

**LAKE SHORE BANCORP, INC.
CHARTER FOR THE AUDIT COMMITTEE**

Approval Date: July 17, 2023

I. Purpose

The purpose of The Audit Committee of the Board of Directors (the “Committee”) of Lake Shore Bancorp, Inc. (the “Company”) shall be to

- (1) assure the Company’s Board of Directors fulfills its responsibilities for the Company’s internal and external audit process, the financial reporting process and the system of risk assessment and internal controls over financial reporting.
- (2) provide an avenue of communication between management, the External Auditors, the Internal Auditors, and the Board of Directors; and
- (3) oversee the process of monitoring for compliance with laws, regulations, and the code of conduct and ethics.

II. Authority

The Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate, and oversee the work of any registered public accounting firm employed by the Company.
- Appoint, compensate, and oversee the work of the external expert employed to complete the annual Information Technology audit and associated engagement components.
- Appoint, compensate, and oversee the work of the external expert employed to complete the annual independent Commercial loan review and associated stress test.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Pre-approve all audit and non-audit services.
- Retain, at the Company’s expense, such outside counsel, experts and other advisors as the Audit Committee may deem appropriate. (I.e., Information Technology audit specialist).
- Seek any information it requires from the Company’s employees (all of whom are directed to cooperate with the committee’s requests) or external parties.
- Meet periodically, separately, with management; Internal Audit; External Auditors; and Outside Counsel, as necessary.
- The Committee may delegate authority to subcommittees, including authority to pre-approve all auditing and permitted non-audit services, providing that such decisions are presented to the full committee at its next scheduled meeting.
- Have authority over the appointment, compensation and dismissal of the Internal Auditor.
- Oversee the adequate allocation of resources budgeted to the Internal Audit Department.

While the Committee has the authority and powers set forth in this charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with Generally Accepted Accounting Principles and applicable rules and regulations. These are the responsibility of management and the External Auditors; on whose assurances the Committee may rely.

III. Composition of Committee and Selection of Members

The Committee shall be composed of at a minimum three directors, but no more than five, who are independent of management and are free of any relationship that, in the opinion of the Board of Directors, would interfere with their exercise of independent judgment as a Committee member. Each Committee member must not have participated in the preparation of the financial statements of the Company or any of its subsidiaries at any time during the past three years.

Each Committee member must be able to read and understand fundamental financial statements. At least one Committee member must be a "financial expert", *i.e.*, have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or outside programs.

Committee members and the Committee Chair shall be recommended by the Nominating and Corporate Governance Committee, after consultation with the Chairman of the Board and the Chief Executive Officer and appointed in accordance with the Company's bylaws. If a Committee Chair is not designated or present, the members of the Committee may designate a Chair by majority vote of the Committee membership.

Independence

All Committee members shall be independent, as determined by the Board of Directors. To be considered independent, each Committee member must meet the independence requirements of the NASDAQ Stock Market, LLC, the Sarbanes-Oxley Act of 2002 ("SOX") and the rules and regulations of the Securities and Exchange Commission (the "SEC").

IV. Meetings

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Committee will normally meet in a separate executive session with the Internal Auditor. At least annually, the Committee will meet with the External Auditors to discuss any matters that the Committee believes should be discussed privately.

At least one member of the Audit Committee should be an IT expert.

The Internal Auditor, unless otherwise delegated, shall serve as the clerk of the Committee and keep minutes of the proceedings of each Committee meeting.

A majority of the Committee shall constitute a quorum for the conduct of business. The vote of a majority of the voting members present at any meeting at which a quorum exists, including the Committee Chair who shall be eligible to vote, shall constitute the action of the Committee. A member may attend a meeting by telephone conference in which he can hear each person in attendance and all such persons can hear the person attending by telephone conference.

Agendas for the meeting are planned in advance. Meeting materials are distributed prior to the meeting providing sufficient time to review.

V. Responsibilities

The Committee shall have responsibilities related to:

- (a) the External Auditor and financial statements;
- (b) the Company's Internal Auditors;
- (c) oversight of management's internal controls, compliance and risk assessment practices;
- (d) special investigations and whistleblower policies; and
- (e) miscellaneous issues related to the financial practices of the Company.

A. External Auditors and Financial Statements

The Audit Committee shall:

1. Appoint and oversee the Company's External Auditors. The Committee is also solely responsible, and shall have the necessary funding, for compensation of the External Auditors.
2. Review and pre-approve all audit and non-audit services to be performed by the External Auditors, including but not limited to requests for any management consulting engagement to be performed by the External Auditors. The Committee may delegate to one or more Committee members the responsibility to approve such services, provided timely reports are made to the full Committee. In addition, the Committee may establish pre-approval categories of services, as provided by applicable rules and regulations.
3. Evaluate the External Auditors on an at least an annual basis. Such evaluation shall include a report from the External Auditors which includes:
 - The auditor's internal quality-control procedures.
 - Any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the last five years, respecting independent audits carried out by the firm, and any steps taken by the firm to address such issues.
 - A formal written statement delineating all relationships between the independent auditor and the Company as contemplated by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees.

