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 September 30, 2022

☐ 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	**20-4729288**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
31 East Fourth Street, Dunkirk, New York	**14048**
(Address of principal executive offices)	(Zip code)

(716) 366-4070
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	LSBK	The Nasdaq Stock Market LLC

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes [X] No [ ]

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

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

There were 5,707,387 shares of the registrant's common stock, $0.01 par value per share, outstanding at November 10, 2022.

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PART I Financial Information
Item 1. Financial Statements
Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Financial Condition

	September 30, 2022	December 31, 2021
	(Unaudited)	
	(Dollars in thousands, except share data)	
Assets		
Cash and due from banks	$ 8,124	$ 37,533
Interest earning deposits	11,552	30,052
Cash and Cash Equivalents	19,676	67,585
Securities	71,273	88,816
Federal Home Loan Bank stock, at cost	1,763	1,606
Loans receivable, net of allowance for loan losses 2022 $6,849; 2021 $6,118	561,170	517,206
Premises and equipment, net	8,382	8,736
Accrued interest receivable	2,587	2,483
Bank owned life insurance	23,139	22,877
Other assets	7,738	4,430
Total Assets	$ 695,728	$ 713,739
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Interest bearing	$ 468,940	$ 482,508
Non-interest bearing	114,420	110,676
Total Deposits	583,360	593,184
Long-term debt	24,950	21,950
Advances from borrowers for taxes and insurance	1,786	3,198
Other liabilities	7,470	7,431
Total Liabilities	617,566	625,763
Stockholders' Equity		
Common stock, $0.01 par value per share, 25,000,000 shares authorized; 6,836,514 shares issued and 5,707,587 shares outstanding at September 30, 2022 and 6,836,514 shares issued and 5,692,410 shares outstanding at December 31, 2021	68	68
Additional paid-in capital	31,437	31,350
Treasury stock, at cost (1,128,927 shares at September 30, 2022 and 1,144,104 shares at December 31, 2021)	(13,549)	(13,660)
Unearned shares held by ESOP	(1,130)	(1,194)
Unearned shares held by compensation plans	(245)	(157)
Retained earnings	74,129	70,591
Accumulated other comprehensive (loss) income	(12,548)	978
Total Stockholders' Equity	78,162	87,976
Total Liabilities and Stockholders' Equity	$ 695,728	$ 713,739

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary
Consolidated Statements of Income

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(Unaudited) (Dollars in thousands, except per share data)			
Interest Income				
Loans, including fees	$ 6,311	$ 5,997	$ 17,600	$ 17,274
Investment securities, taxable	210	188	610	550
Investment securities, tax-exempt	309	269	935	842
Other	88	11	138	25
Total Interest Income	6,918	6,465	19,283	18,691
Interest Expense				
Deposits	419	494	1,095	1,704
Long-term debt	141	119	354	401
Other	13	15	43	48
Total Interest Expense	573	628	1,492	2,153
Net Interest Income	6,345	5,837	17,791	16,538
Provision for Loan Losses	-	-	500	650
Net Interest Income after Provision for Loan Losses	6,345	5,837	17,291	15,888
Non-Interest Income				
Service charges and fees	277	265	834	765
Debit card fees	214	224	639	656
Earnings on bank owned life insurance	66	104	262	313
Unrealized gain (loss) on equity securities	2	(14)	(7)	(34)
Unrealized gain on interest rate swap	91	25	344	121
Recovery on previously impaired investment securities	2	18	12	50
Net (loss) gain on sale of loans	-	69	(18)	278
Other	16	16	54	61
Total Non-Interest Income	668	707	2,120	2,210
Non-Interest Expense				
Salaries and employee benefits	2,504	2,375	7,371	6,719
Occupancy and equipment	738	708	2,273	2,048
Professional services	562	454	1,196	1,203
Data processing	403	425	1,094	1,158
Advertising	197	189	456	502
Postage and supplies	54	67	168	207
FDIC insurance	46	48	138	135
Other	366	228	1,283	870
Total Non-Interest Expense	4,870	4,494	13,979	12,842
Income before Income Taxes	2,143	2,050	5,432	5,256
Income Tax Expense	372	359	916	884
Net Income	$ 1,771	$ 1,691	$ 4,516	$ 4,372
Basic and diluted earnings per common share	$ 0.30	0.29	0.77	0.74
Dividends declared per share	$ 0.18	$ 0.14	$ 0.50	$ 0.40

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary
Consolidated Statements of Comprehensive (Loss) Income

	Three Months Ended September 30,	
	2022	2021
	(Unaudited)	
	(Dollars in thousands)	
Net Income	$ 1,771	$ 1,691
Other Comprehensive Loss, net of tax benefit:		
Unrealized holding losses on securities available for sale, net of tax benefit	(3,954)	(559)
Reclassification adjustments related to:		
Recovery on previously impaired investment securities included in net income, net of tax expense	(1)	(14)
Total Other Comprehensive Loss	(3,955)	(573)
Total Comprehensive (Loss) Income	$ (2,184)	$ 1,118

	Nine Months Ended September 30,	
	2022	2021
	(Unaudited)	
	(Dollars in thousands)	
Net Income	$ 4,516	$ 4,372
Other Comprehensive Loss, net of tax benefit:		
Unrealized holding losses on securities, net of tax benefit	(13,517)	(1,126)
Reclassification adjustments related to:		
Recovery on previously impaired investment securities included in net income, net of tax expense	(9)	(39)
Total Other Comprehensive Loss	(13,526)	(1,165)
Total Comprehensive (Loss) Income	$ (9,010)	$ 3,207

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary
Consolidated Statements of Stockholders' Equity
Three Months Ended March 31, June 30, and September 30, 2021 and 2022 (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
	(Dollars in thousands, except share and per share data)							
Balance - January 1, 2021	$ 68	$ 31,201	$ (11,584)	$ (1,279)	$ (118)	$ 65,488	$ 2,148	$ 85,924
Net income	-	-	-	-	-	1,688	-	1,688
Other comprehensive loss, net of tax benefit of $213	-	-	-	-	-	-	(803)	(803)
ESOP shares earned (1,984 shares)	-	8	-	21	-	-	-	29
Stock based compensation	-	11	-	-	-	-	-	11
Compensation plan shares granted (20,958 shares)	-	-	196	-	(196)	-	-	-
Compensation plan shares forfeited (1,392 shares)	-	-	(13)	-	13	-	-	-
Compensation plan shares earned (2,057 shares)	-	10	-	-	21	-	-	31
Purchase of treasury stock, at cost (43,834 shares)	-	-	(652)	-	-	-	-	(652)
Cash dividends declared ($0.13 per share)	-	-	-	-	-	(268)	-	(268)
Balance - March 31, 2021	$ 68	$ 31,230	$ (12,053)	$ (1,258)	$ (280)	$ 66,908	$ 1,345	$ 85,960
Balance - April 1, 2021	$ 68	$ 31,230	$ (12,053)	$ (1,258)	$ (280)	$ 66,908	$ 1,345	$ 85,960
Net income	-	-	-	-	-	993	-	993
Other comprehensive income, net of tax expense of $55	-	-	-	-	-	-	211	211
ESOP shares earned (1,984 shares)	-	8	-	22	-	-	-	30
Stock based compensation	-	11	-	-	-	-	-	11
Compensation plan shares earned (4,375 shares)	-	24	-	-	42	-	-	66
Purchase of treasury stock, at cost (36,094 shares)	-	-	(547)	-	-	-	-	(547)
Cash dividends declared ($0.13 per share)	-	-	-	-	-	(280)	-	(280)
Balance - June 30, 2021	$ 68	$ 31,273	$ (12,600)	$ (1,236)	$ (238)	$ 67,621	$ 1,556	$ 86,444
Balance - July 1, 2021	$ 68	$ 31,273	$ (12,600)	$ (1,236)	$ (238)	$ 67,621	$ 1,556	$ 86,444
Net income	-	-	-	-	-	1,691	-	1,691
Other comprehensive loss, net of tax benefit of $152	-	-	-	-	-	-	(573)	(573)
ESOP shares earned (1,984 shares)	-	8	-	21	-	-	-	29
Stock based compensation	-	11	-	-	-	-	-	11
Compensation plan shares forfeited (400 shares)	-	-	(4)	-	4	-	-	-
Compensation plan shares earned (4,375 shares)	-	25	-	-	41	-	-	66
Purchase of treasury stock, at cost (60,000 shares)	-	-	(897)	-	-	-	-	(897)
Cash dividends declared ($0.14 per share)	-	-	-	-	-	(280)	-	(280)
Balance - September 30, 2021	$ 68	$ 31,317	$ (13,501)	$ (1,215)	$ (193)	$ 69,032	$ 983	$ 86,491

	Common Stock	Additional Paid-In Capital	Treasury Stock	Unearned Shares Held by ESOP	Unearned Shares Held by Compensation Plans	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Dollars in thousands, except share and per share data)							
Balance - January 1, 2022	$ 68	$ 31,350	$ (13,660)	$ (1,194)	$ (157)	$ 70,591	$ 978	$ 87,976
Net income	-	-	-	-	-	1,061	-	1,061
Other comprehensive loss, net of tax benefit of $1,630	-	-	-	-	-	-	(6,134)	(6,134)
ESOP shares earned (1,984 shares)	-	8	-	22	-	-	-	30
Compensation plan shares granted (27,132 shares)	-	-	255	-	(255)	-	-	-
Compensation plan shares earned (2,749 shares)	-	16	-	-	26	-	-	42
Cash dividends declared ($0.16 per share)	-	-	-	-	-	(312)	-	(312)
Balance - March 31, 2022	$ 68	$ 31,374	$ (13,405)	$ (1,172)	$ (386)	$ 71,340	$ (5,156)	$ 82,663
Balance - April 1, 2022	$ 68	$ 31,374	$ (13,405)	$ (1,172)	$ (386)	$ 71,340	$ (5,156)	$ 82,663
Net income	-	-	-	-	-	1,684	-	1,684
Other comprehensive loss, net of tax benefit of $914	-	-	-	-	-	-	(3,437)	(3,437)
ESOP shares earned (1,984 shares)	-	7	-	21	-	-	-	28
Compensation plan shares forfeited (3,062 shares)	-	-	(29)	-	29	-	-	-
Compensation plan shares earned (4,942 shares)	-	29	-	-	45	-	-	74
Purchase of treasury stock, at cost (5,701 shares)	-	-	(85)	-	-	-	-	(85)
Cash dividends declared ($0.16 per share)	-	-	-	-	-	(313)	-	(313)
Balance - June 30, 2022	$ 68	$ 31,410	$ (13,519)	$ (1,151)	$ (312)	$ 72,711	$ (8,593)	$ 80,614
Balance - July 1, 2022	$ 68	$ 31,410	$ (13,519)	$ (1,151)	$ (312)	$ 72,711	$ (8,593)	$ 80,614
Net income	-	-	-	-	-	1,771	-	1,771
Other comprehensive loss, net of tax benefit of $1,051	-	-	-	-	-	-	(3,955)	(3,955)
ESOP shares earned (1,984 shares)	-	5	-	21	-	-	-	26
Compensation plan shares forfeited (3,192 shares)	-	-	(30)	-	30	-	-	-
Compensation plan shares earned (3,917 shares)	-	22	-	-	37	-	-	59
Cash dividends declared ($0.18 per share)	-	-	-	-	-	(353)	-	(353)
Balance - September 30, 2022	$ 68	$ 31,437	$ (13,549)	$ (1,130)	$ (245)	$ 74,129	$ (12,548)	$ 78,162

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(Unaudited) (Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,516	$ 4,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of investment securities	73	114
Net amortization of deferred loan costs	323	408
Provision for loan losses	500	650
Recovery on previously impaired investment securities	(12)	(50)
Unrealized loss on equity securities	7	34
Unrealized gain on interest rate swap	(344)	(121)
Originations of loans held for sale	(1,309)	(8,743)
Proceeds from sales of loans held for sale	1,291	9,021
Loss (gain) on sale of loans held for sale	18	(278)
Depreciation and amortization	652	652
Increase in bank owned life insurance, net	(262)	(313)
ESOP shares committed to be released	84	88
Stock based compensation expense	175	196
(Increase) decrease in accrued interest receivable	(104)	345
Decrease (increase) in other assets	635	(90)
Writedowns of foreclosed real estate	9	7
Increase in other liabilities	99	135
Net Cash Provided by Operating Activities	6,351	6,427
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in debt securities:		
Maturities, prepayments and calls	6,495	15,354
Purchases	(6,141)	(21,340)
Purchases of Federal Home Loan Bank Stock	(157)	(54)
Redemptions of Federal Home Loan Bank Stock	-	353
Loan origination and principal collections, net	(45,003)	(1,659)
Proceeds from sale of foreclosed real estate	143	55
Additions to premises and equipment	(298)	(475)
Net Cash Used in Investing Activities	(44,961)	(7,766)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(9,824)	31,495
Net decrease in advances from borrowers for taxes and insurance	(1,412)	(1,427)
Proceeds from issuance of long-term debt	5,000	-
Repayment of long-term debt	(2,000)	(7,800)
Purchase of treasury stock	(85)	(2,096)
Cash dividends paid	(978)	(828)
Net Cash (Used in) Provided by Financing Activities	(9,299)	19,344
Net (Decrease) Increase in Cash and Cash Equivalents	(47,909)	18,005
CASH AND CASH EQUIVALENTS - BEGINNING	67,585	42,975
CASH AND CASH EQUIVALENTS - ENDING	$ 19,676	$ 60,980
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	$ 1,492	$ 2,169
Income taxes paid	$ 650	$ 1,075
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Foreclosed real estate acquired in settlement of loans	$ 216	$ 97

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)

Note 1 – Basis of Presentation

The interim consolidated financial statements include the accounts of Lake Shore Bancorp, Inc. (the “Company”, “us”, “our”, or “we”) and Lake Shore Savings Bank (the “Bank”), its wholly owned subsidiary. All intercompany accounts and transactions of the consolidated subsidiary have been eliminated in consolidation.

