

Risk Factors Comparison 2025-03-14 to 2024-03-22 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text Section**

~~competitors~~ **financial service companies**. Our lower ~~Competition for loan originations and deposits may limit our future growth and earnings prospects.~~ **Some of the institutions with which we compete have substantially greater resources than we have and** may also make it more difficult to offer **services that we do not provide.** We expect ~~competitive competition~~ **increase in the future** generate meaningful non-interest income from non-traditional banking activities. Finally, as a **result** smaller institution, we are disproportionately affected by the continually increasing costs of **legislative, compliance with new banking and other regulations— regulatory and technological changes and the continuing trend of consolidation in the financial services industry.** Our profitability will **depend upon our continued ability to compete successfully in our market areas**.

Risks Related to Interest Rates and Liquidity Changes in interest rates could adversely affect our results of operations and financial condition. Our results of operations and financial condition are significantly affected by changes in interest rates. We derive our income ~~primarily~~ **mainly** from the difference or “spread” between the interest earned on loans, securities and other interest-earning assets and interest paid on deposits, borrowings and other interest-bearing liabilities. In general, the larger the spread, the more we earn. When market ~~interest rates~~ **of interest** change, the interest we receive on our assets and the interest we pay on our liabilities will fluctuate. This can cause decreases in our spread and can adversely affect our income. From an interest rate risk perspective, we have generally been liability sensitive, which indicates that our liabilities generally re-price faster than assets. Our earnings ~~have been~~ **may be** adversely impacted by an increase in interest rates which occurred in 2022 and 2023 ~~and remained elevated in 2024~~, because the majority of our interest-earning assets are long-term, fixed rate mortgage-related assets that ~~did will~~ not re-price as long-term interest rates increase. **If As** rates ~~continue to rise, we would~~ expect loan applications to decrease, prepayment speeds to slow down and the interest rate on our loan portfolio to remain static. Conversely, a majority of our interest-bearing liabilities have much shorter contractual maturities and are expected to re-price, resulting in increased interest expense. A significant portion of our deposits have no contractual maturities and are likely to re-price quickly as short-term interest rates increase. Therefore, in an increasing rate environment, our cost of funds is expected to increase more rapidly than the yields earned on our loan and securities portfolios. The impact on earnings is more adverse when the slope of the yield curve flattens or inverts, i.e. when short-term interest rates increase more than corresponding changes in long-term rates or when long-term rates decrease more than corresponding changes in short-term rates. Changes in market interest rates could also reduce the value of our interest-earning assets including, but not limited to, our securities portfolio. In particular, the unrealized gains and losses on securities available for sale are reported, net of tax, in accumulated other comprehensive income which is a component of stockholders’ equity. As such, declines in the fair value of such securities resulting from increases in market interest rates may adversely affect stockholders’ equity. In a decreasing interest rate environment, our earnings may increase or decrease. If long-term interest-earning assets do not re-price and interest rates on short-term deposits begin to decrease, earnings may rise. However, low interest rates on loan products may result in an increase in prepayments, as borrowers ~~would be incented to~~ refinance their loans. If we cannot re-invest the funds received from prepayments at a comparable spread, net interest income could be reduced. Also, in a falling interest rate environment, certain categories of deposits may reach a point where market forces prevent further reduction in interest paid on those products. The net effect of these circumstances is reduced net interest income and possibly net interest rate spread. We are subject to certain risks with respect to liquidity. “Liquidity” refers to our ability to generate sufficient cash flows to support our operations and to fulfill our obligations, including commitments to originate ~~and fund~~ loans, to repay our wholesale borrowings and other liabilities and to satisfy the withdrawal of deposits by our customers. Our primary source of liquidity is our core deposit base, which is raised through our retail branch network. Our **core Core** deposits ~~- consisting of savings and money market accounts~~, **time** which is defined as our deposits ~~less other than certificates of deposit greater than \$ 250,000 and demand brokered certificates of deposit~~ **deposits**, represented 94% ~~comprised approximately 62.4~~ **6** % of total deposits at December 31, ~~2024~~ **2023**. Additional available unused sources of liquidity include borrowings from the Federal Reserve of New York discount window, ~~FHLB NY--~~ **FHLB** borrowings, brokered deposits, and ~~a~~ **line lines** of credit with ~~a correspondent bank~~ **banks**. Liquidity is further provided by unencumbered, or unpledged, investment securities that totaled a fair value of \$ ~~51.56~~ **.8** million at December 31, ~~2024~~ **2023**. **As a result of the Order previously disclosed herein, the Company’s ability to access available sources of funds from the FHLB has been curtailed to short-term advances (i.e., 30 days or less) and the residential loans pledged as collateral for these borrowings will be subject to reductions in value.** The availability of ~~our line lines~~ of credit with ~~our other~~ **correspondent bank banks** may also be reduced or eliminated. Lastly, ~~on February 27, 2025,~~ **the unsecured line of credit for our Master Account at the Federal Reserve has been withdrawn at** Bank approved the Bank’s application for uncollateralized intraday credit with an effective date of March 6, 2025. With this **time** uncollateralized intraday credit, certain transactions will not be rejected for which there are insufficient funds in our Federal Reserve Master Account during normal hours of operation. An inability to raise funds through deposits, borrowings, the sale of loans and / or investment securities and from other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our customer deposits. Such deposit balances can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk / return tradeoff. If customers move money out of bank deposits and into other investments, we could lose a relatively low-cost source of funds, which would require us to seek wholesale funding alternatives in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income. Our access to funding sources in amounts adequate to finance our