- Review the performance of the External Auditors, and exercise final approval on the appointment or discharge of the External Auditors.
 - Ensure the rotation of the lead audit partner every five years and other audit partners every seven years and consider whether there should be regular rotation of the audit firm itself.
 - On a regular basis, meet separately with the External Auditors to discuss any matters that the Committee or auditors believe should be discussed privately.
4. Review the External Auditors' engagement letter setting forth the scope and approach of the proposed audit, the estimated fees for performing the annual audit, internal controls over financial reporting audit, and quarterly reviews of Form 10-Q. The Committee will also meet with the External Auditors to review findings, including comments or recommendations.
 5. Inquire as to the External Auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial statements.
 6. Consider and approve, as appropriate, major changes to the Company's auditing and accounting principles and practices as suggested by the External Auditors, management or the Internal Auditors.
 7. Review and approve the required reports to be included in the Company's annual report to shareholders and proxy statement.
 8. Review at the Committee's discretion, quarterly financial statements and review with management and the External Auditors any significant matters that arise out of the Company's quarterly financial statements review, based upon the auditors' limited review procedures. Discuss any significant changes to the Company's accounting principles and any items required to be communicated by the External Auditors in accordance with SAS 61, as amended by SAS 90, and AS16.
 9. Review and discuss with the External Auditors annually all relationships the External Auditors have with the Company which might adversely affect their objectivity and independence and review a written statement from the Auditors as to their independence. The Committee shall take, or recommend that the full Board take, appropriate action to oversee the independence of the External Auditors.
 10. Review the scope and general extent of the External Auditors' annual audit. The Committee's review should include a report from the External Auditors addressing the following:
 - Audit staffing and supervision, and scope of audit;
 - Critical accounting policies and practices, alternative accounting treatments, the reasons for selecting such policies, and their impact on the fairness of the Company's financial statements;

- Significant estimates made by management in the preparation of financial reports;
 - The nature and content of communications between auditors and management;
 - Off-balance sheet transactions, joint ventures, contingent liabilities, or derivative transactions, and their impact on the fairness of financial statements;
 - Auditor proposed adjustments – both those recorded by management and those not recorded by management;
 - Difficulties encountered with management during the audit;
 - Disagreements with management regarding accounting reporting issues;
 - Material legal matters that may impact the financial statements; and
 - The External Auditors’ opinion on the overall fairness of the financial statements.
11. Discuss the results of the audit with the External Auditors prior to releasing the year-end earnings and annual report to regulatory agencies.
12. Discuss with Management, Internal Auditor and the External Auditor the Company’s major financial risk exposures and the steps management has taken to monitor and control such exposures, including the company’s Board Enterprise Risk Committee charter, risk assessment and risk management policies.
13. Periodically report to the Board of Directors on significant results of the following activities:
- a) Appointment of the External Auditors to audit the financial statements of the Company and subsidiaries and determination of the compensation for such services.
 - b) Approval of all audit and non-audit services to be provided by the External Auditors.
 - c) Resolution of any disagreements that may arise between the External Auditors and management.
 - d) Evaluation of the performance of the External Auditors and, where appropriate, recommendation that the Board replace the External Auditors.

B. Internal Auditors

The Audit Committee shall:

- Ensure that the Internal Audit function is independent of the Company’s operations.

- Approve the audit plan and risk assessment process for the current internal audit cycle and the coordination of such plans with the External Auditors.
- Review with management and the Internal Auditor, the Internal Audit Department charter, activities, staffing and organizational structure of the internal audit function.
- Review annually the performance of the Internal Auditor.
- Review annually the training of the Internal Auditor and staff.
- Review the results of internal audits and monitor management's implementation of corrective actions to address audit recommendations.
- On a regular basis, meet separately with the Internal Auditor to discuss any matters that the Committee or internal audit believe should be discussed privately.
- Review and approve the Internal Audit Department Charter.
- Approve all significant aspects of outsourcing arrangements for Internal Audit. The Internal Audit Department will retain oversight of its outsource arrangements and will report identified audit deficiencies in a manner consistent with those provided by Internal Audit.

C. Risk Assessment Review, Internal Controls and Compliance

The Audit Committee shall:

- Audit the Enterprise Risk Management program on an annual basis to ensure the effectiveness of the Company's risk governance structure, policies and guidelines regarding risk assessment and risk management and inquire of management, the Internal Auditor, and the External Auditors about significant risks or exposures facing the organization; assess the steps management has taken or proposes to take to minimize such risks to the organization; and periodically review compliance with such steps.
- Review management's assessment of the effectiveness of the Company's internal controls and review the report on internal controls by the independent auditor as a part of the financial audit engagement.
- Consider the effectiveness of The Company's internal control system, including information technology security and control.
- Understand the scope of internal and External Auditors' review of internal control over financial reporting and obtain reports on significant findings and recommendations, together with management's responses.
- Provide oversight over and review the effectiveness of management's anti-fraud programs and controls.
- Review related party transactions.

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management’s investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies, and any External Auditor observations.
- Obtain regular updates from management and company legal counsel regarding compliance matters.

D. Special Investigations and Whistle Blower Policies

The Audit Committee shall:

- Ensure that the Company has an appropriate confidential mechanism for individuals to report suspected fraudulent activities, allegations of corruption, fraud, criminal activity, conflicts of interest or abuse by the directors, officers or employees of the Company or any persons having business dealings with the Company or breaches of internal control.
- Review the process for communicating the code of conduct to the Company’s personnel, and for monitoring compliance therewith.
- Develop procedures for handling the receipt, retention, investigation and/or referral of complaints concerning accounting, internal controls and/or auditing.

E. Miscellaneous issues

The Audit Committee shall:

- Prepare annually a written report confirming that the Committee has discharged its duties and met its responsibilities outlined in this charter.
- Obtain any information and training needed to enhance the committee members’ understanding of the role of internal audits and the external audits, the risk management process, internal controls, or financial reporting standards and processes.
- Review and update this Charter annually, if necessary, and ascertain that it is reported in the Company’s proxy statement at least once every three years or is otherwise made available to the Company’s shareholders in accordance with the SEC’S proxy rules.
- Conduct an annual self-evaluation of its performance, including its effectiveness and compliance with the charter and request the board’s approval for proposed changes.
- Establish and document a quality assurance and improvement program within the Internal Audit Department.
- Review annually the Audit policy to guide the operations of the Audit Committee and the Internal Audit department.