The interim consolidated financial statements included herein as of September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 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, 2021 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, 2021. The consolidated statements of income for the three and nine months ended September 30, 2022 are not necessarily indicative of the results for any subsequent period or the entire year ending December 31, 2022.

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 September 30, 2022 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

Accounting Standards to be Adopted

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2016-13, *“Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”* (“ASU 2016-13”). ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (“CECL”) model). Under the CECL model entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. Further, ASU 2016-13 made certain targeted amendments to the existing impairment standards for available for sale (“AFS”) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. An entity will apply the amendments in

ASU 2016-13 through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective.

The Company has determined its data requirements and is developing its methodologies for calculating the expected credit losses under ASU 2016-13 which has allowed the Company to run parallel loss reserve calculations. Data integrity associated with these methodologies is being reviewed and enhancements to the current process are being considered. We expect that the new guidance will result in an increase to the allowance for loan losses given that the allowance will be required to cover the full remaining expected life of the portfolio, rather than the incurred loss under the current accounting standard. The extent of this increase is still being evaluated. We are also reviewing the impact of additional disclosures required under ASU 2016-13 on our ongoing financial reporting procedures.

The Company is required to adopt this guidance on January 1, 2023.

In March 2022, FASB issued ASU 2022-02, *"Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures"* ("ASU 2022-02"). The final standard affects all entities after adoption of ASU 2016-13, mentioned above. ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings ("TDRs") by creditors in Subtopic 310-40, *Receivables – Troubled Debt Restructurings by Creditors*, while enhancing the disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The FASB's decision to eliminate the TDR accounting model is in response to feedback that the CECL model already incorporates credit losses from loans modified as TDRs, and consequently, the related accounting and disclosures no longer provide the same level of benefit to users. In lieu of the TDR accounting model, creditors will apply the general loan modification guidance in Subtopic 310-20 to all loan modifications, including modifications for borrowers experiencing financial difficulty. The ASU also requires public business entities to expand the vintage disclosures to include gross charge-off by year of origination. The Company currently qualifies as a smaller reporting company and, as such, will be required to implement CECL and ASU 2022-02 for fiscal years beginning after December 15, 2022. The Company does not expect this ASU to have a significant impact on its consolidated financial statements.

Note 3 – COVID-19

On March 11, 2020, the World Health Organization recognized an outbreak of a novel strain of the coronavirus, COVID-19, as a pandemic. The COVID-19 pandemic adversely affected the economy and resulted in the enactment of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act provided guidelines surrounding loan modifications for borrowers directly impacted by the pandemic.

As reported during prior periods, at the onset of the pandemic the Bank became a participating lender in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") to assist small businesses in our market areas that were impacted by the pandemic. As of September 30, 2022, all of the PPP loans that we originated as of December 31, 2021 have been forgiven by the SBA. Furthermore, there are no CARES Act loan modifications outstanding for the Bank's borrowers as of September 30, 2022.

The Company continues to evaluate the risks presented by the pandemic, along with the impact of the federal and state regulations that have been enacted due to the pandemic, as these events may have long-term implications that have a material adverse impact on the Company's future results, operations, financial position, capital and liquidity. At this time the Company cannot quantify the potential impact of the ongoing pandemic on future operations.

Note 4 – Investment Securities

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

	September 30, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
SECURITIES				
Debt Securities Available for Sale				
U.S. government agencies	$ 2,008	$ -	$ (187)	$ 1,821
Municipal bonds	50,740	8	(10,929)	39,819
Mortgage-backed securities:				
Collateralized mortgage obligations-private label	12	-	(1)	11
Collateralized mortgage obligations-government sponsored entities	14,346	-	(1,579)	12,767
Government National Mortgage Association	63	-	(3)	60
Federal National Mortgage Association	13,541	-	(2,161)	11,380
Federal Home Loan Mortgage Corporation	6,430	1	(1,131)	5,300
Asset-backed securities-private label	-	99	-	99
Asset-backed securities-government sponsored entities	4	-	-	4
Total Debt Securities Available for Sale	$ 87,144	$ 108	$ (15,991)	$ 71,261
Equity Securities	22	-	(10)	12
Total Securities	$ 87,166	$ 108	$ (16,001)	$ 71,273

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
SECURITIES				
Debt Securities Available for Sale				
U.S. government agencies	$ 2,009	$ 204	$ -	$ 2,213
Municipal bonds	49,812	1,085	(141)	50,756
Mortgage-backed securities:				
Collateralized mortgage obligations-private label	14	1	-	15
Collateralized mortgage obligations-government sponsored entities	17,798	209	(193)	17,814
Government National Mortgage Association	76	7	-	83
Federal National Mortgage Association	10,773	53	(66)	10,760
Federal Home Loan Mortgage Corporation	7,068	87	(119)	7,036
Asset-backed securities-private label	-	110	-	110
Asset-backed securities-government sponsored entities	9	1	-	10
Total Debt Securities Available for Sale	$ 87,559	$ 1,757	$ (519)	$ 88,797
Equity Securities	22	-	(3)	19
Total Securities	$ 87,581	$ 1,757	$ (522)	$ 88,816

Debt Securities

All of our collateralized mortgage obligations are backed by one- to four-family residential mortgages.

At September 30, 2022 and December 31, 2021, 31 and 29 municipal bonds with a cost of $12.1 million and $10.6 million and fair value of $9.8 million and $11.0 million, respectively, were pledged under a collateral agreement with the Federal Reserve Bank (“FRB”) of New York for liquidity borrowing. In addition, at September 30, 2022 and December 31, 2021, 21 municipal bonds with a cost of $6.3 million and $6.0 million and fair value of $5.0 million and $6.2 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 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	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(Dollars in thousands)					
September 30, 2022						
U.S. Government Agencies	$ 1,821	$ (187)	$ -	$ -	$ 1,821	$ (187)
Municipal bonds	25,364	(7,977)	8,416	(2,952)	33,780	(10,929)
Mortgage-backed securities	14,866	(1,663)	14,493	(3,212)	29,359	(4,875)
	$ 42,051	$ (9,827)	$ 22,909	$ (6,164)	$ 64,960	$ (15,991)
December 31, 2021						
Municipal bonds	$ 9,601	(120)	$ 857	$ (21)	$ 10,458	$ (141)
Mortgage-backed securities	21,141	(211)	3,083	(167)	24,224	(378)
	$ 30,742	$ (331)	$ 3,940	$ (188)	$ 34,682	$ (519)

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

At September 30, 2022, the Company's investment portfolio included 158 securities in the "unrealized losses less than twelve months" category and 41 securities in the "unrealized losses twelve months or more" category. Management has the intent and ability to hold these securities until maturity. Management believes 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 unrealized losses on debt securities shown in the previous tables were recorded as a component of other comprehensive loss, net of tax benefit 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 income:

	For The Nine Months Ended September 30, 2022	2021
	(Dollars in thousands)	
Beginning balance	$ 162	$ 221
Additions:		
Credit loss not previously recognized	-	-
Reductions:		
Losses realized during the period on OTTI previously recognized	-	-
Receipt of cash flows on previously recorded OTTI	(12)	(50)
Ending balance	$ 150	$ 171

A deterioration in credit quality and/or other factors that may limit the liquidity of a security in our portfolio 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.

During the nine months ended September 30, 2022 and 2021, the Company did not sell any debt securities.

Scheduled contractual maturities of debt securities are as follows:

	Amortized Cost	Fair Value
	(Dollars in thousands)	
September 30, 2022:		
Less than one year	$ 415	$ 415
After one year through five years	5,419	5,181
After five years through ten years	9,960	8,898
After ten years	36,954	27,146
Mortgage-backed securities	34,392	29,518
Asset-backed securities	4	103
	$ 87,144	$ 71,261

Equity Securities

At September 30, 2022 and December 31, 2021, equity securities consisted of 22,368 shares of Federal Home Loan Mortgage Corporation ("FHLMC") common stock. During the three months ended September 30, 2022 and 2021, the Company recognized an unrealized gain of $2,000 and an unrealized loss of $14,000, respectively, on the equity securities, which was recorded in non-interest income in the consolidated statements of income. During the nine months ended September 30, 2022 and 2021, the Company recognized an unrealized loss of $7,000 and $34,000, respectively, on the equity securities, which was recorded in non-interest income in the consolidated statements of income. There were no sales of equity securities during the nine months ended September 30, 2022 and 2021.

Note 5 - 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 its residential lending policies and procedures ensure that its one- to four-family residential mortgage loans generally conform to secondary market guidelines.
- Home Equity - are loans or lines of credit secured by first or second liens on owner-occupied residential real estate primarily held in the Western New York region. 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 relatively large loan balances concentrated with single borrowers or groups of related borrowers.

- 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 a Company loan officer or inspections performed by an independent appraisal firm. Construction loans also expose us to the risk of construction delays which may 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, as commercial loans can 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 – consist 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 an amount of loss allowances to these classified loans based on loan grade.

Although the allocations noted below are by loan type, the allowance for loan losses is general in nature and is available to offset losses from any loan in the Company's portfolio. The unallocated component of the allowance for loan losses reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for existing specific and general losses in the portfolio.

The following tables summarize the activity in the allowance for loan losses for the three and nine months ended September 30, 2022 and 2021 and the distribution of the allowance for loan losses and loans receivable by loan portfolio class and impairment method as of September 30, 2022 and December 31, 2021:

	Real Estate Loans				Other Loans			
	One- to Four-Family[2]	Home Equity	Commercial	Construction - Commercial	Commercial	Consumer	Unallocated	Total
	(Dollars in thousands)							
September 30, 2022								
Allowance for Loan Losses:								
Balance – July 1, 2022	$ 449	$ 330	$ 4,908	$ 373	$ 479	$ 24	$ 184	$ 6,747
Charge-offs	-	-	-	-	-	(17)	-	(17)
Recoveries	-	-	115	-	-	4	-	119
Provision (credit)	17	(62)	35	10	(1)	23	(22)	-
Balance – September 30, 2022	$ 466	$ 268	$ 5,058	$ 383	$ 478	$ 34	$ 162	$ 6,849
Balance – January 1, 2022	$ 383	$ 211	$ 4,377	$ 360	$ 531	$ 32	$ 224	$ 6,118
Charge-offs	-	-	(4)	-	-	(58)	-	(62)
Recoveries	17	1	269	-	-	6	-	293
Provision (credit)	66	56	416	23	(53)	54	(62)	500
Balance – September 30, 2022	$ 466	$ 268	$ 5,058	$ 383	$ 478	$ 34	$ 162	$ 6,849
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 466	$ 268	$ 5,058	$ 383	$ 478	$ 34	$ 162	$ 6,849
Gross Loans Receivable [1]:								
Ending balance	$ 171,570	$ 50,633	$ 295,582	$ 23,241	$ 21,950	$ 1,171	$ -	$ 564,147
Ending balance: individually evaluated for impairment	$ 216	$ 14	$ -	$ -	$ -	$ -	$ -	$ 230
Ending balance: collectively evaluated for impairment	$ 171,354	$ 50,619	$ 295,582	$ 23,241	$ 21,950	$ 1,171	$ -	$ 563,917

(1) Gross Loans Receivable does not include allowance for loan losses of $(6,849) or deferred loan costs of $3,872.

(2) Includes one- to four-family construction loans.

	Real Estate Loans				Other Loans			
	One- to Four-Family[1]	Home Equity	Commercial	Construction - Commercial	Commercial	Consumer	Unallocated	Total
	(Dollars in thousands)							
September 30, 2021								
Allowance for Loan Losses:								
Balance – July 1, 2021	$ 325	$ 169	$ 4,800	$ 495	$ 561	$ 35	$ 106	$ 6,491
Charge-offs	-	-	(426)	-	-	(18)	-	(444)
Recoveries	49	1	4	-	23	1	-	78
Provision (credit)	43	50	(3)	(165)	(29)	18	86	-
Balance – September 30, 2021	$ 417	$ 220	$ 4,375	$ 330	$ 555	$ 36	$ 192	$ 6,125
Balance – January 1, 2021	$ 346	$ 172	$ 4,052	$ 434	$ 676	$ 27	$ 150	$ 5,857
Charge-offs	(12)	-	(429)	-	-	(26)	-	(467)
Recoveries	49	1	6	-	23	6	-	85
Provision (credit)	34	47	746	(104)	(144)	29	42	650
Balance – September 30, 2021	$ 417	$ 220	$ 4,375	$ 330	$ 555	$ 36	$ 192	$ 6,125

(1) Includes one– to four-family construction loans.

	Real Estate Loans				Other Loans			
	One- to Four-Family[2]	Home Equity	Commercial	Construction - Commercial	Commercial	Consumer	Unallocated	Total
	(Dollars in thousands)							
December 31, 2021								
Allowance for Loan Losses:								
Balance – December 31, 2021	$ 383	$ 211	$ 4,377	$ 360	$ 531	$ 32	$ 224	$ 6,118
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 383	$ 211	$ 4,377	$ 360	$ 531	$ 32	$ 224	$ 6,118
Gross Loans Receivable [1]:								
Ending Balance	$ 158,826	$ 48,071	$ 266,525	$ 21,824	$ 23,216	$ 1,317	$ -	$ 519,779
Ending balance: individually evaluated for impairment	$ 261	$ 24	$ 7,002	$ -	$ -	$ -	$ -	$ 7,287
Ending balance: collectively evaluated for impairment	$ 158,565	$ 48,047	$ 259,523	$ 21,824	$ 23,216	$ 1,317	$ -	$ 512,492

(1) Gross Loans Receivable does not include allowance for loan losses of $(6,118) or deferred loan costs of $3,545.
(2) Includes one- to four-family construction loans.