activities could be impaired by factors that affect us specifically or the banking industry in general. Factors that could detrimentally impact our access to liquidity sources include regulatory restrictions, disruptions in the financial markets or negative views and expectations about the prospects for the banking industry. Any decline in available funding could adversely impact our ability to continue to implement our strategic plan, including originate loans, invest in securities, meet our expenses, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations. Adverse developments affecting the financial services industry, such as bank failures or concerns involving liquidity, may have a material effect on our the Company's operations. Events relating to the failures of certain banking entities in March 2023, i.e. Silicon Valley Bank and Signature Bank, have caused general uncertainty and concern regarding the liquidity adequacy of the banking sector as a whole. Uncertainty may be compounded by the reach and depth of media attention, including social media, and its ability to disseminate concerns or rumors about any events of these kinds or other similar risks, and have in the past and may in the future lead to market Non-compliance with the USA PATRIOT Act, Bank Secrecy Act and related regulations may subject us to fines or sanctions. The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. Once such activities are detected, financial institutions are obligated to file suspicious activity reports with the U. S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers that open new financial accounts. Failure to comply with these regulations could result in fines or sanctions. The Order cited the Bank's....., and our interpretation of those changes. Our ability to pay dividends is subject to the ability of Lake Shore Savings to make capital distributions to Lake Shore Bancorp and the waiver of dividends by Lake Shore, MHC. The value of Lake Shore Bancorp's common stock is significantly affected by our ability to pay dividends to our public stockholders. Our long-term ability to pay dividends to our stockholders is based primarily upon the ability of the Bank to make capital distributions to Lake Shore Bancorp, and also the availability of cash at the holding company level in the event earnings are not sufficient to pay dividends. The On February 15, 2023, the Company announced the suspension of the payment of quarterly dividends. Subject to the prior written approval of the Federal Reserve Board, the Company intends to resume the payment of quarterly cash dividends. However, there is no guarantee as to if and when the Federal Reserve Board will grant the Company its approval to begin the resumption of quarterly cash dividend payments. In circumstances when the Bank is not operating under a consent order, it may distribute capital to Lake Shore Bancorp in an amount not exceeding net income for the current calendar period and the prior two calendar years under OCC safe harbor regulations. Our ability to pay dividends and the amount of such dividends is also affected by the ability of Lake Shore, MHC, our mutual holding company and majority stockholder of Lake Shore Bancorp, to waive the receipt of dividends declared by Lake Shore Bancorp. Lake Shore, MHC waived its right to receive most of its dividends on its shares of Lake Shore Bancorp since its inception in 2006. The ability to waive dividends meant that Lake Shore Bancorp had more cash resources to pay dividends to its public stockholders than if Lake Shore, MHC accepted such dividends. Lake Shore, MHC is now required to obtain a waiver from the Federal Reserve Board allowing it to waive its right to dividends. Under Section 239.8(d) of the Federal Reserve Board's Regulation MM governing dividend waivers, a mutual holding company may waive its right to dividends on shares of its subsidiary if the mutual holding company gives written notice of the waiver to the Federal Reserve Board and the Federal Reserve Board does not object. For a company such as Lake Shore, MHC, that was formed, issued stock and waived dividends prior to December 1, 2009, the Federal Reserve Board may not object to a dividend waiver if such waiver would not be detrimental to the safety and soundness of the savings bank subsidiary and the board of directors of the mutual holding company expressly determines that such dividend waiver is consistent with the board's fiduciary duties to the members of the mutual holding company. Regulation MM also requires as a condition to waiving dividends, that a mutual holding company obtain the approval of a majority of the eligible votes of its members within 12 months prior to the declaration of the dividend being waived. Lake Shore, MHC is soliciting its members (depositors of Lake Shore Savings Bank) to vote on a proposal to authorize Lake Shore, MHC to waive its right to receive dividends aggregating up to \$0.72 per share that may be declared by the Company in the 12 months subsequent to the approval of the proposal by members. The special meeting of members to consider the proposal will be held on April 2, 2024. There can be no assurance that the members will approve the dividend waiver or that the Federal Reserve Board will not object to the waiver even if it is approved by members at the special meeting. It is expected that Lake Shore, MHC will continue to waive future dividends, if the Company declares dividends to its stockholders in the future, except to the extent dividends are needed to fund Lake Shore, MHC's continuing operations, subject to the ability of Lake Shore, MHC to obtain regulatory approval of its requests to waive dividends and its ability to obtain future member approval of dividend waivers. While Lake Shore, MHC is grandfathered for purposes of the dividend waiver provisions of Regulation MM and has complied with all additional requirements imposed, we cannot predict whether the Federal Reserve Board will grant a dividend waiver request and, if granted, there can be no assurance as to the conditions, if any, the Federal Reserve Board will place on future dividend waiver requests by grandfathered mutual holding companies such as Lake Shore, MHC. If Lake Shore, MHC is unable to waive the receipt of dividends, our ability to pay dividends to our stockholders may be substantially impaired and the amounts of any such dividends may be significantly reduced. We are subject to the Community Reinvestment Act ("CRA") and fair lending laws, and failure to comply with these laws could lead to material penalties. The CRA, the Equal Credit Opportunity Act, the Fair Housing Act, and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The CFPB, the United States Department of Justice, and other federal agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including paying damages and civil money penalties, injunctive relief, imposition of restrictions on merger and acquisition activity, and restrictions on expansion activity. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private

