

**COASTWAY BANCORP, INC.
COASTWAY COMMUNITY BANK
AUDIT COMMITTEE CHARTER**

PURPOSE

The Audit Committee ("Committee") is appointed by the Board of Directors ("Board") to assist the Board in the oversight and monitoring of the:

- 1) Accounting and financial reporting process of Coastway Bancorp, Inc. (the "Company") and its subsidiaries, including Coastway Community Bank (the "Bank")
- 2) Independent auditor's qualifications, performance and independence
- 3) System of internal accounting and financial controls
- 4) Performance of the internal audit function;
- 5) Bank's compliance with applicable legal and regulatory requirements.

ORGANIZATION

The Committee shall be comprised of three or more directors as determined by the Board. Each member of the Committee shall meet the independence and experience requirements of the NASDAQ stock market and under Section 10A(M)-3 of the Securities Exchange Act of 1934, as amended, the rules and regulations of the SEC, the Federal Deposit Insurance Corporation ("FDIC") and all other applicable legal requirements. Audit Committee members may not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years; and each member of the Committee shall be "financially" literate in the business judgment of the Board and as required by Rule 5605(c)(2). At least one member of the Audit Committee shall be an Audit Committee "financial expert" as defined by the SEC and other relevant regulations. A majority of the members of the Committee shall constitute a quorum.

At least one member of the Audit Committee will have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

The members of the Audit Committee shall be appointed annually by the Board and may be replaced or removed by the Board with or without cause. Resignation or removal of a Director from the Board, for whatever reason, shall automatically and without any further action constitute resignation or removal, as applicable, from the Audit Committee. Any vacancy on the Audit Committee, occurring for whatever reason, may be filled only by the Board. The Board shall designate one member of the Audit Committee to be Chairperson of the Committee.

MEETINGS

The Committee shall meet at least four times per year on a quarterly basis, or more frequently as circumstances dictate. Special meetings (including telephone meetings) may be called by the Chair or a majority of the members of the Committee upon reasonable notice to the other members of the Committee. The Committee shall meet regularly in “executive sessions” with the internal auditor (the “Auditor”) and the independent auditors. A written record of the Committee’s proceedings will be kept.

The Committee may request any officer or employee of the Bank or the Bank’s outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee without the consent of management or the Board.

RESPONSIBILITY

The Committee shall provide assistance to the Board in fulfilling its responsibilities relating to the Company’s and Bank’s corporate accounting and financial reporting processes, the systems of internal accounting and financial controls, the internal audit function and the annual independent audit of the Company’s financial statements. The responsibility of the Committee is to oversee the financial reporting process on behalf of the Board and report the results of these activities to the Board. Management has primary responsibility to establish and maintain systems for accounting, reporting, internal control and ethical conduct and is responsible for preparing the financial statements and related disclosures. The Company’s independent auditors are responsible for auditing those financial statements in accordance with applicable professional standards. It is not the duty of the Committee to plan or conduct audits or to determine that the financial statements are complete and accurate and in accordance with GAAP. It shall be the duty of the Committee to assist the Board in the oversight of legal and regulatory requirements. The Committee also serves to provide an open avenue of communication among the independent auditors, management and the Board. The Committee Chair will report to the Board on the Committee’s activities at least quarterly, summarizing the Committee’s activities during the quarter and outlining significant results and findings. The Committee and each member of the Committee in his or her capacity as such, shall be entitled to rely, in good faith, on information, opinions, reports or statements, or other information prepared or presented to them by (i) officers and other employees of the Bank whom such member believes to be reliable and competent in the matters presented, (ii) counsel, public accountants or other persons as to matters which the member believes to be within the professional competence of such person.

DUTIES and AUTHORITY

In order to carry out its responsibilities, the Committee shall have the following duties and authority:

Financial Statement and Disclosure Matters

- Review and discuss with management and the independent auditor the annual audited financial statements, including any significant issues regarding accounting and auditing principles, practices and judgments as well as the adequacy of internal controls that could significantly affect them.
- Review quarterly and annually significant financial reporting issues and judgments made in connection with the preparation of financial statements, including the effect of the application of any alternative methods of generally accepted accounting principles (“GAAP”) on financial statements.
- Review with the independent auditor any problems or difficulties the auditor may have encountered and any management letter provided by the auditor and the response to that letter, and any other material communications between the independent auditor and management. Such review should include: (a) any difficulties encountered in the course of the audit, including any restrictions on the scope of activities or access to required information, and any disagreements with management; (b) any changes required in the planned scope of the internal audit; (c) the Internal Audit Department responsibilities, budget, and staffing.
- Review quarterly and annually with management and the independent auditor critical accounting policies and the effect of regulatory and accounting initiatives as well as any off-balance sheet arrangements on financial statements.
- Review with management and the independent auditor the quarterly financial statements prior to the filing of the Company’s Form 10-Q, including the results of the independent auditor’s reviews of the quarterly financial statements and discuss the Company’s disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Form 10-Q.
- Review with management and the independent auditor the annual financial statements prior to the filing of the Company’s Form 10-K, including the results of the independent auditor’s reviews of the annual financial statements and discuss the Company’s disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Form 10-K.
- Review quarterly and annually any major changes to critical auditing and accounting principles and practices as suggested by the independent auditor, internal auditors, or management.
- Discuss with management and the independent auditor any significant financial reporting issues and judgments made in connection with the preparation of the Company’s financials statements, including any significant changes in the Company’s selection or application of accounting principles,