A loan is considered impaired when, based on current information and events, it is probable that the Company will not be able to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value and the probability of collecting scheduled payments when due. Impairment is measured on a loan-by-loan basis for commercial real estate loans and commercial loans. Larger groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer, home equity, or one- to four-family loans for impairment disclosure, unless they are subject to a troubled debt restructuring.

The following is a summary of information pertaining to impaired loans at or for the periods indicated:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	At September 30, 2022			At December 31, 2021		
	(Dollars in thousands)					
With no related allowance recorded:						
Residential, one- to four-family	$ 216	$ 216	$ -	$ 261	$ 261	$ -
Home equity	14	14	-	24	24	-
Commercial real estate(1)	-	-	-	7,002	7,002	-
Total impaired loans with no related allowance	230	230	-	7,287	7,287	-

	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	For the Three Months Ended September 30, 2022		For the Three Months Ended September 30, 2021	
With no related allowance recorded:				
Residential, one- to four-family	$ 243	$ 2	$ 267	$ 3
Home equity	18	-	24	-
Commercial real estate(1)	-	-	8,951	73
Total impaired loans	$ 261	$ 2	$ 9,242	$ 76

	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	For the Nine Months Ended September 30, 2022		For the Nine Months Ended September 30, 2021	
With no related allowance recorded:				
Residential, one- to four-family	$ 252	$ 9	$ 271	$ 10
Home equity	22	-	25	1
Commercial real estate(1)	3,262	-	9,381	219
Total impaired loans	$ 3,536	$ 9	$ 9,677	$ 230

(1) Commercial Real Estate loans consisted of one loan which was paid off during the nine months ended September 30, 2022.

The following table provides an analysis of past due loans and non-accruing loans as of the dates indicated:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Due	Total Loans Receivable	Loans on Non-Accrual
				(Dollars in thousands)			
September 30, 2022:							
Real Estate Loans:							
Residential, one- to four-family[(1)]	$ 783	$ 338	$ 1,461	$ 2,582	$ 168,988	$ 171,570	$ 2,335
Home equity	49	274	452	775	49,858	50,633	604
Commercial[(2)]	-	-	-	-	295,582	295,582	-
Construction - commercial	-	-	-	-	23,241	23,241	-
Other Loans:							
Commercial[(3)]	-	-	-	-	21,950	21,950	-
Consumer	20	10	9	39	1,132	1,171	19
Total	$ 852	$ 622	$ 1,922	$ 3,396	$ 560,751	$ 564,147	$ 2,958

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Due	Total Loans Receivable	Loans on Non-Accrual
				(Dollars in thousands)			
December 31, 2021:							
Real Estate Loans:							
Residential, one- to four-family[(1)]	$ 373	$ 758	$ 1,096	$ 2,227	$ 156,599	$ 158,826	$ 1,878
Home equity	265	146	532	943	47,128	48,071	636
Commercial[(2)]	-	-	-	-	266,525	266,525	7,002
Construction - commercial	-	-	-	-	21,824	21,824	-
Other Loans:							
Commercial[(3)]	-	-	-	-	23,216	23,216	-
Consumer	7	7	5	19	1,298	1,317	5
Total	$ 645	$ 911	$ 1,633	$ 3,189	$ 516,590	$ 519,779	$ 9,521

(1) Includes one- to four-family construction loans.

(2) Commercial Real Estate loans on non-accrual consists of one loan which was moved to non-accrual status during the year ended December 31, 2021. This loan was paid off during the nine months ended September 30, 2022.

(3) Includes $4.6 million of Paycheck Protection Program ("PPP") loans at December 31, 2021, which do not require payments for a certain amount of time under the CARES Act and are 100% guaranteed by SBA. All PPP loans were forgiven as of September 30, 2022.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. A loan does not have to be 90 days delinquent in order to be classified as non-accrual. When interest accrual is discontinued, all unpaid accrued interest is reversed. If ultimate collection of principal is in doubt, all cash receipts on impaired loans are applied to reduce the principal balance.

The Company's policies provide for the classification of loans as follows:

- Pass/Performing;
- Special Mention – does not currently expose the Company to a sufficient degree of risk but does possess credit deficiencies or potential weaknesses deserving the Company's close attention;
- Substandard – has one or more well-defined weaknesses and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. A

substandard asset would be one inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral, if applicable;

- Doubtful – has all the weaknesses inherent in substandard loans with the additional characteristic that the weaknesses present make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss; and
- Loss – loan is considered uncollectible and continuance without the establishment of a specific valuation reserve is not warranted.

The Company's Asset Classification Committee is responsible for monitoring risk ratings and making changes as deemed appropriate. Each commercial loan is individually assigned a loan classification. The Company's consumer loans, including residential one- to four-family loans and home equity loans, are not classified as described above. Instead, the Company uses the delinquency status as the basis for classifying these loans. Generally, all consumer loans more than 90 days past due are classified and placed in non-accrual. Such loans that are well-secured and in the process of collection will remain in accrual status.

The following tables summarize the internal loan grades applied to the Company's loan portfolio as of September 30, 2022 and December 31, 2021:

	Pass/Performing	Special Mention	Substandard	Doubtful	Loss	Total
			(Dollars in thousands)			
September 30, 2022						
Real Estate Loans:						
Residential, one- to four-family[1]	$ 169,319	$ -	$ 2,251	$ -	$ -	$ 171,570
Home equity	49,768	-	865	-	-	50,633
Commercial[2]	283,639	10,894	1,049	-	-	295,582
Construction - commercial	23,241	-	-	-	-	23,241
Other Loans:						
Commercial[3]	17,133	2,344	2,473	-	-	21,950
Consumer	1,152	-	15	-	4	1,171
Total	$ 544,252	$ 13,238	$ 6,653	$ -	$ 4	$ 564,147

	Pass/Performing	Special Mention	Substandard	Doubtful	Loss	Total
			(Dollars in thousands)			
December 31, 2021						
Real Estate Loans:						
Residential, one- to four-family[1]	$ 156,931	$ -	$ 1,895	$ -	$ -	$ 158,826
Home equity	47,167	-	904	-	-	48,071
Commercial[2]	252,391	6,682	7,452	-	-	266,525
Construction - commercial	21,824	-	-	-	-	21,824
Other Loans:						
Commercial[3]	18,076	1,742	3,398	-	-	23,216
Consumer	1,308	-	4	-	5	1,317
Total	$ 497,697	$ 8,424	$ 13,653	$ -	$ 5	$ 519,779

(1) Includes one- to four-family construction loans.

(2) The Substandard classification category for Commercial Real Estate loans includes one $7.0 million loan relationship that was deemed to be impaired during the year ended December 31, 2021. This loan was paid off during the nine months ended September 30, 2022.

(3) The Pass/Performing category for Commercial Loans includes $4.6 million of PPP loans at December 31, 2021, which do not require payments for a certain amount of time under the CARES Act and are 100% guaranteed by SBA. All PPP loans were forgiven as of September 30, 2022.

TDRs occur when we grant borrowers concessions that we would not otherwise grant but for economic or legal reasons pertaining to the borrower's financial difficulties. A concession is made when the terms of the loan modification are more favorable than the terms the borrower would have received in the current market under similar financial difficulties. These concessions may include, but are not limited to, modifications of the terms of the debt, the transfer of assets or the issuance of an equity interest by the borrower to satisfy all or part of the debt, or the addition of borrower(s). The Company identifies loans for potential TDRs primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future. Generally, we will not return a TDR to accrual status until the borrower has demonstrated the ability to make principal and interest payments under the restructured terms for at least six consecutive months. The Company's TDRs are impaired loans, which may result in specific allocations and subsequent charge-offs if appropriate.

Some loan modifications classified as TDRs may not ultimately result in full collection of principal and interest, as modified, which may result in potential losses. These potential losses have been factored into our overall estimate of the allowance for loan losses.

The following table summarizes the loans that were classified as TDRs as of the dates indicated:

			Non-Accruing		Accruing		TDRs That Have Defaulted on Modified Terms Year to Date	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
				(Dollars in thousands)				
At September 30, 2022								
Real Estate Loans:								
Residential, one- to four-family	7	$ 216	2	$ 9	5	$ 207	1	$ 3
Home equity	2	14	2	14	-	-	-	-
Total	9	$ 230	4	$ 23	5	$ 207	1	$ 3
At December 31, 2021								
Real Estate Loans:								
Residential, one- to four-family	7	$ 261	1	$ 11	6	$ 250	-	$ -
Home equity	2	24	1	15	1	9	1	15
Commercial(1)	1	7,002	1	7,002	-	-	-	-
Total	10	$ 7,287	3	$ 7,028	7	$ 259	1	$ 15

(1) Commercial Real Estate loans consisted of one loan which was paid off during the nine months ended September 30, 2022.

No additional loan commitments were outstanding to these borrowers at September 30, 2022 and December 31, 2021.

The following table details the activity in loans which were first deemed to be TDRs during the three and nine months ended September 30, 2022 and 2021.

	For the Three Months Ended September 30, 2022			For The Three Months Ended September 30, 2021		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)					
Real Estate Loans:						
Commercial						
Extended interest only payment period and maturity date	-	$ -	$ -	1	7,483	7,057

	For the Nine Months Ended September 30, 2022			For the Nine Months Ended September 30, 2021		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)					
Real Estate Loans:						
Residential, one- to four-family						
Reduced monthly payments and extended maturity date	-	$ -	$ -	1	$ 38	$ 38
Home equity						
Reduced monthly payments and extended maturity date	-	-	-	1	10	10
Commercial						
Extended interest only payment period and maturity date	-	-	-	1	7,483	7,057
Total	-	$ -	$ -	3	$ 7,531	$ 7,105

Foreclosed real estate consists of property acquired in settlement of loans which is carried at its fair value less estimated selling costs. Write-downs from cost to fair value less estimated selling costs are recorded at the date of acquisition or repossession and are charged to the allowance for loan losses. Foreclosed real estate was $241,000 and $123,000 at September 30, 2022 and December 31, 2021, respectively, and was included as a component of other assets on the consolidated statements of financial condition. The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction was $1.8 million at September 30, 2022 and $1.7 million at December 31, 2021.

Note 6 – Earnings per Share

Earnings per share was calculated for the three and nine months ended September 30, 2022 and 2021, respectively. Basic earnings per share is based upon the weighted average number of common shares outstanding, exclusive of unearned shares held by the Employee Stock Ownership Plan of Lake Shore Bancorp, Inc. (the “ESOP”) and by the Lake Shore Bancorp, Inc. 2012 Equity Incentive Plan (“EIP”). Diluted earnings per share is based upon the weighted average number of common shares outstanding and common share equivalents that would arise from the exercise of dilutive securities. Stock options are regarded as potential common stock and are considered in the diluted earnings per share calculations to the extent they would be dilutive and computed using the treasury stock method.

The calculated basic and diluted earnings per share are as follows:

	Three Months Ended September 30,	
	2022	**2021**
Numerator – net income	$ 1,771,000	$ 1,691,000
Denominator:		
Basic weighted average shares outstanding	5,889,615	5,881,457
Increase in weighted average shares outstanding due to:		
Stock options[1]	-	2,962
Diluted weighted average shares outstanding	5,889,615	5,884,419
Earnings per share:		
Basic	$ 0.30	$ 0.29
Diluted	$ 0.30	$ 0.29

	Nine Months Ended September 30,	
	2022	**2021**
Numerator – net income	$ 4,516,000	$ 4,372,000
Denominator:		
Basic weighted average shares outstanding	5,875,155	5,904,475
Increase in weighted average shares outstanding due to:		
Stock options	483	2,377
Diluted weighted average shares outstanding	5,875,638	5,906,852
Earnings per share:		
Basic	$ 0.77	$ 0.74
Diluted	$ 0.77	$ 0.74

[1] Stock options to purchase 64,547 shares under the Company's 2006 Stock Option Plan and 20,000 shares under the EIP at $14.38 were outstanding during the three month period ended September 30, 2022 but were not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive.

Note 7 – Commitments to Extend Credit

The Company has commitments to extend credit with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. There were no loss reserves associated with these commitments at September 30, 2022 and December 31, 2021. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

The following commitments to extend credit were outstanding as of the dates specified:

	Contract Amount	
	September 30, 2022	December 31, 2021
	(Dollars in thousands)	
Commitments to grant loans	$ 49,293	$ 61,234
Unfunded commitments under lines of credit	76,805	73,387

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Note 8 – Stock-based Compensation

As of September 30, 2022, the Company had three active stock-based compensation plans and one expired stock based compensation plan, which are described below. The compensation cost that has been recorded under salary and benefits expense in the non-interest expense section of the consolidated statements of income for these plans was $85,000 and $106,000 for the three months ended September 30, 2022 and 2021, respectively. The compensation cost that has been recorded for the nine months ended September 30, 2022 and 2021 was $259,000 and $284,000, respectively.

2006 Stock Option Plan

The Company's 2006 Stock Option Plan (the "Stock Option Plan"), which was approved by the Company's stockholders, permitted the grant of options to its employees and non-employee directors for up to 297,562 shares of common stock. The Stock Option Plan expired on October 24, 2016, and grants of options can no longer be awarded.

Both incentive stock options and non-qualified stock options have been granted under the Stock Option Plan. The exercise price of each stock option equals the market price of the Company's common stock on the date of grant and an option's maximum term is ten years. The stock options generally vest over a five year period.

A summary of the status of the Stock Option Plan during the nine months ended September 30, 2022 and 2021 is presented below:

	2022			2021		
	Options	Weighted Average Exercise Price	Remaining Contractual Life	Options	Weighted Average Exercise Price	Remaining Contractual Life
Outstanding at beginning of year	64,548	$ 14.38		64,548	$ 14.38	
Granted	-	-		-	-	
Exercised	-	-		-	-	
Outstanding at end of period	64,548	$ 14.38	4.0 years	64,548	$ 14.38	5.0 years
Options exercisable at end of period	64,548	$ 14.38	4.0 years	51,636	$ 14.38	5.0 years
Fair value of options granted	-	$ -		-	$ -	

At September 30, 2022, stock options had no intrinsic value and there were no remaining options available for grant under the Stock Option Plan. There were no stock options exercised during the three and nine months ended September 30, 2022 and 2021. At September 30, 2022, all compensation cost related to the Stock Option

Plan has been recognized in prior periods. Compensation expense related to the Stock Option Plan amounted to $8,000 for the three month period ended September 30, 2021. Compensation expense related to the Stock Option Plan for the nine month period ended September 30, 2021 was $25,000.

