Audit Committee Charter

The Audit Committee (the "Committee") of the Board of Directors (the "Board") of Waterstone Financial, Inc. shall have the following authority, duties and responsibilities. As used in this Charter, "Waterstone Financial" refers to Waterstone Financial, Inc., and the "Company" refers to Waterstone Financial together with its direct and indirect subsidiaries.

Authority

The Committee monitors the integrity of Company financial statements, overseeing its relationship with monitoring the independence of its outside auditor, and monitoring the Company's internal controls in compliance with legal and regulatory requirements. The Committee is given primary responsibility to determine and establish relationships with the Company's outside auditors. It is also authorized to review the financial statements prepared by management and the annual audit of Waterstone Financial, to review any other activity of the Company in connection therewith that they deem appropriate, and to take all action it deems appropriate to fulfill its responsibilities hereunder.

All Company employees are directed to cooperate as required by members of the Committee. The Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain, terminate and approve the fees and other retention terms of special or independent counsel, accountants or other experts and advisors, as it deems necessary or appropriate, without seeking approval of the Board or management. The Company shall provide appropriate funding, as determined by the Committee, in its capacity as a committee of the Board, for payment of: (i) compensation to the independent auditors and any other public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; (ii) compensation of any advisers employed by the Committee; and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

Responsibilities

The Committee shall coordinate communication among directors who are not members of the Committee, the independent accountants and management as their duties relate to financial accounting, reporting and controls. The Committee shall assist the Board in fulfilling its fiduciary responsibilities as to Waterstone Financial's accounting policies and reporting practices, and the sufficiency of auditing relating thereto. The Committee is to be the Board's principal agent in assuring the independence of the independent accountants, the integrity of management, and the adequacy of disclosures to shareholders. However, the independent accountants are ultimately responsible to the entire Board, and the opportunity for the independent accountants to meet with the entire Board as needed or desired, or the Board as a whole to take appropriate action, is not restricted.

The management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements and for the effectiveness of internal control over financial reporting. Management and the Company's staff performing the internal auditing function are responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for planning and carrying out a proper audit of the Company's annual financial statements, review of the Company's quarterly financial statements prior to the filing of each quarterly report on Form 10-Q, annually auditing management's assessment of the effectiveness of internal control over financial reporting, and other procedures. In fulfilling their responsibilities hereunder, it is recognized that members of the Committee are not full-time employees of the Company and are not, and do not represent themselves to be, performing the functions of auditors or accountants. As such, it is not the duty or responsibility of the Committee or its members to conduct "field work" or other types of auditing or accounting review or procedures or to set auditor independence standards.

In addition to any other role which the Board may from time to time assign, in carrying out its responsibilities, the Committee shall:

1. Engage (subject, if appropriate, to shareholder ratification) the Company's independent auditors, including oversight and final decisions to hire, retain or terminate relationships with outside auditors and determining their compensation.
2. Approve in advance all audit services and nonaudit services (to the extent permissible under law and Nasdaq regulations) conducted by the auditors.
3. Review the scope and general extent of the independent auditors' audit examination, including their engagement letter.

The Committee's review should entail an understanding from the independent auditors of the factors considered in determining the audit scope.