any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.

- Review and discuss with management and the independent auditor any major issues as to the adequacy of the Company's internal controls, and any special steps adopted in light of material control deficiencies and the adequacy of disclosures about changes in internal control over financial reporting.
- In consultation with management, the independent auditor, and the internal auditors, consider the integrity of the Company's financial reporting processes and disclosure controls, including any significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls. In connection therewith, review disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the Company's annual and quarterly reports filed with the SEC regarding any significant deficiencies in the design or operation of internal controls or material weakness therein and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.
- Review and approve the Audit Committee report required by the rules of the SEC to be included in the annual Proxy Statement.
- Ensure timely public announcement if the Company receives an audit opinion that contains a going concern qualification.

Retention of Accounting Firms

Maintain the sole responsibility for the appointment, compensation, oversight of the work, evaluation and termination of any registered public accounting firm employed by the Company (including resolving disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report and related work. The independent auditor and any registered public accounting firm shall report directly to the Committee.

Serve as the channel of communication between the independent auditor and the Board.

Pre-approve all auditing services (which may entail providing comfort letters in connection with securities underwritings) and all non-audit services, provided to the Company by the Company's auditors which are not prohibited by law in accordance with such processes as are determined to be advisable by the Committee. Pre-approval shall include blanket pre-approval of non-prohibited services for limited dollar amounts that the Committee, in its business judgment, does not believe possess the potential for abuse or conflict or impair the independence of the auditor.

The Committee may delegate to one or more designated members of the Committee the authority to grant required pre-approvals, provided that the decisions of any member to whom authority is delegated under this provision to pre-approve an activity under shall be presented to the full Committee at its next scheduled meeting.

The Audit Committee has, in addition to the annual engagement for audit services, also pre-approved other audit services that only the independent auditor can reasonably provide, as follows: (a) statutory audits or financial audits for subsidiaries or affiliates of the Company or the Bank; (b) services associated with SEC registration statements, periodic reports, and other documents filed with the SEC, or other documents issued in connection with security filings; and, (c) consultations with management as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards, or interpretations by the SEC, FASB, or other regulatory or standard setting bodies. The Audit Committee's pre-approval for these services, however, is limited to a maximum fee of \$10,000, and any proposed services exceeding a fee of \$10,000 must either be approved by the Audit Committee or approved pursuant to the delegation of pre-approval authority described below.

The Audit Committee also believes that audit-related services, such as assurances and related services, are reasonably related to the performance of the audit or review of financial statements and are traditionally performed by the independent auditor. The Audit Committee believes that the provision of audit-related services does not impair the independence of the auditor, and has pre-approved the following audit-related services: (a) due diligence services pertaining to potential business acquisitions; (b) financial statement audits of employee benefit plans; (c) agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting, or regulatory control matters; (d) internal control reviews and assistance with internal control reporting requirements; and, (e) consultations with management as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards, or interpretations by the SEC, FASB, or other regulatory or standard setting bodies. The Audit Committee's pre-approval for these services, however, is limited to a maximum fee of \$10,000, and any proposed services exceeding a fee of \$10,000 must either be approved by the Audit Committee or approved pursuant to the delegation of pre-approval authority described below.

The Audit Committee also believes that the independent auditor can provide tax services such as tax compliance, tax planning, and tax advice without impairing the auditor's independence. The Audit Committee has pre-approved the following tax services: (a) federal, state, and local tax planning and advice; (b) federal, state and local tax compliance; and, (c) review, preparation, and filing of federal, state, and local tax returns. The Audit Committee's pre-approval for these services, however, is limited to a maximum fee of \$10,000, and any proposed services exceeding a fee of \$10,000 must either be approved by the Audit Committee or approved pursuant to the delegation of pre-approval authority described below.

With respect to each pre-approved service, the independent auditor will provide detailed, back-up documentation to the Audit Committee regarding the specific services provided.

Oversight of Bank's Relationship with the Independent Auditor

Review and evaluate the experience and qualifications of the lead partner of the independent auditor team.