class action litigation. We may be required to raise additional capital in the future, but that capital may not be available when it is needed, or it may only be available on unacceptable terms, which could adversely affect our financial condition and results of operations. We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations - ~~The Bank is also subject to an Individual Minimum Capital Requirement as described above.~~ We may at some point, however, need to raise additional capital to support continued growth or be required by our regulators to increase our capital resources. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. Accordingly, we may not be able to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations and pursue our growth strategy could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, if we are unable to raise additional capital when required by our bank regulators, we may be subject to adverse regulatory action.

Risks Related to Economic Conditions Our local economy may affect our future growth possibilities. Our success significantly depends upon the growth in population, income levels, deposits and housing starts in our current market area, which is primarily located in Western New York, in particular within Erie and Chautauqua counties. Unlike many larger institutions, we are not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies and geographic locations. If the communities in which we operate do not grow, or if prevailing economic conditions locally or nationally are unfavorable, our business may be negatively affected. This could lead to a deterioration in the credit quality of our loan portfolio and reduce our level of customer deposits, which in turn would hurt our business. Moreover, the value of real estate or other collateral that may secure our loans could be adversely affected. High inflation levels could adversely impact our business and results of operations. The national economy continues to experience elevated levels of inflation. As of December 31, 2023, the year over year consumer price index (“CPI”) increase was 3.4% primarily driven by increases in transportation, shelter, and food prices. As a result, the Federal Reserve Board may require us to commit capital resources to support Lake Shore Savings Bank, and we may not have sufficient access to such capital resources. Federal law requires that a holding company act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support such subsidiary bank. Under the “source of strength” doctrine, the Federal Reserve Board may require a holding company to make capital injections into a troubled subsidiary bank and may charge the holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to attempt to borrow the funds or ~~raise~~ raise interest rates capital. Any loans by a holding company ~~100-basis points in 2023 to combat rising inflation~~ its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. High inflation ~~In the event of a holding company’s bankruptcy, if sustained the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution’s general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by Lake Shore Bancorp to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results.~~ The increase in interest rates in response to elevated levels of inflation ~~operations. Moreover, it is possible that we will be unable to borrow funds when we need to do so. We qualify has- as decreased a smaller reporting company, and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to smaller reporting companies could make our common stock less attractive to investors. We are a smaller reporting company, and, for as long as we continue to qualify as a smaller reporting company, we may choose to take advantage of exemptions from various reporting requirements applicable to the other value of our securities portfolio since 2021 public companies but not to smaller reporting companies, resulting including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and two years of audited financial statements in our annual report instead of three years. As long as we are a smaller reporting company that is also not an accelerated filer, we will not be subject to increase in unrealized losses recorded in accumulated other comprehensive loss on the stockholders’ equity section~~ Section 404 (b) of the Sarbanes- Oxley Act, which requires that our balance sheet independent registered public accounting firm review and attest as to the effectiveness of our internal control over financial reporting. In addition, as a ~~inflation-driven increases in our levels of non- interest expense~~ accelerated filer, we will have longer deadlines to file our periodic reports with the Securities and Exchange Commission. We would remain a smaller reporting company and a non- accelerated filer for so long as our voting and non- voting equity held by non- affiliates (“public float”) is less than \$ 250 million or our annual revenues are less than \$ 100 million and our public float is less than \$ 700 million. Public float is determined each year as of the end of a company’s second fiscal quarter applicable at the end of the fiscal year involved. As a result of our smaller reporting company status and non- accelerated filer status, our stockholders may not have access to certain information they may deem important, and investors may find our common stock less attractive if we choose to rely on these exemptions. This could negatively impact our results- result of operations. High inflation ~~in a less active trading market for our common stock and increasing interest rates could also cause~~ the price of our common stock may be more volatile.

Other Risks Related to Our Business We are a community bank and our ability to maintain our reputation, which is critical to the success of our business, may materially adversely affect our performance. We are a community bank, and our reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our market area and contiguous areas. Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct,