2006 Recognition and Retention Plan

The Company's 2006 Recognition and Retention Plan ("RRP"), which was approved by the Company's stockholders, permitted the grant of restricted stock awards ("Awards") to employees and non-employee directors for up to 119,025 shares of common stock. The RRP expired on October 24, 2016, and as of October 24, 2016, all shares permitted under the plan have been granted.

As of September 30, 2022, all 119,025 shares in the plan have vested and been distributed to eligible participants under the RRP. At September 30, 2022, all compensation cost related to the RRP has been recognized in prior periods. Compensation expense amounted to $6,000 for the three months ended September 30, 2021 and $17,000 for the nine months ended September 30, 2021.

A summary of the status of unvested shares under the RRP for the nine months ended September 30, 2021 is as follows:

	At September 30, 2021	Weighted Average Grant Price (per Share)
Unvested shares outstanding at beginning of year	1,618	$ 14.38
Granted	-	-
Vested	-	-
Unvested shares outstanding at end of period	1,618	$ 14.38

2012 Equity Incentive Plan

The Company's 2012 Equity Incentive Plan (the "EIP"), which was approved by the Company's stockholders on May 23, 2012, authorizes the issuance of up to 180,000 shares of common stock pursuant to grants of restricted stock awards and up to 20,000 shares of common stock pursuant to grants of incentive stock options and non-qualified stock options, subject to permitted adjustments for certain corporate transactions. Employees and non-employee directors of Lake Shore Bancorp or its subsidiaries are eligible to receive awards under the EIP, except that non-employees may not be granted incentive stock options.

The Board of Directors granted restricted stock awards under the EIP during the nine months ended September 30, 2022 as follows:

Grant Date	Number of Restricted Stock Awards	Vesting		Fair Value per Share of Award on Grant Date	Awardees
March 17, 2022	4,577	100% on December 9, 2022	$	15.00	Non-employee directors
March 30, 2022	22,555	100% on March 31, 2025 if three year performance metric is achieved	$	14.96	Employees

A summary of the status of unvested restricted stock awards under the EIP for the nine months ended September 30, 2022 and 2021 is as follows:

	At September 30, 2022		Weighted Average Grant Price (per Share)	At September 30, 2021		Weighted Average Grant Price (per Share)
Unvested shares outstanding at beginning of year	29,495	$	15.24	14,986	$	15.39
Granted	27,132		14.97	20,958		15.22
Forfeited	(6,254)		15.12	(1,792)		15.25
Unvested shares outstanding at end of period	50,373	$	15.11	34,152	$	15.29

As of September 30, 2022, there were 93,741 shares of restricted stock that vested or were distributed to eligible participants under the EIP. Compensation expense related to unvested restricted stock awards under the EIP amounted to $59,000 and $60,000 for the three months ended September 30, 2022 and 2021, respectively. Compensation expense related to unvested restricted stock awards under the EIP amounted to $175,000 and $146,000 for the nine months ended September 30, 2022 and 2021, respectively. At September 30, 2022, $391,000 of unrecognized compensation cost related to unvested restricted stock awards is expected to be recognized over a period of 30 months.

A summary of the status of stock options under the EIP for the nine months ended September 30, 2022 and 2021 is presented below:

	2022				2021			
	Options		Exercise Price	Remaining Contractual Life	Options		Exercise Price	Remaining Contractual Life
Outstanding at beginning of year	20,000	$	14.38		20,000	$	14.38	
Granted	-		-		-		-	
Exercised	-		-		-		-	
Forfeited	-		-		-		-	
Outstanding at end of period	20,000	$	14.38	4.0 years	20,000	$	14.38	5.0 years
Options exercisable at end of period	20,000	$	14.38	4.0 years	15,998	$	14.38	5.0 years
Fair value of options granted	-		-		-		-	

At September 30, 2022, stock options had no intrinsic value and there were no remaining options available for grant under the EIP. There were no stock options exercised during the three and nine months ended September 30, 2022 and 2021. At September 30, 2022, all compensation cost related to the stock options granted under the EIP has been recognized in prior periods. Compensation expense related to stock options outstanding under the

EIP amounted to $3,000 for the three months ended September 30, 2021 and $8,000 for the nine months ended September 30, 2021.

Employee Stock Ownership Plan ("ESOP")

The Company established the ESOP for the benefit of eligible employees of the Company and Bank. All Company and Bank employees meeting certain age and service requirements are eligible to participate in the ESOP. Participants' benefits become fully vested after five years of service once the employee is eligible to participate in the ESOP. The Company utilized $2.6 million of the proceeds of its 2006 stock offering to extend a loan to the ESOP and the ESOP used such proceeds to purchase 238,050 shares of stock on the open market at an average price of $10.70 per share, plus commission expenses. As a result of the purchase of shares by the ESOP, total stockholders' equity of the Company was reduced by $2.6 million. As of September 30, 2022, the balance of the loan to the ESOP was $1.4 million and the fair value of unallocated shares was $1.4 million. As of September 30, 2022, there were 77,475 allocated shares and 111,089 unallocated shares compared to 77,614 allocated shares and 119,024 unallocated shares at September 30, 2021. The ESOP compensation expense was $26,000 for the three months ended September 30, 2022 and $29,000 for the three months ended September 30, 2021 based on 1,984 shares earned in each of those quarters. The ESOP compensation expense was $84,000 for the nine months ended September 30, 2022 and $88,000 for the nine months ended September 30, 2021 based on 5,952 shares earned during the respective nine-month period.

Note 9 - Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of September 30, 2022 and December 31, 2021 and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. The estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported here.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities measurements (Level 1) and the lowest priority to unobservable input measurements (Level 3). The three levels of the fair value hierarchy are as follows:

> Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
>
> Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.
>
> Level 3: Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The Company's consolidated statements of financial condition contain investment securities and derivative instruments that are recorded at fair value on a recurring basis. For financial instruments measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2022 and December 31, 2021 were as follows:

Fair Value Measurements at September 30, 2022

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Measured at fair value on a recurring basis:				
Securities:				
Debt Securities Available for Sale				
U.S. government agencies	$ 1,821	$ -	$ 1,821	$ -
Municipal bonds	39,819	-	39,819	-
Mortgage-backed securities:				
Collateralized mortgage obligations-private label	11	-	11	-
Collateralized mortgage obligations-government sponsored entities	12,767	-	12,767	-
Government National Mortgage Association	60	-	60	-
Federal National Mortgage Association	11,380	-	11,380	-
Federal Home Loan Mortgage Corporation	5,300	-	5,300	-
Asset-backed securities:				
Private label	99	-	99	-
Government sponsored entities	4	-	4	-
Total Debt Securities Available for Sale	$ 71,261	$ -	$ 71,261	$ -
Equity securities	12	12	-	-
Total Securities	$ 71,273	$ 12	$ 71,261	$ -
Interest Rate Swap[1]	$ 285	$ -	$ 285	$ -

(1) Included in Other Assets on the consolidated statements of financial condition.

Fair Value Measurements at December 31, 2021

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Measured at fair value on a recurring basis:				
Securities:				
Debt Securities Available for Sale				
U.S. government agencies	$ 2,213	$ -	$ 2,213	$ -
Municipal bonds	50,756	-	50,756	-
Mortgage-backed securities:				
Collateralized mortgage obligations-private label	15	-	15	-
Collateralized mortgage obligations-government sponsored entities	17,814	-	17,814	-
Government National Mortgage Association	83	-	83	-
Federal National Mortgage Association	10,760	-	10,760	-
Federal Home Loan Mortgage Corporation	7,036	-	7,036	-
Asset-backed securities:				
Private label	110	-	110	-
Government sponsored entities	10	-	10	-
Total Debt Securities Available for Sale	$ 88,797	$ -	$ 88,797	$ -
Equity securities	19	19	-	-
Total Securities	$ 88,816	$ 19	$ 88,797	$ -
Interest Rate Swap[1]	$ (60)	$ -	$ (60)	$ -

[1] Included in Other Liabilities on the consolidated statements of financial condition

Level 2 inputs for assets or liabilities measured at fair value on a recurring basis might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment projections, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means. The following is a description of valuation methodologies used for financial assets recorded at fair value on a recurring basis:

- Investment securities - the fair values are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1) or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted prices. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution date, market consensus prepayment projections, credit information, and the security' terms and conditions, among other things. Level 2 securities which are fixed income instruments that are not quoted on an exchange, but are traded in active markets, are valued using prices obtained from our custodian, who use third party data service providers.

- Interest Rate Swap – the fair value is based on a discounted cash flow model. The model's key assumptions include the contractual term of the derivative contract, including the period to maturity, and the use of observable market based inputs, such as interest rates, yield curves, nonperformance risk and implied volatility.

In addition to disclosure of the fair value of assets on a recurring basis, GAAP requires disclosures for assets and liabilities measured at fair value on a non-recurring basis, such as impaired assets, foreclosed real estate and mortgage servicing rights. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records non-recurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of these loans. Non-recurring adjustments also include certain impairment amounts for collateral-dependent loans calculated when establishing the allowance for loan losses. An impaired loan is carried at fair value based on either a recent appraisal less estimated selling costs of underlying collateral or discounted cash flows based on current market conditions. Once a loan is foreclosed, the fair value of the real estate owned continues to be evaluated based upon the market value of the repossessed real estate originally securing the loan.

Mortgage servicing rights do not trade in an active market with readily observable market data. As a result, the Company estimates the fair value of loan servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The key assumptions used in the model include the estimated life of loans sold with servicing retained and the estimated cost to service the loans. Loan servicing rights are classified as Level 3 measurements due to the use of unobservable inputs, as well as management judgment and estimation.

For assets measured at fair value on a non-recurring basis at September 30, 2022 and December 31, 2021, the fair value measurements by level within the fair value hierarchy were as follows:

		Fair Value Measurements		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Measured at fair value on a non-recurring basis:				
At September 30, 2022				
Foreclosed real estate	$ 26	$ -	$ -	$ 26
Mortgage servicing rights	214	$ -	$ -	$ 214
At December 31, 2021				
Foreclosed real estate	$ 35	$ -	$ -	$ 35
Mortgage servicing rights	220	-	-	220

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	Quantitative Information about Level 3 Fair Value Measurements				
(Dollars in thousands)	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
At September 30, 2022					
Foreclosed real estate	$ 26	Market valuation of property (1)	Direct Disposal Costs (3)	7.00%	7.00%
Mortgage servicing rights	214	Discounted Cash Flow Model (2)	Servicing Fees	0.25%	0.25%
			Servicing Costs	0.15%	0.15%
			Estimated Life of Loans	5.3-7.3 years	5.3 years
At December 31, 2021					
Foreclosed real estate	$ 35	Market valuation of property (1)	Direct Disposal Costs (3)	7.00%	7.00%
Mortgage servicing rights	220	Discounted Cash Flow Model (2)	Servicing Fees	0.25%	0.25%
			Servicing Costs	0.15%	0.15%
			Estimated Life of Loans	5.9 years	5.9 years

(1) The fair value is generally determined through independent third-party appraisals of the underlying collateral or by a purchase offer for the related property, which generally includes various Level 3 inputs which are not observable.

(2) The fair value is based on a discounted cash flow model. The model's key assumptions are the estimated life of loans sold with servicing retained and the estimated cost to service the loans.

(3) The fair value basis of foreclosed real estate may be adjusted to reflect management estimates of disposal costs including, but not necessarily limited to, real estate brokerage commissions, legal fees, and delinquent property taxes.

At September 30, 2022, foreclosed real estate valued using Level 3 inputs had a carrying amount of $33,000 and valuation allowance of $7,000. At December 31, 2021, foreclosed real estate valued using Level 3 inputs had a carrying amount of $73,000 and valuation allowance of $38,000.

The carrying amount and estimated fair value of the Company's financial instruments, whether carried at cost or fair value, are as follows:

			Fair Value Measurements at September 30, 2022		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
			(Dollars in thousands)		
Financial assets:					
Cash and cash equivalents	$ 19,676	$ 19,676	$ 19,676	$ -	$ -
Securities	71,273	71,273	12	71,261	-
Federal Home Loan Bank stock	1,763	1,763	-	1,763	-
Loans receivable, net	561,170	522,683	-	-	522,683
Accrued interest receivable	2,587	2,587	-	2,587	-
Interest rate swap	285	285	-	285	-
Mortgage servicing rights	214	214	-	-	214
Financial liabilities:					
Deposits	583,360	585,028	-	585,028	-
Long-term debt	24,950	23,638	-	23,638	-
Accrued interest payable	55	55	-	55	-
Off-balance-sheet financial instruments	-	-	-	-	-

			Fair Value Measurements at December 31, 2021		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
			(Dollars in thousands)		
Financial assets:					
Cash and cash equivalents	$ 67,585	$ 67,585	$ 67,585	$ -	$ -
Securities	88,816	88,816	19	88,797	-
Federal Home Loan Bank stock	1,606	1,606	-	1,606	-
Loans receivable, net	517,206	504,018	-	-	504,018
Accrued interest receivable	2,483	2,483	-	2,483	-
Mortgage servicing rights	220	220	-	-	220
Financial liabilities:					
Deposits	593,184	596,273	-	596,273	-
Long-term debt	21,950	22,073	-	22,073	-
Accrued interest payable	55	55	-	55	-
Interest rate swap	60	60	-	60	-
Off-balance-sheet financial instruments	-	-	-	-	-

Note 10 – Treasury Stock

During the three months ended September 30, 2022, the Company did not purchase any shares of common stock. During the nine months ended September 30, 2022, the Company repurchased 5,701 shares of common stock at an average cost of $14.91 per share. These shares were repurchased pursuant to the Company's publicly announced common stock repurchase program. As of September 30, 2022, there were 30,626 shares remaining to be repurchased under the existing stock repurchase program. During the nine months ended September 30, 2022, the Company transferred 27,132 shares of common stock out of treasury stock reserved for the 2012 Equity Incentive Plan, at an average cost of $9.39 per share to fund awards that had been granted under the plan. During the nine months ended September 30, 2022, there were 6,254 shares transferred back into treasury stock reserved for the 2012 Equity Incentive Plan at an average cost of $9.39 per share due to forfeitures.