Obtain and review a written report from the independent auditor at least annually regarding (i) the auditor's internal quality-control procedures, (ii) any material issues raised by the most recent quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years concerning one or more independent audits carried out by the firm, (iii) any steps taken to deal with any such issues, and (iv) all relationships, both direct and indirect, between the independent auditor and the Company.

Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the provision of non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and the Auditor. The Committee shall present its conclusions to the Board.

Ensure appropriate audit and concurring partner rotation as required by law.

Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditor who were engaged on the Company's account.

Discuss with the independent auditor issues on which the independent auditor communicated with its national office regarding auditing or accounting issues.

Meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.

Discuss with the independent auditor the matters required to be discussed by AICPA Statement on Auditing Standards No. 114 relating to the conduct of the audit.

Approve in advance, any audit or permissible non-audit engagement or relationship between the Company, the Bank and the independent auditor. The Committee delegates to the Audit Committee Chairman to approve in advance, all audit or non-audit services to be provided by the independent auditor as presented to the full committee at the next regularly scheduled meeting.

Oversight of Internal Audit Function and Internal Control

Retain the authority over the appointment, performance evaluation and removal of the Auditor. The Auditor shall report functionally to the Committee and

administratively to the Chief Executive Officer in the capacity as the “Audit Manager”. The Internal Auditor may be outsourced to an independent third party.

Annually, review and approve the internal audit plan, progress made against the plan throughout the year and any substantive changes to audit methodology. Review the audit frequency noted in the plan based on the Auditor’s risk assessment and review that higher risk areas are tested by the Auditor on an annual basis.

Review reports issued by internal audit and management’s response to findings contained within the reports.

Review the status of unresolved issues and assess the risks attributable to such issues.

Discuss with the independent auditor the internal audit department responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.

Review and discuss with management and the independent auditor the adequacy and effectiveness of the internal controls over financial reporting, and any recommendations of the internal audit department or the independent auditor.

Review with the Chief Executive Officer and Chief Financial Officer the results of their evaluation of the effectiveness of the internal control over financial reporting and the internal control report prepared by management.

Review the adequacy of internal controls relating to information systems and security.

Compliance with Laws and Regulations

Obtain and review reports from management, the compliance department and Internal Audit, as required by policy, regarding compliance with applicable laws and regulations. Advise the Board with respect to the Bank’s compliance with applicable laws and regulations.

Annually review applicable reports required under the Federal Deposit Insurance Corporation Improvement Act with the independent auditor and management.

Address and take action, as it deems necessary or appropriate, with respect to any issues regarding the provisions of the Code of Ethics and confidential reporting (Whistle-Blower Policy) to the extent the issue relates to accounting and disclosure and regulations of the SEC, FDIC or other regulatory authority.

Address and take any action, as it deems necessary or appropriate, with respect to any issues relating to inquiries or investigations regarding the quality of financial reports filed by the Company and the Bank.

Review that there are procedures in place to facilitate (i) the receipt, retention and treatment of complaints from third parties regarding accounting, internal accounting controls or auditing matters and (ii) the confidential, anonymous submission by employees of the Bank of concerns regarding accounting, internal accounting controls or auditing matters. The Committee shall be responsible for designating the individual responsible for receiving such complaints, which shall be the Auditor unless otherwise specified by the Committee.

Discuss with management and the independent auditor any significant or material correspondence with regulators or governmental agencies, including all examination reports received from the various supervisory authorities, and any employee complaints or published reports that raise material issues regarding the Bank's financial statements or accounting policies and review management's replies to such correspondence, complaints, or reports.

Administration

Use its best efforts to keep current on developments in the financial services and banking industries, accounting pronouncements issued by the Financial Accounting Standards Board, regulations implemented by federal and state regulatory agencies, and other entities which may impact areas under Committee oversight in order to plan for and ensure compliance.

At least annually, review and reassess the adequacy of this charter and recommend appropriate changes to the Board for its approval.

Annually evaluate the Committee's performance.

Make reports on its activities to the Board on a regular basis.

Monitor management's follow up efforts to address audit and regulatory examination findings, based upon a risk assessed timeframe.

Investigate any matter brought to its attention within the scope of its duties, with the power to retain outside counsel for this purpose if, in its judgment, that is appropriate.

Perform any other activities consistent with this charter or as directed by the Board.

Resources

The Committee shall have the power and authority to access the Bank's counsel without the approval of management, as it determines necessary to carry out its duties.

The Committee shall also have the authority without the consent of management or the Board, at the Bank's expense, to the extent it deems necessary or appropriate, to retain special independent legal, accounting or other consultants to advise the Committee in connection with fulfilling its obligations hereunder.