failure to deliver minimum standards of service or quality, compliance deficiencies, cybersecurity incidents and questionable or fraudulent activities of our customers. Lake Shore Savings Bank and Lake Shore Bancorp, Inc. were all subject to enforcement actions with their regulators which were all lifted in late 2024 and 2025. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers and employees, costly litigation and increased governmental regulation volatility in the business environment, any or all of which could adversely affect loan demand and borrowers' ability to repay loans. Changes in the Federal Reserve Board's monetary or our fiscal policies business and operating results. Legal and regulatory proceedings and related matters could adversely affect us. We have been and may in the future become involved in legal and regulatory proceedings. We consider most of the proceedings to be in the normal course of our business or results typical for the industry; however, it is inherently difficult to assess the outcome of operations these matters, and we may not prevail in any proceedings or litigation. There could be substantial costs and management diversion in such litigation and proceedings, and any adverse determination could have a materially adverse effect on our business, and brand or image, or our financial condition and results of our operations. Our earnings will Severe weather, acts of terrorism, geopolitical and other external events could impact our ability to conduct business. Weather-related events have adversely impacted our market area in recent years, especially areas located near flood prone areas. Such events that may cause significant flooding and other storm-related damage may become more common events in the future. Financial institutions have been, and continue to be affected by domestic economic conditions, targets of terrorist threats aimed at compromising operating and communication systems. Such events could cause significant damage, impact the stability of our facilities and result in additional expenses, impair the ability of our borrowers to repay the their loans monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Board has, reduce the value of collateral securing repayment of our loans, and is likely to continue to result in the loss of revenue. While we have established an and regularly test disaster recovery procedures important impact on the operating results of banks through its power to implement national monetary policy, among other the occurrence things, in order to curb inflation or combat a recession. The Federal Reserve Board's actions affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence on other monetary and fiscal policies. We cannot predict the nature or impact of future changes in monetary and fiscal policies. Risks Related to Technology Our information systems experienced an any such interruption or breach in security which could disrupt business, cause increased operating costs, damage our reputation, and result in litigation and other liabilities. In November 2021, the Bank experienced a data security incident that prevented employees from accessing internal systems and data for a limited period of time. Upon discovering the incident, the Bank immediately launched an investigation and engaged a digital forensics firm to help determine the scope of the incident and identify potentially impacted data. The Bank also promptly notified law enforcement and the Bank's primary regulator, the OCC, about the incident. Through its investigation, the Bank identified unauthorized access to certain data in its internal systems. However, the Bank believes that its core banking and electronic interfaces were not affected by this event, including deposit and loan systems, online / mobile banking system or ATM systems. While there is no evidence that customer personal information was misused, the Bank notified affected customers of the incident. All impacted individuals were offered identity theft protection services. The Bank has implemented additional safeguards to help ensure the security of its network to reduce the risk of a similar event occurring in the future. Although we maintain insurance coverage, including cybersecurity insurance, the amount available under coverage may not cover all losses. Costs and expenses incurred by the Bank in connection with the November 2021 incident includes both direct and indirect costs and not all of the costs were covered by our insurance coverage. Further, both as a result of the November 2021 incident and industry trends generally, the Company will incur higher costs for the renewal of the Company's current insurance coverage, as well as future cybersecurity insurance coverage. As a result of the incident, we did incur one-time and ongoing expenses for the implementation and operation of a cloud computing system and enhancements to system security, including additional hardware, software and maintenance expenses. In addition, we incurred one-time consulting expenses, as well as increased personnel expenses as a result of hiring a Chief Technology Officer and an Information Security Officer during the fourth quarter of 2022 and the first quarter of 2023, respectively. We may be subject to future incidents that could have a material adverse effect on our business, results of operations or and financial condition. Additionally, or may result in operational impairments and financial losses, as well as