During the three months ended September 30, 2021, the Company repurchased 60,000 shares of common stock at an average cost of $14.95 per share. During the nine months ended September 30, 2021, the Company repurchased 139,928 shares of common stock at an average cost of $14.98 per share. These shares were repurchased pursuant to the Company's publicly announced common stock repurchase program. As of September 30, 2021 there were 46,327 shares remaining to be repurchased under the existing stock repurchase program. During the nine months ended September 30, 2021, the Company transferred 20,958 shares of common stock out of treasury stock reserved for the 2012 Equity Incentive Plan, at an average cost of $9.39 per share to fund awards that had been granted under the plan. During the nine months ended September 30, 2021, there were 1,792 shares transferred back into treasury stock reserved for the 2012 Equity Incentive Plan at an average cost of $9.39 per share due to forfeitures.

Note 11 – Other Comprehensive Loss

In addition to presenting the consolidated statements of comprehensive (loss) income herein, the following table shows the tax effects allocated to the Company's single component of other comprehensive (loss) income for the periods presented:

	For the Three Months Ended September 30, 2022			For The Three Months Ended September 30, 2021		
	Pre-Tax Amount	Tax Benefit	Net of Tax Amount	Pre-Tax Amount	Tax Benefit	Net of Tax Amount
			(Dollars in thousands)			
Net unrealized losses on securities available for sale:						
Net unrealized losses arising during the period	$ (5,004)	$ 1,050	$ (3,954)	$ (707)	$ 148	$ (559)
Less: reclassification adjustment related to:						
Recovery on previously impaired investment securities included in net income	(2)	1	(1)	(18)	4	(14)
Total Other Comprehensive Loss	$ (5,006)	$ 1,051	$ (3,955)	$ (725)	$ 152	$ (573)

	For the Nine Months Ended September 30, 2022			For The Nine Months Ended September 30, 2021		
	Pre-Tax Amount	Tax Benefit	Net of Tax Amount	Pre-Tax Amount	Tax Benefit	Net of Tax Amount
			(Dollars in thousands)			
Net unrealized losses on securities available for sale:						
Net unrealized losses arising during the period	$ (17,109)	$ 3,592	$ (13,517)	$ (1,425)	$ 299	$ (1,126)
Less: reclassification adjustment related to:						
Recovery on previously impaired investment securities included in net income	(12)	3	(9)	(50)	11	(39)
Total Other Comprehensive Loss	$ (17,121)	$ 3,595	$ (13,526)	$ (1,475)	$ 310	$ (1,165)

The following table presents the amounts reclassified out of the single component of the Company's accumulated other comprehensive (loss) income for the indicated periods:

Details about Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss for the three months ended September 30, 2022	2021	Affected Line Item on the Consolidated Statements of Income
	(Dollars in thousands)		
Net unrealized losses on securities available for sale:			
Recovery on previously impaired investment securities	$ (2)	$ (18)	Recovery on previously impaired investment securities
Provision for income tax expense	1	4	Income Tax Expense
Total reclassification for the period	$ (1)	$ (14)	Net Income

Details about Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss for the nine months ended September 30, 2022	2021	Affected Line Item on the Consolidated Statements of Income
	(Dollars in thousands)		
Net unrealized losses on securities available for sale:			
Recovery on previously impaired investment securities	$ (12)	$ (50)	Recovery on previously impaired investment securities
Provision for income tax expense	3	11	Income Tax Expense
Total reclassification for the period	$ (9)	$ (39)	Net Income

Note 12 – Subsequent Events

On October 21, 2022, the Board of Directors declared a quarterly cash dividend of $0.18 per share on the Company's common stock, payable on November 18, 2022 to shareholders of record as of November 4, 2022. Lake Shore, MHC (the "MHC"), which holds 3,636,875 shares, or approximately 63.7% of the Company's total outstanding stock, has elected to receive a portion of this cash dividend, or $0.03 per share, to replenish cash at the top tier holding company for operating expenses. The MHC has elected to waive its right to receive $0.15 per share of this cash dividend, or approximately $546,000. On March 10, 2022, the MHC received the non-objection of the Federal Reserve Bank of Philadelphia to waive its right to receive dividends paid by the Company during the twelve months ending February 9, 2023, aggregating up to $0.68 per share. The MHC waived $655,000 and $1.8 million of dividends during the three and nine months ended September 30, 2022, respectively. Cumulatively the MHC has waived approximately $17.9 million of cash dividends as of September 30, 2022. The dividends waived by the MHC are considered a restriction on the retained earnings of the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

Safe-Harbor

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, that are based on current expectations, estimates and projections about the Company's and the Bank's industry, and management's beliefs and assumptions. Words such as anticipates, expects, intends, plans, believes, estimates and variations of such words and expressions are intended to identify forward-looking statements. Such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast. Therefore, actual results may differ materially from those expressed or forecast in such forward-looking statements.

Potential risks and uncertainties that could cause our actual results to differ from those anticipated in any forward-looking statements include, but are not limited to, those described in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2021, Part II, Item 1A of this Quarterly Report on Form 10-Q and the following:

- risks from data loss or other security breaches, including a breach of our operational or security systems, policies, or procedures, including cyber-attacks on us or on our third party vendors or service providers;
- risks relating to the COVID-19 pandemic;
- compliance with the Bank's Formal Agreement with the Office of the Comptroller of the Currency (the "OCC");
- the strength of the United States economy in general and of the local economies in which we conduct operations;
- the effect of change in monetary and fiscal policy, including changes in interest rate policies of the Board of Governors of the Federal Reserve System;
- inflation, and market and monetary fluctuations;
- climate change;
- deterioration in the credit quality of our loan portfolio and/or the value of the collateral securing repayment of loans;
- unanticipated changes in our liquidity position;
- reduction in the value of our investment securities;
- the cost and ability to attract and retain key employees;
- regulatory or legal developments, tax policy changes;
- our ability to implement and execute our business plan and strategy and expand our operations;
- the ability of our customers to make loan payments;
- the effect of competition on rates of deposit and loan growth and net interest margin;
- our ability to continue to control costs and expenses;
- changes in accounting principles, policies, or guidelines;
- our success in managing the risks involved in our business; and
- other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services.

Any and all of our forward-looking statements in this Quarterly Report on Form 10-Q and in any other public statements we make may differ from actual outcomes. They can be affected by inaccurate assumptions we might make or known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

Overview

The following discussion and analysis is presented to assist in the understanding and evaluation of our consolidated financial condition and results of operations. It is intended to complement the unaudited consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q and should be read in conjunction therewith. The detailed discussion focuses on our consolidated financial condition as of September 30, 2022 compared to the consolidated financial condition as of December 31, 2021 and the consolidated results of operations for the three and nine months ended September 30, 2022 and 2021.

Our results of operations depend primarily on our net interest income, which is the difference between the interest income we earn on loans and investments and the interest expense we pay on deposits, borrowings and other interest-bearing liabilities. Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates we earn or pay on these balances.

Our operations are also affected by non-interest income, such as service charges and fees, debit card fees, earnings on bank owned life insurance, and gains and losses on interest rate swaps and the sales of securities and loans, our provision for loan losses and non-interest expenses which include salaries and employee benefits, occupancy and equipment costs, data processing, professional services, advertising and other general and administrative expenses.

Financial institutions like us, in general, are significantly affected by economic conditions, competition, and the monetary and fiscal policies of the federal government. Lending activities are influenced by the demand for and supply of housing and commercial real estate, competition among lenders, interest rate conditions, and funds availability. Our operations and lending are principally concentrated in the Western New York area, and our operations and earnings are influenced by local economic conditions. Deposit balances and cost of funds are influenced by prevailing market rates on competing investments, customer preferences, and levels of personal income and savings in our primary market area. Operations are also significantly impacted by government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact the Company.

To operate successfully, we must manage various types of risk, including but not limited to, interest rate risk, credit risk, liquidity risk, operational and information technology risks, strategic risk, reputation risk and compliance risk. A significant form of market risk for the Company is interest rate risk, as the Company's assets and liabilities are sensitive to changes in interest rates. Interest rate risk is the exposure of our net interest income to adverse movements in interest rates. Net interest income is our primary source of revenue and interest rate risk is a significant non-credit related risk to which our Company is exposed. Net interest income is affected by changes in interest rates as well as fluctuations in the level and duration of our assets and liabilities. In addition to directly impacting net interest income, changes in interest rates can also affect the amount of new loan originations, the ability of borrowers and debt issuers to repay loans and debt securities, the volume of loan repayments and refinancing, the flow and mix of deposits and the fair value of securities.

In recent years, the Company has adjusted its strategies to manage interest rate risk by originating a greater volume of shorter-term, adjustable rate commercial real estate and commercial business loans and increasing its concentration of core deposits, which are less interest rate sensitive. The Company has entered into two interest rate swap arrangements with a total notional amount of $6.0 million to convert portions of its interest earning assets into fixed or adjustable rate interest-earning assets, as applicable, to manage its exposure to movements in interest rates.

Credit risk is the risk to our earnings and stockholders' equity that results from customers, to whom loans have been made, and from issuers of debt securities in which the Company has invested, failing to repay their obligations. The magnitude of this risk depends on the capacity and willingness of borrowers and debt issuers to repay and the sufficiency of the value of collateral obtained to secure the loans made or investments purchased. This risk is managed by policies approved by the Company's Board of Directors, review of compliance with the policies and periodic reporting and evaluation of loans or securities that are non-performing or demonstrate other characteristics of potential loss.

Recent Events

As previously reported on a Current Report on Form 8-K filed on July 19, 2022 with the SEC, the Bank and the OCC, the Bank's primary federal regulator, entered into a formal written agreement (the "Agreement") effective as of July 13, 2022 relating to information technology, security and automated clearing house program deficiencies. Management and the Bank's Board of Directors are committed to promptly addressing the action items included in the Agreement.

Refer to Part II, Item 1A of this Quarterly Report on Form 10-Q for additional details related to the Agreement.

Management Strategy

There have been no material changes in the Company's management strategy from what was disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Critical Accounting Estimates

Disclosure of the Company's significant accounting estimates is included in the notes to the consolidated financial statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2021. Some of these estimates require significant judgment, estimates and assumptions to be made by management, most particularly in connection with determining the provision for loan losses and the appropriate level of the allowance for loan losses, as well as management's evaluation of securities valuation, impairment of securities and income taxes. There have been no material changes in critical accounting estimates since December 31, 2021.

Analysis of Net Interest Income

Net interest income represents the difference between the interest we earn on our interest-earning assets, such as commercial and residential mortgage loans and investment securities, and the expense we pay on interest-bearing liabilities, such as deposits and borrowings. Net interest income depends on both the volume of our interest-earning assets and interest-bearing liabilities and the interest rates we earn or pay on them.

Average Balances, Interest and Average Yields. The following tables set forth certain information relating to our average balance sheets and reflects the average yield on interest-earning assets and average cost of interest-bearing liabilities, interest earned and interest paid for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods presented. Average balances are derived from daily balances over the periods indicated. The average balances for loans are net of allowance for loan losses but include non-accrual loans. The loan yields include net amortization of certain deferred fees and costs that are considered adjustments to yields. The net amortization of deferred loan fees and costs were $176,000 for the three month periods ended September 30, 2022 and 2021. The net amortization of deferred loan fees and costs were $323,000 and

$408,000 for the nine month periods ended September 30, 2022 and 2021, respectively. Interest income on securities does not include a tax equivalent adjustment for tax exempt securities.

	For the Three Months Ended September 30, 2022			For the Three Months Ended September 30, 2021		
	Average Balance	Interest Income/ Expense	Yield/ Rate(2)	Average Balance	Interest Income/ Expense	Yield/ Rate(2)
	(Dollars in thousands)					
Interest-earning assets:						
Interest-earning deposits & federal funds sold	$ 16,461	$ 88	2.14%	$ 54,339	$ 11	0.08%
Securities(1)	79,350	519	2.62%	80,410	457	2.27%
Loans, including fees	552,320	6,311	4.57%	535,823	5,997	4.48%
Total interest-earning assets	648,131	6,918	4.27%	670,572	6,465	3.86%
Other assets	49,188			46,782		
Total assets	$ 697,319			$ 717,354		
Interest-bearing liabilities						
Demand & NOW accounts	$ 85,323	$ 18	0.08%	$ 87,708	$ 18	0.08%
Money market accounts	166,250	110	0.26%	166,352	87	0.21%
Savings accounts	78,798	11	0.06%	75,017	11	0.06%
Time deposits	138,464	280	0.81%	148,928	378	1.02%
Borrowed funds & other interest-bearing liabilities	25,530	154	2.41%	24,825	134	2.16%
Total interest-bearing liabilities	494,365	573	0.46%	502,830	628	0.50%
Other non-interest bearing liabilities	120,758			127,194		
Stockholders' equity	82,196			87,330		
Total liabilities & stockholders' equity	$ 697,319			$ 717,354		
Net interest income		$ 6,345			$ 5,837	
Interest rate spread			3.81%			3.36%
Net interest margin			3.92%			3.48%

(1) The tax equivalent adjustment for bank qualified tax exempt municipal securities results in rates of 3.03% and 2.63% for the three months ended September 30, 2022 and 2021, respectively.
(2) Annualized.

