Compensation Committee Charter

The Compensation Committee (the "Committee") of the Board of Directors (the "Board") of Waterstone Financial, Inc. (the "Company") shall have the following authority, duties and responsibilities.

Authority and Responsibility

The Committee is granted the authority to review and determine executive compensation at the Company, to recommend compensation programs to the Board, and to administer the Company's stock option and similar plans. The Committee is to assist the Board in fulfilling its fiduciary responsibilities as to compensation policies and plans. It is to be the Board's principal agent for evaluating compensation matters and determining executive compensation levels, although the institution of new or amended compensation plans and programs shall remain subject to the approval of the entire Board.

All Company employees are directed to cooperate in the process of determining compensation as may be required by the Committee. The Committee shall have, in its sole discretion, the authority to retain, obtain the advice of or terminate any compensation or benefits consultant or legal counsel or other adviser used to assist the Committee in fulfilling its responsibilities. The Committee shall be directly responsible for the appointment, compensation, oversight of the work of, and termination of any such consultant, legal counsel or other adviser retained by the Committee. The Company shall provide adequate resources to support the Committee's activities, including appropriate funding, as determined by the Committee, in its capacity as a committee of the Board of Directors, for payment of reasonable compensation to a compensation consultant, legal counsel or other adviser.

The Committee shall evaluate compensation matters in accordance with the compensation philosophy adopted by the Board. Unless otherwise determined by the Board, the general philosophy of the Company's executive compensation program is to offer key executive compensation that is competitive in the market place and also based on the Company's performance and the employee's individual contribution and performance. The Company's executive compensation policies are intended to motivate and reward executives for long term strategic management and the enhancement of shareholder value through cash payments and equity incentives. The executive compensation objectives of the Company are to attract and retain highly qualified managers through competitive salary and benefit programs, encourage extraordinary effort on the part of management through well designed incentive opportunities and contribute to the short and long term interests of the Company's shareholders.

Specific Duties

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

1. Review and recommend to the Board the Company's general compensation policies and philosophies for executive officers and other employees.
2. Review and determine the annual salary, bonus, and other benefits, direct or indirect, of the Company's executive officers, and review and evaluate employment agreements with Company executives.
3. Grant stock options under the Company's employee stock option plans, grant benefits under other stock benefit plans, and act as the committee which administers such plans.
4. Review and recommend possible new executive compensation plans and programs; review on a periodic basis the operation of the Company's executive compensation plans and programs to determine whether they are properly coordinated, establish and periodically review policies for the administration of those executive compensation plans and programs; and modify, or recommend the modification of, any executive compensation programs or plans that yield payments and benefits that are not reasonably related to the Company's compensation policies and philosophies.
5. In consultation with management, oversee regulatory compliance with respect to compensation matters, including overseeing the Company's policies on structuring compensation programs to preserve tax deductibility, and, as and when required, establishing performance goals and certifying that performance goals have been attained for purposes of Section 162(m) of the Internal Revenue Code.
6. Review and approve any severance or similar payments proposed to be made to any current or former executive officer of the Company.
7. Establish and periodically review policies in the area of management "fringe benefits" and other perquisites.
8. Consult with the Company's chief executive officer, and other appropriate executive officers, in determining appropriate overall compensation levels and policies for attracting, retaining and motivating management talent.
9. Report on executive compensation to the Company's shareholders in the annual meeting proxy statement, and review

drafts of the Company's public disclosure documents (including the Committee proxy statement report) describing compensation.

10. Review and recommend to the Board, the compensation of directors.
11. 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.
12. Apprise the Board, through minutes and special presentations as necessary, of significant developments in the course of performing the above duties.
13. Perform any other duties or responsibilities expressly delegated to the Committee by the Board from time to time relating to the Company's compensation programs.

Prior to the selection of, or receiving advice from, a compensation consultant, legal counsel or other adviser, the Committee must consider the following factors, as well as any other factors identified by the stock exchange on which the Company's shares are listed:

(i) The provision of other services to the Company by the person that employs the compensation consultant, legal counsel or other adviser;

(ii) The amount of fees received from the Company by the person that employs the compensation consultant, legal counsel or other adviser, as a percentage of the total revenue of the person that employs the compensation consultant, legal counsel or other adviser;

(iii) The policies and procedures of the person that employs the compensation consultant, legal counsel or other adviser that are designed to prevent conflicts of interest;

(iv) Any business or personal relationship of the compensation consultant, legal counsel or other adviser with a member of the Committee;

(v) Any stock of the Company owned by the compensation consultant, legal counsel or other adviser; and

(vi) Any business or personal relationship of the compensation consultant, legal counsel, other adviser or the person employing the adviser with an executive officer of the Company.

Administrative Matters

Membership

The Committee shall be comprised of three or more directors, all of which shall be independent directors. For this purpose, "independent director" shall mean a person who is an "independent director" under Nasdaq Stock Market rules, and shall to the extent possible further exclude: (1) any person not qualifying as an "outside director" determined pursuant to Section 162m of the Internal Revenue Code and the regulations thereunder; (2) any person not qualifying as a "non employee director" under Rule 16b-3 promulgated by the Securities and Exchange Commission; or (3) any other individual having a relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Members shall be appointed by the Board based on nominations by the Company's Nominating and Corporate Governance Committee. Members shall serve as the pleasure of the Board and for such term or terms as the Board may determine.

The Committee shall elect one of its members as the Committee Chairman. 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 SEC, Internal Revenue Service or Nasdaq rules, to be performed by the Committee as a whole.

Meetings

The Committee is to meet at least once per year, and as many other times as it deems necessary to permit the Committee to adequately perform its responsibilities hereunder. 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 be present at meetings of the Committee; however, the chief executive officer shall not be present during the deliberations concerning or the voting upon that officer's compensation.

Minutes

Minutes of each meeting are to be prepared and sent to Committee members and Company directors who are not members of the Committee. If the Secretary of the Company has not taken the minutes, they should be sent to him or her for permanent filing.