significant harm to our reputation. We rely heavily on communications and information systems to conduct our business. The computer systems and network infrastructure we use could be vulnerable to hardware and cybersecurity issues. Our operations are dependent on our ability to protect our computer equipment from fire, power loss, telecommunications failure or other similar catastrophic event. We could also experience a breach by intentional or negligent conduct on the part of employees or other internal or external sources, including our third party vendors, unknown third parties or through cyber-attacks. The risk of a breach can exist whether information systems and services are in our internal data centers or in third party data centers, including cloud-based computing services. Breaches have occurred, and may occur again, in our systems and in the systems of our third party vendors. The occurrence of any failures, interruptions or security breaches of information systems used to process customer transactions could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition, results of operations and cash flows. The risk of cyber-threats continue to evolve and are substantially escalating and we may be required to expend significant additional resources to continue to modify or enhance our protection measures to mitigate information security vulnerabilities or incidents. Cybersecurity and the continued enhancement of our controls and processes to protect our systems, data and networks from attacks, unauthorized access or significant damage remains a priority. We maintain a system of internal controls, disaster recovery plans and contingency plans, which are periodically reviewed, updated and tested. In connection with the Order, the Bank has enhanced its Information Technology

program. The Company also reviews and evaluates the disaster recovery plans of its third party vendors that provide critical computing systems to the Company. We continually encounter technological change. The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Our largest competitors have substantially greater resources to invest in technological improvements. Furthermore, new payment services developed and offered by non-financial institution competitors pose an increasing threat to the traditional payment services offered by financial institutions. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers and we may not be able to effectively deploy new technologies to improve our operational efficiency. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on us.

Risks Related to Credit We are subject to lending concentration risks. As of December 31, 2023, commercial real estate (including commercial construction) and commercial business loans comprised in the aggregate 59.7% of our total loan portfolio. These types of loans may expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans may not be sold as easily as residential real estate. In addition, commercial real estate and commercial business loans may also involve relatively large loan balances to individual borrowers or groups of borrowers. These loans also have greater credit risk than residential real estate for the following reasons:

- **Commercial Real Estate Loans.** Repayment is dependent upon income being generated in amounts sufficient to cover operating expenses and debt service.
- **Commercial Business Loans.** Repayment is generally dependent upon the successful operation of the borrower's business. A deterioration in economic conditions in our market areas could affect the performance of our..... risks. The results of our operations may be adversely affected by environmental conditions. During the course of..... is needed. The borrower is then - **the current** required to have further testing and complete any remedial action recommended. To date, we have not been subject to any environmental claims. There can be no assurance, however, that this will remain the case in the future. Our ability to grow may be limited. We intend to seek to expand our - **or anticipated** banking franchise, organically via deposit and loan growth, while addressing the operational, compliance and governance deficiencies cited in the Order that was disclosed previously herein. We cannot assure you that we will be able to generate organic growth. Competition in our market areas for loans and deposits may limit our opportunities for growth, as well as the impact of economic conditions - **military conflict** , including **wars in Russia and Ukraine**, increase in inflation rates and **the Middle East, terrorism** costs to borrow funds. Competition in our - **or** primary market area may reduce our ability..... unions, online retail mortgage lenders and other **geopolitical** financial service companies. Competition for loan..... to disseminate concerns or rumors about any events of these kinds or other similar risks, and have in the past and may in the future lead to market-wide liquidity problems. These failures underscore the importance of maintaining diversified sources of funding as key measures to ensure the safety and soundness of a financial institution. As a result, market conditions and other external factors may impact the competitive landscape for deposits in the banking industry in an unpredictable manner. The rising interest rate environment has increased competition for liquidity and the premium at which liquidity is available to meet funding needs.