	For the Nine Months Ended September 30, 2022			For the Nine Months Ended September 30, 2021		
	Average Balance	Interest Income/ Expense	Yield/ Rate(2)	Average Balance	Interest Income/ Expense	Yield/ Rate(2)
			(Dollars in thousands)			
Interest-earning assets:						
Interest-earning deposits & federal funds sold	$ 24,931	$ 138	0.74%	$ 43,677	$ 25	0.08%
Securities(1)	84,015	1,545	2.45%	78,780	1,392	2.36%
Loans, including fees	537,825	17,600	4.36%	535,899	17,274	4.30%
Total interest-earning assets	646,771	19,283	3.98%	658,356	18,691	3.79%
Other assets	51,244			46,200		
Total assets	$ 698,015			$ 704,556		
Interest-bearing liabilities						
Demand & NOW accounts	$ 87,988	$ 57	0.09%	$ 84,059	$ 56	0.09%
Money market accounts	174,156	296	0.23%	163,587	257	0.21%
Savings accounts	77,109	31	0.05%	71,724	29	0.05%
Time deposits	134,792	711	0.70%	153,872	1,362	1.18%
Borrowed funds & other interest-bearing liabilities	23,646	397	2.24%	27,690	449	2.16%
Total interest-bearing liabilities	497,691	1,492	0.40%	500,932	2,153	0.57%
Other non-interest bearing liabilities	116,524			116,551		
Stockholders' equity	83,800			87,073		
Total liabilities & stockholders' equity	$ 698,015			$ 704,556		
Net interest income		$ 17,791			$ 16,538	
Interest rate spread			3.58%			3.22%
Net interest margin			3.67%			3.35%

(1) The tax equivalent adjustment for bank qualified tax exempt municipal securities results in rates of 2.85% and 2.73% for the nine months ended September 30, 2022 and 2021, respectively.
(2) Annualized.

Rate Volume Analysis. The following tables analyze the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. The tables show the amount of the change in interest income or expense caused by either changes in outstanding balances (volume) or changes in interest rates. The effect of a change in volume is measured by applying the average rate during the first period to the volume change between the two periods. The effect of changes in rate is measured by applying the change in rate between the two periods to the average volume during the first period. Changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the absolute value of the change due to volume and the change due to rate.

	Three Months Ended September 30, 2022 Compared to Three Months Ended September 30, 2021		
	Rate	Volume	Net Change
	(Dollars in thousands)		
Interest-earning assets:			
Interest-earning deposits & federal funds sold	$ 90	$ (13)	$ 77
Securities	68	(6)	62
Loans, including fees	127	187	314
Total interest-earning assets	285	168	453
Interest-bearing liabilities:			
Demand & NOW accounts	-	-	-
Money market accounts	23	-	23
Savings accounts	(1)	1	-
Time deposits	(73)	(25)	(98)
Total deposits	(51)	(24)	(75)
Other interest-bearing liabilities:			
Borrowed funds & other interest-bearing liabilities	18	2	20
Total interest-bearing liabilities	(33)	(22)	(55)
Total change in net interest income	$ 318	$ 190	$ 508

	Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021		
	Rate	Volume	Net Change
	(Dollars in thousands)		
Interest-earning assets:			
Interest-earning deposits & federal funds sold	$ 128	$ (15)	$ 113
Securities	58	95	153
Loans, including fees	264	62	326
Total interest-earning assets	450	142	592
Interest-bearing liabilities:			
Demand & NOW accounts	(2)	3	1
Money market accounts	22	17	39
Savings accounts	-	2	2
Time deposits	(498)	(153)	(651)
Total deposits	(478)	(131)	(609)
Other interest-bearing liabilities:			
Borrowed funds & other interest-bearing liabilities	14	(66)	(52)
Total interest-bearing liabilities	(464)	(197)	(661)
Total change in net interest income	$ 914	$ 339	$ 1,253

As shown in the above tables, the increase in net interest income for third quarter 2022 was primarily impacted by an increase in the average yield on interest-earning assets when compared to the prior year period. Net interest margin increased to 3.92% for the third quarter 2022 as compared to 3.48% for the third quarter 2021.

The average yield on interest-earning assets for the 2022 third quarter increased by 41 basis points when compared to the prior year period primarily due to an increase in market interest rates and a $16.5 million, or 3.1%, increase in average loans receivable during the third quarter of 2022. The increase in net interest margin was also due to a decrease in the average rate paid on interest-bearing liabilities. The average interest rate paid on interest-bearing liabilities decreased four basis points from 0.50% during third quarter 2021 to 0.46% during third quarter 2022. The decrease in the average interest rate paid on interest-bearing liabilities during third quarter 2022 was primarily due to a $10.5 million decrease in the average balance of time deposits and a 21 basis points decrease in the average interest rate paid on time deposits in comparison to the prior year period. The decrease in time deposit balances and average interest rate paid on time deposits was due to the maturity of higher rate time deposits since September 30, 2021.

The increase in net interest income for the nine months ended September 30, 2022 was primarily due to a decrease in the average cost of interest-bearing liabilities and an increase in the average yield on interest-earning assets when compared to the prior year period. Net interest margin increased to 3.67% for the nine months ended September 30, 2022 as compared to 3.35% for the nine months ended September 30, 2021. The average interest rate paid on interest-bearing liabilities decreased 17 basis points from 0.57% during the nine months ended September 30, 2021 to 0.40% during the nine months ended September 30, 2022. The decrease in the average interest rate paid on interest-bearing liabilities was primarily driven by a 48 basis points decrease in the average interest rate paid on time deposits and a $19.1 million decrease in the average balance of time deposits due to the maturity of higher rate time deposits since September 30, 2021. The increase in net interest margin was also due to an increase in the average yield on interest-earning assets. The average yield on interest-earning assets for the nine months ended September 30, 2022 increased by 19 basis points when compared to the prior year period primarily due to an increase in market interest rates during the first nine months of 2022. The average balance of interest earning assets decreased $11.6 million, or 1.8%, during the nine months ended September 30, 2022 when compared to the prior year period, primarily due to a decrease in the average balance of interest earning deposits and federal funds sold.

Comparison of Financial Condition at September 30, 2022 and December 31, 2021

Total assets at September 30, 2022 were $695.7 million, a decrease of $18.0 million, or 2.5%, from $713.7 million at December 31, 2021. The decrease in total assets was primarily due to a $47.9 million decrease in cash and cash equivalents and a $17.5 million decrease in securities available for sale, partially offset by a $44.0 million increase in loans receivable, net.

Cash and cash equivalents decreased by $47.9 million, or 70.9%, from $67.6 million at December 31, 2021 to $19.7 million at September 30, 2022. The decrease was primarily due to a $45.0 million cash outflow relating to net loan originations and a $9.8 million cash outflow related to a decrease in deposits, partially offset by a $3.0 million net cash inflow resulting from an increase in long-term debt.

Securities available for sale decreased by $17.5 million, or 19.8%, from $88.8 million at December 31, 2021 to $71.3 million at September 30, 2022. The decrease was primarily due to a $17.1 million increase in unrealized mark to market losses due to an increase in market interest rates during the nine months ended September 30, 2022.

Net loans receivable increased during the nine months ended September 30, 2022 as shown in the table below:

	At September 30, 2022	At December 31, 2021	Change $	Change %
	(Dollars in thousands)			
Real Estate Loans:				
Residential, one- to four-family[1]	$ 171,570	$ 158,826	$ 12,744	8.0 %
Home equity	50,633	48,071	2,562	5.3 %
Commercial	295,582	266,525	29,057	10.9 %
Construction - Commercial	23,241	21,824	1,417	6.5 %
Total real estate loans	541,026	495,246	45,780	9.2 %
Other Loans:				
Commercial	21,950	23,216	(1,266)	(5.5) %
Consumer	1,171	1,317	(146)	(11.1) %
Total gross loans	564,147	519,779	44,368	8.5 %
Allowance for loan losses	(6,849)	(6,118)	(731)	11.9 %
Net deferred loan costs	3,872	3,545	327	9.2 %
Loans receivable, net	$ 561,170	$ 517,206	$ 43,964	8.5 %

(1) Includes one- to four-family construction loans.

The increase in loans receivable, net was primarily due to increases in commercial real estate, one-to four-family real estate, home equity and commercial construction loans. The Bank remains strategically focused on originating shorter duration, adjustable rate commercial real estate loans and commercial business loans to properly manage interest rate risk. During the nine months ended September 30, 2022, $4.6 million of Small Business Administration ("SBA") Paycheck Protection Program ("PPP") loans originated during 2021 or 2020 were forgiven. There were no outstanding PPP loans at September 30, 2022, as compared to $4.6 million at December 31, 2021. During the nine months ended September 30, 2022 and 2021, $90,000 and $168,000, respectively, of fee income related to PPP loan forgiveness was recorded as loan interest income on the consolidated statements of income. During the three months ended September 30, 2022, there was no fee income related to PPP loan forgiveness that was recorded as loan interest income on the consolidated statements of income. During the three months ended September 30, 2021, there was $42,000 of fee income related to PPP loan forgiveness that was recorded as loan interest income on the consolidated statements of income.

Allowance for Loan Losses. The allowance for loan losses is a valuation account that management establishes through a provision for loan losses based on its evaluation of the risks inherent in the loan portfolio, the composition of the loan portfolio, specific impaired loans and current economic conditions. We may also record an allowance for loan loss when we believe the collection of an individual loan is unlikely, and all possible avenues of repayment have been analyzed, including the potential of future cash flows, the value of the underlying collateral, and strength of any guarantors or co-borrowers. We may also consider other qualitative factors, including national and local economic conditions, when maintaining an allowance at a level sufficient to provide for probable loan losses. In addition, various regulatory agencies periodically review our allowance for loan losses as part of their examination process, and the agencies may require us to increase the allowance for loan losses based on information available to them at the time of their examination.

Non-performing Loans and Non-performing Assets. Management periodically reviews loans for performance. Management may determine that a loan is impaired or non-performing when it is probable that at least a portion of the loan will not be collected in accordance with the original loan terms, possibly due to a deterioration in the financial condition of the borrower or in the value of the underlying collateral. When a loan is determined to be impaired, the measurement of the loan is based on the present value of the expected future cash flows, or the fair value of the collateral, if the loan is collateral-dependent. If the impaired value is less than the loan balance, the loss is recorded against the allowance for loan losses. Generally, loans are placed on non-accrual status either when reasonable doubt exists as to the full timely collection of interest and principal, or when a loan becomes 90 days past due, unless an evaluation indicates that the loan is in the process of collection and is either guaranteed or well secured. Once on non-accrual status, the interest on the loan is no longer recognized on an accrual basis. Management may consider a loan to be non-performing once it is classified as non-accrual. A loan does not have to be delinquent for 90 days to be considered non-performing. Foreclosed real estate is considered to be a non-performing asset. For further discussion and detail regarding impaired loans, please refer to Part I, Financial Statements (unaudited), Note 5 Allowance for Loan Losses elsewhere in this Report.

The following table presents information regarding activity in our allowance for loan losses and our asset quality ratios at or for the dates indicated, including non-performing loan and non-performing asset ratios:

	At or for the Nine Months Ended September 30, 2022	2021
	(Dollars in thousands)	
Balance at beginning of year	$ 6,118	$ 5,857
Provision for loan losses	500	650
Charge-offs:		
Real estate loans:		
Residential, one- to four-family	-	(12)
Home equity	-	-
Commercial	(4)	(429)
Construction – Commercial	-	-
Other loans:		
Commercial	-	-
Consumer	(58)	(26)
Total charge-offs	(62)	(467)
Recoveries:		
Real estate loans:		
Residential, one- to four-family	17	49
Home equity	1	1
Commercial	269	6
Construction – Commercial	-	-
Other loans:		
Commercial	-	23
Consumer	6	6
Total recoveries	293	85
Net recoveries (charge-offs)	231	(382)
Balance at end of period	$ 6,849	$ 6,125
Average loans outstanding	$ 537,825	$ 535,899
Allowance for loan losses as a percent of total net loans	1.22 %	1.17 %
Allowance for loan losses as a percent of non-performing loans	231.46 %	62.14 %
Ratio of net recoveries (charge-offs) to average loans outstanding by loan type[(1)]:		
Real estate loans:		
Residential, one- to four-family	0.01 %	0.03 %
Home equity	-%	-%
Commercial	0.12 %	(0.21)%
Construction – Commercial	-%	-%
Other loans:		
Commercial	-%	0.08 %
Consumer	(5.29)%	(2.07)%
Ratio of net recoveries (charge-offs) to average loans outstanding[(1)]	0.06 %	(0.09)%

(1) Annualized

	At September 30, 2022	At December 31, 2021
Non-performing loans as a percent of total net loans:	0.53 %	1.86 %
Non-performing assets as a percent of total assets:	0.46 %	1.37 %

Total non-performing assets decreased by $6.6 million, or 67.2%, to $3.2 million at September 30, 2022 from $9.8 million at December 31, 2021, primarily due to a decrease in non-accrual loans during the first nine months of 2022 as a result of a payoff received on an impaired commercial real estate loan. As a result of this payoff, the non-performing loans as a percent of total net loans ratio decreased to 0.53% at September 30, 2022 from 1.86% at December 31, 2021. Non-performing loans had a balance of $3.0 million at September 30, 2022 compared to $9.5 million at December 31, 2021.

Other assets increased $3.3 million, or 74.7%, to $7.7 million at September 30, 2022 from $4.4 million at December 31, 2021. The increase was primarily due to a $3.6 million increase in deferred tax receivables related to unrealized mark to market losses on the debt securities available for sale portfolio as a result of the increase in market interest rates.

