company's Consolidated Statements of Stockholders' Equity.

The following table presents a summary of the credit-related OTTI charges recognized as components of earnings:

	For The Six Months Ended June 30, 2015	For The Six Months Ended June 30, 2014
Beginning balance	\$ 858	\$ 1,318
Additions:		

(Dollars in thousands)

Credit loss not previously recognized	-	-
Reductions:		
Realized loss on sale of security on OTTI previously recognized	-	(282)
Losses realized during the period on OTTI previously recognized	(2)	(3)
Receipt of cash flows on previously recorded OTTI	(75)	(101)
Ending balance	\$ 781	\$ 932

Further deterioration in credit quality and/or a continuation of the current imbalances in liquidity that exist in the marketplace might adversely affect the fair values of the Company's investment portfolio and may increase the potential that certain unrealized losses will be designated as "other-than-temporary" and that the Company may incur additional write-downs in future periods.

Scheduled contractual maturities of available for sale securities are as follows:

	Amortized Cost	Fair Value
	(Dollars in thousands)	
June 30, 2015:		
After one year through five years	\$ 7,056	\$ 7,552
After five years through ten years	32,824	34,850
After ten years	30,055	31,519
Mortgage-backed securities	53,215	53,322
Asset-backed securities	1,449	1,902
Equity securities	22	49
	\$ 124,621	\$ 129,194

During the six months ended June 30, 2015, the Company did not sell any securities available for sale. The Company sold one private-label, asset-backed security and six mortgage-backed securities during the six months ended June 30, 2014 for total proceeds of \$10.3 million, resulting in gross realized gains of \$274,000 and gross realized losses of \$215,000.

Note 4 - Allowance for Loan Losses

Management segregates the loan portfolio into loan types and analyzes the risk level for each loan type when determining its allowance for loan losses. The loan types are as follows:

Real Estate Loans:

- One- to Four-Family – are loans secured by first lien collateral on residential real estate primarily held in the Western New York region. These loans can be affected by economic conditions and the value of underlying properties. Western New York’s housing market has consistently demonstrated stability in home prices despite economic conditions. Furthermore, the Company has conservative underwriting standards and does not have any sub-prime loans in its loan portfolio.
- Home Equity - are loans or lines of credit secured by second lien collateral on owner-occupied residential real estate primarily held in the Western New York area. These loans can also be affected by economic conditions and the values of underlying properties. Home equity loans may have increased risk of loss if the Company does not hold the first mortgage resulting in the Company being in a secondary position in the event of collateral liquidation. The Company does not originate interest only home equity loans.
- Commercial Real Estate – are loans used to finance the purchase of real property, which generally consists of developed real estate that is held as first lien collateral for the loan. These loans are secured by real estate properties that are primarily held in the Western New York region. Commercial real estate lending involves additional risks compared with one- to four-family residential lending, because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, and/or the collateral

value of the commercial real estate securing the loan, and repayment of such loans may be subject to adverse conditions in the real estate market or economic conditions to a greater extent than one- to four-family residential mortgage loans. Also, commercial real estate loans typically involve large loan balances to single borrowers or groups of related borrowers. Accordingly, these types of loans are more difficult for the Company to monitor and evaluate.

- Construction – are loans to finance the construction of either one- to four-family owner occupied homes or commercial real estate. At the end of the construction period, the loan automatically converts to either a one- to four-family or commercial mortgage, as applicable. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion compared to the actual cost of construction. The Company limits its risk during construction as disbursements are not made until the required work for each advance has been completed and an updated lien search is performed. The completion of the construction progress is

verified by inspections performed by an independent appraisal firm. Construction delays may further impair the borrower's ability to repay the loan.

Other Loans:

- Commercial – includes business installment loans, lines of credit, and other commercial loans. Most of our commercial loans have fixed interest rates, and are for terms generally not in excess of 5 years. Whenever possible, we collateralize these loans with a lien on business assets and equipment and require the personal guarantees from principals of the borrower. Commercial loans generally involve a higher degree of credit risk because the collateral underlying the loans may be in the form of intangible assets and/or inventory subject to market obsolescence. Commercial loans can also involve relatively large loan balances to a single borrower or groups of related borrowers, with the repayment of such loans typically dependent on the successful operation of the commercial business and the income stream of the borrower. Such risks can be significantly affected by economic conditions. Although commercial loans may be collateralized by equipment or other business assets, the liquidation of collateral in the event of a borrower default may be an insufficient source of repayment because the equipment or other business assets may be obsolete or of limited use, among other things. Accordingly, the repayment of a commercial loan depends primarily on the credit worthiness of the borrowers (and any guarantors) while liquidation of collateral is a secondary and often insufficient source of repayment.
- Consumer – consists of loans secured by collateral such as an automobile or a deposit account, unsecured loans and lines of credit. Consumer loans tend to have a higher credit risk due to the loans being either unsecured or secured by rapidly depreciable assets. Furthermore, consumer loan payments are dependent on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

The allowance for loan losses is a valuation account that reflects the Company's evaluation of the losses inherent in its loan portfolio. In order to determine the adequacy of the allowance for loan losses, the Company estimates losses by loan type using historical loss factors, as well as other environmental factors, such as trends in loan volume and loan type, loan concentrations, changes in the experience, ability and depth of the Company's lending management, and national and local economic conditions. The Company's determination as to the classification of loans and the amount of loss allowances are subject to review by bank regulators, which can require the establishment of additional loss allowances.

The Company also reviews all loans on which the collectability of principal may not be reasonably assured, by reviewing payment status, financial conditions and estimated value of loan collateral. These loans are assigned an internal loan grade, and the Company assigns the amount of loss components to these classified loans based on loan grade.

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The following tables summarize the activity in the allowance for loan losses for the three and six months ended June 30, 2015 and 2014 and the distribution of the allowance for loan losses and loan receivable by loan portfolio class and impairment method as of June 30, 2015 and December 31, 2014.

	Real Estate Loans			Other Loans				Total
	One- to Home Four-Family	Commercial	Construction	Commercial	Consumer	Unallocated		
June 30, 2015								
Allowance for Loan Losses:								
Balance – April 1, 2015	\$ 425	\$ 106	\$ 1,181	\$ -	\$ 192	\$ 26	\$ 10	\$ 1,940
Charge-offs	(1)	(2)	-	-	(4)	(11)	-	(18)
Recoveries	3	7	-	-	7	1	-	18
Provision (Credit)	(34)	(8)	213	-	(8)	11	11	185