Risks Related to Investment in the Company's Stock We expect that our return on equity will be low compared to other financial institutions as a result of our high level of capital. Return on average equity, which equals net income divided by average equity, is a ratio used by many investors to compare the performance of a particular company with other companies. Our return on equity may be low while we continue to leverage capital levels via organic growth of loans and deposits. As we implement our strategic plan to increase net interest income and non-interest income via organic growth, we expect our return on equity ratio to improve. Failure to achieve a competitive return on average equity might make an investment in our common stock unattractive to some investors and might cause our common stock to trade at lower prices than comparable financial institutions with higher returns on average equity. If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud, and, as a result, stockholders and depositors could lose confidence in our financial reporting, which could adversely affect our business, the trading price of our stock and our ability to attract additional deposits. Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and the rules and regulations of the Securities and Exchange Commission (the "SEC"), requires us to evaluate our internal control over financial reporting and provide an annual management report on our internal control over financial reporting, including, among other matters, management's assessment of the effectiveness of internal control over financial reporting. **We have** The Company has established a process to document and evaluate its internal controls over financial reporting in order to satisfy the Sarbanes-Oxley Act and related regulations, which require management consideration of **our** the Company's internal controls over financial reporting on an annual basis. In this regard, management has dedicated internal resources and adopted a detailed work plan to (i) assess and document the adequacy of internal controls over financial reporting, (ii) take steps to improve control processes, where appropriate, (iii) validate through testing that controls are functioning as documented and (iv) maintain a continuous internal reporting and improvement process for internal control over financial reporting. **Our** The Company's management and Audit/Risk Committee have made the Company's compliance with Section 404 a high priority. **We** The Company cannot be certain that these measures will ensure that **we** the Company implements - **implement** and maintains - **maintain** adequate controls over its **our** financial processes and reporting in the future. Any failure to implement appropriate new or improved controls in response to changes in financial processes or reporting, or difficulties encountered in their implementation could harm **our** the Company's operating results or cause **us** the Company to fail to meet its **our** reporting obligations. If **we** the Company fails - **fail** to correct any significant deficiencies in the design or operating effectiveness of internal controls over financial reporting or fails to prevent fraud, current and potential stockholders and depositors could lose confidence in **our** the Company's financial reporting, which could harm its **our** business

and the trading price of ~~its~~ **our** stock. Public stockholders do not exercise voting control over us. A majority of our voting stock is owned by Lake Shore, MHC. Lake Shore, MHC is controlled by its Board of Directors, which consist of those persons who are members of the Board of Directors of Lake Shore Bancorp and Lake Shore Savings **Bank**. Lake Shore, MHC will determine the outcome of the election of the Board of Directors of Lake Shore Bancorp, and, as a general matter, controls the outcome of most matters presented to the stockholders of Lake Shore Bancorp for resolution by vote. Consequently, Lake Shore, MHC, acting through its Board of Directors, is able to control the business and operations of Lake Shore Bancorp and may be able to prevent any challenge to the ownership or control of Lake Shore Bancorp by stockholders other than Lake Shore, MHC. There is no assurance that Lake Shore, MHC will not take actions that the public stockholders believe are against their interests. Our stock price may be volatile due to limited trading volume. Our common stock is traded on the NASDAQ Global Market. However, the average daily trading volume in Lake Shore Bancorp's common stock has been relatively small, averaging less than 3,000 shares per day during ~~2023~~ **2024**. As a result, trades involving a relatively small number of shares may have a significant effect on the market price of the common stock, and it may be difficult for investors to acquire or dispose of large blocks of stock without significantly affecting the market price.