The table below shows changes in deposit balances by type of deposit account between September 30, 2022 and December 31, 2021:

	At September 30, 2022	At December 31, 2021	Change $	Change %
	(Dollars in thousands)			
Core Deposits				
Demand deposits and NOW accounts:				
Non-interest bearing	$ 114,420	$ 110,676	$ 3,744	3.4 %
Interest bearing	85,147	95,104	(9,957)	(10.5) %
Money market	159,392	175,886	(16,494)	(9.4) %
Savings	78,524	74,155	4,369	5.9 %
Total core deposits	437,483	455,821	(18,338)	(4.0) %
Non-core Deposits				
Time deposits	145,877	137,363	8,514	6.2 %
Total deposits	$ 583,360	$ 593,184	$ (9,824)	(1.7) %

The decrease in total deposits was primarily due to a decrease in core deposits, partially offset by an increase in time deposits. The decrease in net core deposits was primarily due to the use of deposit balances by commercial customers to fund business operations. The increase in time deposits was primarily due to an increase in customer demand for these types of deposit products due to the rising interest rate environment. The Company's strategic focus continues to be centered on organic growth of low-cost core deposits among its retail and commercial customers in an effort to manage interest expense and strengthen customer relationships.

Long-term debt consisting of advances from the Federal Home Loan Bank of New York ("FHLBNY"), increased by $3.0 million, or 13.7%, from $22.0 million at December 31, 2021 to $25.0 million at September 30, 2022. The additional borrowings were used as part of a balance sheet management strategy to fix a portion of funding costs in an effort to mitigate interest rate risk.

Total stockholders' equity decreased $9.8 million, or 11.2%, to $78.2 million at September 30, 2022 from $88.0 million at December 31, 2021. The decrease in stockholders' equity was primarily attributed to a $13.5 million decrease in accumulated other comprehensive (loss) income as a result of unrealized losses on securities available for sale due to the increase in market interest rates. The decrease in stockholders' equity was also attributed to $978,000 in dividends paid, partially offset by net income of $4.5 million during the first nine months of 2022.

Comparison of Results of Operations for the Three Months Ended September 30, 2022 and 2021

General. Net income was $1.8 million for the three months ended September 30, 2022, or $0.30 per diluted share, an increase of $80,000, or 4.7%, compared to net income of $1.7 million, or $0.29 per diluted share, for the three months ended September 30, 2021. Net income for the three months ended September 30, 2022 reflected a $508,000 increase in net interest income which was partially offset by a $376,000 increase in non-interest expense, a $39,000 decrease in non-interest income and a $13,000 increase in income tax expense when compared to the three months ended September 30, 2021.

Interest Income. Interest income increased by $453,000, or 7.0%, to $6.9 million for the three months ended September 30, 2022 when compared to the three months ended September 30, 2021. Loan interest income increased by $314,000, or 5.2%, to $6.3 million for the three months ended September 30, 2022 as compared to the prior year period primarily due to an increase in the average yield on loans. The average yield on loans was 4.57% for the three months ended September 30, 2022 as compared to 4.48% for the three months ended September 30, 2021 primarily due to an increase in interest rates since September 30, 2021. The average balance of loans for the three months ended September 30, 2022 was $552.3 million compared to the average balance of loans of $535.8 million for the three months ended September 30, 2021. The $16.5 million increase in the average balance of loans was primarily due to an increase in the average balance of one-to four-family and commercial real estate loans.

Investment interest income increased $62,000, or 13.6%, to $519,000 for the three months ended September 30, 2022 compared to the three months ended September 30, 2021, primarily due to a 35 basis points increase in the average yield earned on the investment portfolio. The average yield was 2.62% for the three months ended September 30, 2022 as compared to 2.27% for the three months ended September 30, 2021. The increase in the average yield was primarily due to the purchase of higher yielding securities since September 30, 2021. The average balance of the investment portfolio was $79.4 million for the three months ended September 30, 2022 as compared to $80.4 million for the three months ended September 30, 2021.

Other interest income increased by $77,000, or 700.0%, to $88,000 for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021. The average yield increased to 2.14% for the three months ended September 30, 2022 from 0.08% for the three months ended September 30, 2021, while the average balance of other interest earning assets decreased from $54.3 million for the three months ended September 30, 2021 to $16.5 million for the three months ended September 30, 2022. The increase in the average yield on other interest earning assets was primarily due to higher average rates earned on excess funds, as a result of the increase in short term market interest rates since September 30, 2021. The decrease in the average balance of other interest earning assets was primarily due to the use of excess funds to fund loan originations.

Interest Expense. Interest expense decreased $55,000, or 8.8%, to $573,000 for the three months ended September 30, 2022 compared to $628,000 for the three months ended September 30, 2021 primarily due to a decrease in interest paid on deposits. Interest paid on deposits decreased by $75,000, or 15.2%, to $419,000 for the three months ended September 30, 2022 when compared to the three months ended September 30, 2021. The decrease in interest expense on deposits was primarily due to a 21 basis point decrease in the average interest rate paid on time deposits and a $10.5 million, or 7.0%, decrease in average time deposits. The average balance of deposits for the three months ended September 30, 2022 was $468.8 million with an average rate of 0.36% compared to the average balance of deposits of $478.0 million and an average rate of 0.41% for the three months ended September 30, 2021. The decrease in the average rate paid on and the average balance of deposits was primarily due to the maturity of higher rate time deposits since September 30, 2021.

Interest expense on long-term debt increased by $22,000, or 18.5%, to $141,000 for the three months ended September 30, 2022 when compared to the three months ended September 30, 2021 primarily due to an increase in the average rate paid on advances from the FHLBNY. The increase in average rate paid was primarily due to the increase in borrowing rates during 2022. The average balance of advances from the FHLBNY for the three months ended September 30, 2022 was $25.0 million with an average rate of 2.24% compared to an average balance of $24.2 million and an average rate of 1.96% for the three months ended September 30, 2021.

Provision for Loan Losses. There was no overall provision to the allowance for loan losses recorded during the three months ended September 30, 2022 and 2021. The existing reserves adequately covered the risks inherent in the loan portfolio.

We complete a comprehensive quarterly evaluation to determine our provision for loan losses. The evaluation reflects analyses of individual borrowers and historical loss experience, supplemented as necessary by credit judgment that considers observable trends, conditions, and other relevant environmental and economic factors.

During the three months ended September 30, 2022, the Company recorded provisions for certain categories of loan types, which were offset by loan recoveries and other activity in its allowance for loan losses. Specifically, the Company recorded a net provision of $45,000 for commercial real estate and construction – commercial loans. This consisted of a $118,000 provision in the general allowance due to an increase in commercial real estate and construction – commercial loans during the three months ended September 30, 2022, driven by organic loan growth in these loan categories. It also included a $42,000 increase in general allowance due to an increase in criticized and classified commercial real estate loans during the three months ended September 30, 2022. The net provision was partially offset by a $115,000 recovery on a previously impaired commercial real estate loan during the three months ended September 30, 2022. A $23,000 net credit provision was recorded for one-to four-family, home equity, commercial business loans and consumer loans that primarily reflected adjustments to certain qualitative factors and an increase in classified loans for these loan types during the three months ended September 30, 2022. A $22,000 credit provision was recorded for the unallocated category of loan losses to reflect the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general losses in the loan portfolio.

During the three months ended September 30, 2021, the Company recorded provisions for certain categories of loan types, which were offset by loan recoveries and other activity in its allowance for loan losses. Specifically, the Company recorded a net credit provision of $168,000 for commercial real estate and construction – commercial loans. This consisted of a $309,000 credit provision for one classified commercial real estate loan due to receipt of a partial curtailment on the principal balance. It also included a $252,000 decrease in general allowance due to the net payoff of commercial real estate construction loans during the three months ended September 30, 2021. These credit provisions were partially offset by a $393,000 provision related to adjustments to certain qualitative factors for commercial real estate and construction – commercial loans. A $111,000 net provision was recorded for one-to four-family, home equity and consumer loans that primarily reflected adjustments to certain qualitative factors for these loan types, partially offset by net loan recoveries during the three months ended September 30, 2021. A $29,000 net credit provision was recorded for commercial business loans which primarily reflected adjustments to certain qualitative factors for this loan type. An $86,000 unallocated provision was recorded to reflect the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general losses in the loan portfolio. Refer to Note 5 of the Notes to the Consolidated Financial Statements for additional details on the provision for loan losses.

Non-Interest Income. Non-interest income decreased by $39,000, or 5.5%, to $668,000 for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021. The decrease was primarily due to a $69,000 decrease in gains on the sale of residential mortgage loans due to the impact of a rising interest rate environment, a lower volume of loans sold, and less income earned per loan at time of sale. The decrease was also due to a $38,000, or 36.5%, decrease in earnings on bank owned life insurance during the three months ended September 30, 2022 as compared to the prior year period primarily due to the impact of lower market values on the underlying investments associated with separate account holdings. The decrease in non-interest income was partially offset by a $66,000 increase in unrealized gains on interest rate swaps due to an increase in long-term interest rates during the three months ended September 30, 2022 as compared to the same period in the prior year.

Non-Interest Expense. Non-interest expense increased by $376,000, or 8.4%, to $4.9 million for the three months ended September 30, 2022 as compared to $4.5 million for the three months ended September 30, 2021. Salary and employee benefits expense increased $129,000, or 5.4%, primarily due to annual salary increases and increases in employee benefits. Professional services increased $108,000, or 23.8%, primarily due to an increase in consulting expenses during the third quarter of 2022. Other expenses increased $138,000, or 60.5%, primarily due to an increase in capital-based taxes as a result of tax refunds recorded in the same period in 2021.

Income Taxes Expense. Income tax expense was $372,000 for the three months ended September 30, 2022, an increase of $13,000, or 3.6%, as compared to $359,000 for the three months ended September 30, 2021. The increase in income tax expense was primarily due to an increase in income before taxes. The effective tax rate for the three months ended September 30, 2022 and 2021 was 17.4% and 17.5%, respectively.

Comparison of Results of Operations for the Nine Months Ended September 30, 2022 and 2021

General. Net income was $4.5 million for the nine months ended September 30, 2022, or $0.77 per diluted share, an increase of $144,000, or 3.3%, compared to net income of $4.4 million, or $0.74 per diluted share, for the nine months ended September 30, 2021. Net income for the nine months ended September 30, 2022 reflected a $1.3 million increase in net interest income and a $150,000 decrease in provision for loans losses, which was partially offset by a $1.1 million increase in non-interest expense, a $90,000 decrease in non-interest income and a $32,000 increase in income tax expense when compared to the nine months ended September 30, 2021.

Interest Income. Interest income increased by $592,000, or 3.2%, to $19.3 million for the nine months ended September 30, 2022 when compared to the nine months ended September 30, 2021. Loan interest income increased by $326,000, or 1.9%, to $17.6 million for the nine months ended September 30, 2022 as compared to the prior year period. The average balance of loans for the nine months ended September 30, 2022 was $537.8 million with an average yield of 4.36% compared to the average balance of loans of $535.9 million and an average yield of 4.30% for the nine months ended September 30, 2021. The increase in the average yield was primarily due to an increase in interest rates since September 30, 2021

Investment interest income increased $153,000, or 11.0%, to $1.5 million for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021, primarily due to a $5.2 million, or 6.6%, increase in the average balance of the investment portfolio from $78.8 million for the nine months ended September 30, 2021 to $84.0 million for the nine months ended September 30, 2022. The increase in the average balance was primarily due to purchases of higher yielding securities which largely consisted of municipal bond and mortgage backed securities, partially offset by securities paydowns and redemptions of callable municipal bonds. The average yield was 2.45% for the nine months ended September 30, 2022 as compared to 2.36% for the nine months ended September 30, 2021. The increase in the average yield was primarily due to an increase in interest rates since September 30, 2021.

Other interest income increased by $113,000, or 452%, to $138,000 for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021. The average yield increased to 0.74% for the nine months ended September 30, 2022 from 0.08% for the nine months ended September 30, 2021, while the average balance of other interest earning assets decreased from $43.7 million for the nine months ended September 30, 2021 to $24.9 million for the nine months ended September 30, 2022. The increase in the average yield on other interest earning assets was primarily due to higher average rates earned on excess funds, as a result of the increase in short term market interest rates since September 30, 2021. The decrease in the average balance of other interest earning assets was primarily due to the use of excess funds to fund loan originations.

Interest Expense. Interest expense decreased $661,000, or 30.7%, to $1.5 million for the nine months ended September 30, 2022 compared to $2.2 million for the nine months ended September 30, 2021 primarily due to a decrease in interest paid on deposits. Interest paid on deposits decreased by $609,000, or 35.7%, to $1.1 million for the nine months ended September 30, 2022 when compared to the nine months ended September 30, 2021. The decrease in interest expense on deposits was primarily due to a 48 basis points decrease in the average interest rate paid on time deposits and a $19.1 million, or 12.4%, decrease in average balance of time deposits for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021. The average balance of deposits for the nine months ended September 30, 2022 was $474.0 million with an average rate of 0.31% compared to the average balance of deposits of $473.2 million and an average rate of

0.48% for the nine months ended September 30, 2021. The decrease in the average rate paid on deposits was primarily due to the maturity of higher rate time deposits since September 30, 2021.

Interest expense on long-term debt decreased by $47,000, or 11.7%, to $354,000 for the nine months ended September 30, 2022 when compared to the nine months ended September 30, 2021 primarily due to a decrease in the average balance of advances from the FHLBNY. The average balance of advances from the FHLBNY for the nine months ended September 30, 2022 was $23.0 million with an average rate of 2.05% compared to an average balance of $27.0 million and an average rate of 1.98% for the nine months ended September 30, 2021. The decrease in average balance was due to the Company paying off maturing debt with excess cash on hand since September 30, 2021.

Provision for Loan Losses. A $500,000 provision to the allowance for loan losses was recorded during the nine months ended September 30, 2022 compared to $650,000 for the nine months ended September 30, 2021. During the nine months ended September 30, 2022, the Company's provision for loan losses was primarily due to an increase in commercial real estate and construction – commercial loan balances when compared to the same period in 2021. The provision for the nine months ended September 30, 2021 was primarily due to a specific reserve associated with the downgrade and impairment of one commercial real estate loan and general reserves for loan originations during the period.