4. Consider, review and confirm the independence of the independent auditors, including any written disclosures required from them and the scope and extent of permissible nonaudit services which may be provided by the independent auditors in relation to the objectivity needed from them in the audit.
5. Review and approve, subject to such criteria as the Committee may determine, fees payable to the Company's independent auditors for both auditing services and other services being provided by that firm.
6. Confirm that management and the independent auditors are aware that the auditors and the Committee may communicate with each other at any time.
7. Review with management and the independent auditors the Company's general policies and procedures, both for financial and regulatory purposes, to reasonably assure the adequacy of the Company's internal accounting and financial reporting controls.
8. Have familiarity with the accounting and reporting principles and practices which are applied by Wauwatosa Holdings in preparing its financial statements and its subsidiaries' regulatory reports, as well as its established standards of corporate conduct and performance, and deviations therefrom.
9. Review the scope of authority of the Company's staff performing the internal audit function, and review the staff's performance of internal audit duties.
10. Review with management and the independent auditors, upon completion of their audit, the financial results for the year.
11. Provide any reports or summaries which may be required for the annual report to shareholders and/or Form 10-K, and review (either together as a committee or by individual members) proposed Company quarterly and annual disclosures.
12. Evaluate the cooperation received by the independent auditors during their audit examination, including their access to all requested records, data and information. Inquire of the independent auditors whether there have been any disagreements with management which if not satisfactorily resolved would have caused them to issue a nonstandard report on the financial statements.
13. Discuss with the independent auditors the quality of the Company's financial and accounting personnel, and any relevant recommendations which the independent auditors may have, including those in their "letter of comments and recommendations."
14. Review the written responses of Wauwatosa Holdings' management to the independent auditors' comment letter.
15. Discuss with management the scope and quality of internal accounting and financial reporting controls in effect. Also, obtain management comments on the responsiveness of the independent auditors to Waterstone Financial's needs.
16. Assure that there are established procedures for compliance regarding accounting, internal accounting controls, auditing or disclosure matters, including the maintenance of a method for persons to bring matters to the attention of the Committee, on an anonymous basis if desired, and steps to assure that there will not be retribution against persons for truthful reporting to the Committee.
17. Conduct an appropriate review, and as appropriate approval, of all related party transactions with Waterstone Financial on an ongoing basis and review potential conflict of interest situations or questions where appropriate.
18. Review periodically, in accordance with SEC and Nasdaq requirements, and recommend to the Board any appropriate extensions or changes in the duties of the Committee and/or changes to this Charter.
19. Update the Board, through minutes and presentations as may be necessary or appropriate, of significant developments in the course of performing the above duties.

It is not the intention of this Charter that the Committee have the duty to plan or conduct audits or to determine that the financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Those matters are the responsibility of management and the independent auditors. It is also not the duty of the Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations.

Administrative Matters

Membership

The Committee shall consist of three or more directors. The Committee members shall meet the independence and experience requirements of the law and Nasdaq. All members of the Committee must be able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement, and the Committee shall have at least one member who has past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background which results in the member's financial sophistication. The Committee shall determine whether additional standards for membership, so as to assure adequate independence and experience on the Committee, shall be established. Members of the Committee shall be appointed by the Board based on nominations recommended by the Company's Nominating and Corporate Governance Committee, and shall serve at the pleasure of the Board for such term or terms as the Board may determine.

One of the members shall be appointed as the Committee's Chairman by the Committee members. The Committee may authorize the Chairman to act on behalf of the Committee between meetings in appropriate circumstances, but shall not delegate to the chairman any duties which are required by law or Nasdaq regulations to be performed by the Committee as a whole.

The Committee shall regularly evaluate the experience and performance of its members. The Committee also shall assist the Board in its determinations as to the independence of the members of the Board and as to special expertise of members of the Board or Committee which may be required and/or required to be disclosed by Waterstone Financial.

Meetings

The Committee is to meet at least twice per year, and as many other times as the Committee deems necessary. At least one meeting shall occur shortly after the completion of the audit process to provide Waterstone Financial's independent auditors the opportunity to meet with the Committee and review the audit process and results. The Chairman may call a meeting at any time he or she believes is necessary or appropriate.

Attendance

A majority of the members of the Committee constitute a quorum for the transaction of Committee business and the act of a majority of a quorum shall be the act of the Committee. As necessary or desirable, the Chairman may request that members of management and/or representatives of the independent accountants be present at meetings.

Minutes

The Committee shall arrange for the preparation of minutes of each meeting, and make them available to be sent to all Committee members and directors who are not members of the Committee. If Waterstone Financial's corporate Secretary has not taken the minutes, they should be sent to him or her for inclusion in the minute books.