We complete a comprehensive quarterly evaluation to determine our provision for loan losses. The evaluation reflects analyses of individual borrowers and historical loss experience, supplemented as necessary by credit judgment that considers observable trends, conditions, and other relevant environmental and economic factors.

During the nine months ended September 30, 2022, the Company recorded a net provision of $439,000 for commercial real estate and construction – commercial loans. This consisted of a $624,000 provision in general allowance due to an increase in commercial real estate and construction – commercial loans during the nine months ended September 30, 2022, driven by organic loan growth in these loan categories. It also included a $84,000 increase in general allowance due to an increase in criticized and classified commercial real estate loans during the nine months ended September 30, 2022. This provision was partially offset by a $269,000 recovery on previously impaired commercial real estate loans during the nine months ended September 30, 2022. A $53,000 net credit provision was recorded for commercial business loans primarily due to a decrease in criticized and classified loans for this loan type. The net credit provision for commercial business loans was partially offset by an increase in unclassified loans for this loan type as a result of loan originations during the nine months ended September 30, 2022. A $176,000 net provision was recorded for one-to four-family, home equity and consumer loans that primarily reflected adjustments to certain qualitative factors and an increase in classified loans for these loan types during the nine months ended September 30, 2022. A $62,000 credit provision was recorded for the unallocated category of loan losses to reflect the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general losses in the loan portfolio.

During the nine months ended September 30, 2021, the Company recorded a $642,000 net provision for commercial real estate and construction – commercial loans. This consisted of a $426,000 provision for a charge-off related to one commercial real estate loan during the period. The remaining provision was primarily related to adjustments to certain qualitative factors for commercial real estate and construction – commercial loans during the nine months ended September 30, 2021. A $110,000 net provision was recorded for one-to four-family, home equity and consumer loans that primarily reflected adjustments to certain qualitative factors for these loan types, partially offset by net loan recoveries for these loan types during the nine months ended September 30, 2021. A $144,000 net credit provision was recorded for commercial business loans which reflected a $69,000 credit allowance to account for a $115,000 decrease in criticized and classified commercial business loans and adjustments to certain qualitative factors. Furthermore, a $75,000 credit allowance to account for a $3.4 million decrease in outstanding commercial business loans, excluding PPP loans, during the nine months ended September 30, 2021 was recorded. A $42,000 unallocated provision was recorded to reflect the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general losses in the loan portfolio.

Refer to Note 5 of the Notes to the Consolidated Financial Statements for additional details on the provision for loan losses.

Non-Interest Income. Non-interest income decreased by $90,000, or 4.1%, to $2.1 million for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021. The decrease was primarily due to a $296,000 decrease in gains on the sale of residential mortgage loans due to the impact of a rising interest rate environment, a lower volume of loans sold, and less income earned per loan at time of sale. The decrease was also due to a $51,000, or 16.3%, decrease in earnings on bank owned life insurance primarily due to the impact of lower market values on the underlying investments associated with separate account holdings and a $38,000, or 76.0%, decrease in recoveries on previously impaired securities during the nine months ended September 30, 2022 as compared to the prior year period. The decrease in non-interest income was partially offset by a $223,000 increase in unrealized gains on interest rate swaps due to an increase in long-term interest rates during the nine months ended September 30, 2022. The decrease was also partially offset by a $69,000, or 9.0%, increase in service charges and fees during the nine months ended September 30, 2022 as compared to the prior year period as a result of an increase in fees earned on deposit accounts.

Non-Interest Expense. Non-interest expense increased by $1.1 million, or 8.9%, to $14.0 million for the nine months ended September 30, 2022 as compared to $12.8 million for the nine months ended September 30, 2021. Salary and employee benefits expense increased $652,000, or 9.7%, primarily due to a $383,000 decrease in deferred salaries associated with a decrease in the number of loans originated during the nine months ended September 30, 2022 when compared to the nine months ended September 30, 2021. This increase was also due to annual salary increases and increases in employee benefits. Other expenses increased $413,000, or 47.5%, primarily due to increases in capital-based taxes, telephone, loan and foreclosure related expenses. Occupancy and equipment increased $225,000, or 11.0%, primarily due to an increase in maintenance contracts and equipment expenses related to the core processing system conversion completed in the third quarter of 2021 and the conversion to a cloud-based computing system in the second quarter of 2022. The increase in total non-interest expenses was partially offset by lower expenses for data processing, advertising, postage and supplies during the nine months ended September 30, 2022 when compared to the same period in 2021.

Income Taxes Expense. Income tax expense was $916,000 for the nine months ended September 30, 2022, an increase of $32,000, or 3.6%, as compared to $884,000 for the nine months ended September 30, 2021. The increase in income tax expense was primarily due to an increase in income before taxes. The effective tax rate for the nine months ended September 30, 2022 and 2021 was 16.9% and 16.8%, respectively.

Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise during the ordinary course of business. Liquidity is primarily needed to fund loan commitments, to pay the deposit withdrawal requirements of our customers as well as to fund current and planned expenditures. Our primary sources of funds consist of deposits, scheduled amortization and prepayments of loans and securities, maturities and sales of investments and loans, excess cash, interest earning deposits at other financial institutions, and funds provided from operations. We have written agreements with the FHLBNY, which allows us to borrow the maximum lending values designated by the type of collateral pledged. As of September 30, 2022, the maximum amount that we can borrow from the FHLBNY was $119.2 million and was collateralized by a pledge of certain fixed-rate residential, one- to four-family loans. At September 30, 2022, we had outstanding advances under this agreement of $25.0 million. We have a written agreement with the Federal Reserve Bank discount window for overnight borrowings which is collateralized by a pledge of our securities and allows us to borrow up to the value of the securities pledged, which was equal to a book value of $12.1 million and a fair value of $9.8 million as of September 30, 2022. There were no balances outstanding with the Federal Reserve Bank at September 30, 2022. We have also established lines of credits with correspondent banks for $42.0 million, of which $40.0 million is unsecured and the remaining $2.0 million will be secured by a pledge of our securities when a draw is made. There were no borrowings on these lines as of September 30, 2022.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows, calls of investment securities, and prepayments of loans and mortgage-backed securities are strongly influenced by interest rates, general and local economic conditions, and competition in the marketplace. These factors reduce the predictability of the timing of these sources of funds.

Our primary investing activities include the origination of loans and the purchase of investment securities. For the nine months ended September 30, 2022, we originated loans of approximately $124.6 million as compared to approximately $109.1 million of loans originated during the nine months ended September 30, 2021. Loan originations exceeded principal repayments and other deductions during the first nine months of 2022 by $45.0 million. Purchases of investment securities totaled $6.1 million and $21.3 million during the nine months ended September 30, 2022 and 2021, respectively. These activities were funded primarily through deposit growth, principal payments received on loans and securities, borrowings and cash reserves.

As described elsewhere in this report, the Company has loan commitments to borrowers and borrowers have unused overdraft lines of protection, unused home equity lines of credit and unused commercial lines of credit that may require funding at a future date. The Company believes it has sufficient funds to fulfill these commitments, including sources of funds available through the use of FHLBNY advances or other liquidity sources. Total deposits were $583.4 million at September 30, 2022, as compared to $593.2 million at December 31, 2021. Approximately $64.5 million of time deposit accounts are scheduled to mature within one year as of September 30, 2022. Based on our deposit retention experience, current pricing strategy, and competitive pricing policies, we anticipate that a significant portion of these time deposits will remain with us following their maturity.

We are committed to maintaining a strong liquidity position; therefore, we monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. The marginal cost of new funding, however, whether from deposits or borrowings from the FHLBNY, will be carefully considered as we monitor our liquidity needs. Therefore, in order to manage our cost of funds, we may consider additional borrowings from the FHLBNY in the future.

We do not anticipate any material capital expenditures in 2022. We do not have any balloon or other payments due on any long-term obligations, other than the borrowing agreements noted above.

Capital

Federal regulations require a federal savings bank to meet certain capital standards, as discussed in the "Supervision and Regulation - Federal Banking Regulation – Capital Requirements" section included in our Annual Report on Form 10-K for the year ended December 31, 2021.

The federal banking agencies have developed a "Community Bank Leverage Ratio" (bank's tier 1 capital to average total consolidated assets) for financial institutions with assets of less than $10 billion and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A "qualifying community bank" may elect to utilize the Community Bank Leverage Ratio in lieu of the general applicable risk-based capital requirements under Basel III. If the community bank exceeds this ratio it will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Basel III. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies set the minimum capital for the Community Bank Leverage Ratio at 9.0%. The Bank elected to be subject to this new definition when it became effective on January 1, 2020.

As of September 30, 2022, the Bank was considered a "qualifying community bank" and its Community Bank Leverage Ratio was 12.20% so it was deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes.

Off-Balance Sheet Arrangements

Other than loan commitments and two interest rate swap agreements that are not designated as hedging instruments, as previously noted, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors. Refer to Note 7 in the Notes to our Consolidated Financial Statements for a summary of loan commitments outstanding as of September 30, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Disclosure is not required as the Company is a smaller reporting company.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II

Item 1A. Risk Factors.

In addition to the other information contained in this Quarterly Report on Form 10-Q, the following risk factor represents a material update and addition to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations. Further, to the extent that any of the information contained in this Quarterly Report on Form 10-Q constitutes forward-looking statements, the risk factor set forth below also is a cautionary statement identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

The Bank is a party to a formal written agreement (the "Agreement") with the OCC relating to information technology, security and automated clearing house program deficiencies. Failure to comply with the Agreement may result in further regulatory enforcement actions. We expect that our non-interest expense will increase as a result of remediation actions we will take in order to comply with the requirements of the Agreement which may adversely affect our financial performance.

Effective as of July 13, 2022, the Bank and the OCC entered into the Agreement. The Agreement provides, among other things, that the Bank will take the following actions within specified time frames as set forth in the Agreement:

- create a compliance committee to monitor and oversee the Bank's compliance with the Agreement and submit quarterly reports to the Board of Directors of the Bank and the OCC;
- ensure that the Bank has competent management in place, review the capabilities, experience, qualifications and performance of the Bank's management, including, but not limited to, the Chief Executive Officer, Chief Operating Officer, Chief Technology Officer and Information Security Officer, and the Board will determine whether management changes should be made;

- if an officer will continue in his or her position, but the Board determines the officer's depth of skills needs improvement, it will develop and implement a written program to improve the officer's supervision and management of the Bank;

- develop, adopt and implement a written program to effectively assess and manage the Bank's information technology ("IT") activities, commensurate with the level of risk and complexity of the Bank's IT activities, subject to review and prior written determination of no supervisory objection by the OCC;

- develop, adopt and implement a written information security program that includes administrative, technical and physical safeguards to ensure the security and confidentiality of customer information, subject to review and prior written determination of no supervisory objection by the OCC; and

- develop, adopt and implement a written automated clearing house risk management program, subject to review and prior written determination of no supervisory objection by the OCC.

As a result of the Agreement, the Bank must also obtain OCC written non-disapproval before effecting any change in its directors, senior executive officers or executive officers.

Management and the Bank's Board of Directors are committed to promptly addressing the action items included in the Agreement. However, we may not be successful in complying fully with the provisions of the Agreement. The OCC will determine whether or not the provisions of the Agreement have been met. In the event we are in material non-compliance with the terms of the Agreement, the OCC has the authority to subject us to more restrictive enforcement actions, such as a cease and desist order, civil money penalties and removal of directors and officers from their positions with the Bank. Moreover, we expect that our non-interest expense will increase as a result of remediation actions we will take in order to comply with the requirements of the Agreement which may adversely affect our financial performance.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table reports information regarding repurchases by Lake Shore Bancorp of its common stock in each month of the quarter ended September 30, 2022:

COMPANY PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (1)
July 1 through July 31, 2022	-	$ -	-	30,626
August 1 through August 31, 2022	-	-	-	30,626
September 1 through September 30, 2022	-	-	-	30,626
Total	-	$ -	-	30,626

(1) On August 13, 2021, our Board of Directors (the "Company") adopted a new stock repurchase program. The stock repurchase program authorizes the Company to repurchase up to an aggregate of 106,327 shares, or approximately 5% of its outstanding shares, excluding the shares held by Lake Shore, MHC. The repurchase program permits shares to be repurchased in open market or private transactions, through block trades, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. The repurchase plan does not have an expiration date and superseded all of the prior stock repurchase programs.

Item 6. Exhibits

31.1	Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes- Oxley Act of 2002*
32.1	Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	Inline XBRL Instance Document*
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	Inline XBRL Taxonomy Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document*
104	Cover Page Interactive Date File (formatted as inline XBRL and contained in Exhibit 101)*

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LAKE SHORE BANCORP, INC.
(Registrant)

November 14, 2022	By:	/s/ Daniel P. Reininga Daniel P. Reininga President and Chief Executive Officer (Principal Executive Officer)
November 14, 2022	By:	/s/ Rachel A. Foley Rachel A. Foley Chief Financial Officer (Principal Financial Officer)
November 14, 2022	By:	/s/ Steven W. Schiavone Steven W. Schiavone Controller (Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Daniel P. Reininga, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lake Shore Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies or material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 14, 2022	/s/ Daniel P. Reininga Daniel P. Reininga President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Rachel A. Foley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lake Shore Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies or material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial data; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

November 14, 2022	/s/ Rachel A. Foley Rachel A. Foley Chief Financial Officer

Exhibit 32.1

CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lake Shore Bancorp, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel P. Reininga, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

November 14, 2022

/s/ Daniel P. Reininga
Daniel P. Reininga
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lake Shore Bancorp, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rachel A. Foley, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

November 14, 2022

/s/ Rachel A. Foley
Rachel A. Foley
Chief Financial Officer